

Agenda Item	4b
Report No	AC/03/24

## The Highland Council Audit Committee

24 January 2024

### The Highland Council Audit of 2022/23 annual accounts

#### Independent auditor's report

1. Our audit work on the 2022/23 annual accounts is now substantially complete. Subject to receipt of a revised set of annual accounts for final review, we anticipate being able to issue unqualified audit opinions in the independent auditor's report on 24 January 2024 (the proposed report is attached at [Appendix A](#)).

#### Annual audit report

2. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We present for the Audit Committee's consideration our draft annual report on the 2022/23 audit. The section headed "Significant findings and key audit matters" sets out the issues identified in respect of the annual accounts.

3. The report also sets out conclusions on the wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#).

4. This report will be issued in final form after the annual accounts have been certified.

#### Unadjusted misstatements

5. We also report to those charged with governance all unadjusted misstatements which we have identified during our audit, other than those of a trivial nature and request that these misstatements be corrected.

6. We identified three misstatements which were not corrected by management in the audited accounts. We considered the size, nature and circumstances leading to all uncorrected misstatements, individually and in aggregate, and concluded that these were not material. If corrected, this would decrease net expenditure by £1 million and decrease the net assets in the statement of financial position by the same amount. Details of the uncorrected misstatements are included in Appendix 2 of our annual audit report.

#### Fraud, subsequent events and compliance with laws and regulations

7. In presenting this report to the Audit Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

## **Representations from the Interim Head of Corporate Finance (S.95 Officer)**

**8.** As part of the completion of our audit, we are seeking written representations from the Interim Head of Corporate Finance (Interim Section 95 Officer) on aspects of the annual accounts, including the judgements and estimates made.

**9.** A draft letter of representation is attached at [Appendix B](#). This should be signed and returned to us by the Interim Head of Corporate Finance (Interim Section 95 Officer) with the signed annual accounts prior to the independent auditor's report being certified.

# Independent auditor's report to the members of The Highland Council and the Accounts Commission

## Reporting on the audit of the financial statements

### Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of The Highland Council and its group for the year ended 31 March 2023 under Part VII of the Local Government (Scotland) Act 1973. The council-only financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, and Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Statement of Movement on the Housing Revenue Account Statement, the Council Tax Income Account, the Non-Domestic Rate Account, and Notes to the Accounts, including significant accounting policies. The group financial statements comprise the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement and Notes to the Group Accounts. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the 2022/23 Code).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the council and its group as at 31 March 2023 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

### Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice 2021](#) approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Accounts Commission on 5 June 2023. My period of appointment is five years, covering 2022/23 to 2026/27. I am independent of the council and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the ability of the council and its group to continue to adopt the going concern basis of

accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the current or future financial sustainability of the council and its group. However, I report on the council's arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

### **Risks of material misstatement**

I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

### **Responsibilities of the Interim Head of Corporate Finance (Section 95 Officer) and The Highland Council's Audit and Scrutiny Committee for the financial statements**

As explained more fully in the Statement of Responsibilities, the Interim Head of Corporate Finance (Section 95 Officer) is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Interim Head of Corporate Finance (Section 95 Officer) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Interim Head of Corporate Finance (Section 95 Officer) is responsible for assessing the ability of the council and its group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the operations of the council and its group.

The Highland Council Audit Committee is responsible for overseeing the financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using my understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003 are significant in the context of the council and its group;
- inquiring of the Interim Head of Corporate Finance (Section 95 Officer) as to other laws or regulations that may be expected to have a fundamental effect on the operations of the council and its group;

- inquiring of the Interim Head of Corporate Finance (Section 95 Officer) concerning the policies and procedures of the councils and its group regarding compliance with the applicable legal and regulatory framework;
- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the council's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

## **Reporting on other requirements**

### **Opinion prescribed by the Accounts Commission on the audited parts of the Remuneration Report**

I have audited the parts of the Remuneration Report described as audited. In my opinion, the audited parts of the Remuneration Report have been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

### **Other information**

The Interim Head of Corporate Finance (Section 95 Officer) is responsible for the other information in the annual accounts. The other information comprises the Management Commentary, Annual Governance Statement, Statement of Responsibilities for the Annual Accounts and the unaudited parts of the Remuneration Report.

My responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on the Management Commentary and Annual Governance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

## **Opinions prescribed by the Accounts Commission on the Management Commentary and Annual Governance Statement**

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government Framework (2016).

### **Matters on which I am required to report by exception**

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited parts of the Remuneration Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

### **Conclusions on wider scope responsibilities**

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

### **Use of my report**

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Claire Gardiner CPFA  
Audit Scotland  
102 West Port  
Edinburgh  
EH3 9DN

# Letter of Representation (ISA 580)

Claire Gardiner, Audit Director  
Audit Scotland  
102 West Port  
Edinburgh  
EH3 9DN

Dear Claire

## The Highland Council Annual Accounts 2022/23

**1.** This representation letter is provided about your audit of the annual accounts of The Highland Council and its group (hereafter referred to as the council) for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the remuneration report, management commentary and annual governance statement.

**2.** I confirm to the best of my knowledge and belief and having made appropriate enquiries of the Chief Executive and Executive Leadership Team, the following representations given to you in connection with your audit of the council's annual accounts for the year ended 31 March 2023.

### General

**3.** The council and I have fulfilled our statutory responsibilities for the preparation of the 2022/23 Annual Accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by the council have been recorded in the accounting records and are properly reflected in the financial statements.

**4.** I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

### Financial Reporting Framework

**5.** The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (2022/23 accounting code) and the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and The Local Authority Accounts (Scotland) Regulations 2014.

**6.** In accordance with the 2014 regulations, I have ensured that the annual accounts give a true and fair view of the financial position of the council and its group at 31 March 2023 and the transactions for 2022/23.

### Accounting Policies & Estimates

**7.** All significant accounting policies applied are as shown in the notes to the accounts. The accounting policies are determined by the 2022/23 accounting code where applicable. Where the code does not specifically apply I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All

accounting policies applied are appropriate to the council's circumstances and have been consistently applied.

**8.** The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

### **Going Concern Basis of Accounting**

**9.** I have assessed the council's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on the council's ability to continue as a going concern.

### **Assets**

**10.** Where a rolling programme of asset valuations has been used, I have satisfied myself that the carrying amount of assets at 31 March 2023 does not differ materially from that which would be determined if a revaluation had been carried out at that date.

**11.** I carried out an assessment at 31 March 2023 as to whether there is any indication that an asset may be impaired and have recognised any impairment losses identified.

**12.** I have provided you with all information of which I am aware regarding any valuation exercises carried out after 31 March 2023.

**13.** There are no plans or intentions that are likely to affect the carrying value or classification of the assets recognised within the financial statements.

**14.** Owned assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

### **Liabilities**

**15.** All liabilities at 31 March 2023 of which I am aware have been recognised in the annual accounts.

**16.** Provisions have been recognised in the financial statements for all liabilities of uncertain timing or amount at 31 March 2023 of which I am aware where the conditions specified in the 2022/23 accounting code have been met. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the obligation at 31 March 2023. Where the effect of the time value of money is material, the amount of the provision has been discounted to the present value of the expected payments.

**17.** Provisions recognised in previous years have been reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2023 or to reflect material changes in the assumptions underlying the calculations of the cash flows.

**18.** The accrual recognised in the financial statements for holiday untaken by 31 March 2023 has been estimated on a reasonable basis.

**19.** The pension assumptions made by the actuary in the IAS 19 report for the council have been reviewed and I confirm that they are consistent with management's own view.



**20.** There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

### **Contingent liabilities**

**21.** There are no significant contingent liabilities, other than those disclosed in Note 39 to the financial statements, arising either under formal agreement or through formal undertakings requiring disclosure in the accounts. All known contingent liabilities have been fully and properly disclosed, including any outstanding legal claims which have not been provided under the 2022/23 accounting code and IAS 37.

### **Fraud**

**22.** I have provided you with all information in relation to:

- my assessment of the risk that the financial statements may be materially misstated because of fraud
- any allegations of fraud or suspected fraud affecting the financial statements
- fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

### **Laws and Regulations**

**23.** I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

### **Related Party Transactions**

**24.** All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with the 2022/23 accounting code. I have made available to you the identity of all of the council's related parties and all the related party relationships and transactions of which I am aware.

### **Remuneration Report**

**25.** The Remuneration Report has been prepared in accordance with the Local Authority Accounts (Scotland) Amendment Regulations 2014, and all required information of which I am aware has been provided to you.

### **Management commentary**

**26.** I confirm that the Management Commentary has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.

### **Corporate Governance**

**27.** I confirm that the council has undertaken a review of the system of internal control during 2022/23 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.

**28.** I confirm that the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. There have been no changes in the

corporate governance arrangements or issues identified, since 31 March 2023, which require to be reflected.

### **Group Accounts**

**29.** I have identified all the other entities in which the council has a material interest and have classified and accounted for them in accordance with the 2022/23 accounting code. Any significant issues with the financial statements of group entities, including any qualified audit opinions, have been advised to you.

### **Common Good Fund**

**30.** I confirm, to the best of my ability, that all material common good assets have been identified and correctly accounted for within the common good financial statements and where appropriate, common good assets in use by the council have been assessed and accounted for in line with IAS 17.

### **Events Subsequent to the Date of the Balance Sheet**

**31.** All events subsequent to 31 March 2023 for which the 2022/23 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Brian Porter  
Interim Head of Corporate Finance (Section 95 Officer)