

# The Highland Council

## 2022/23 Annual Audit Report

Agenda Item	4c
Report No	AC/04/24



Prepared for the Members of The Highland Council and the Controller of Audit  
January 2024

---

# Contents

---

Key messages	3
Introduction	5
1. Audit of 2022/23 annual accounts	7
2. Financial management	14
3. Financial sustainability	21
4. Vision, leadership and governance	24
5. Best Value	28
6. Use of resources to improve outcomes	31
Appendix 1: Action plan 2022/23	33
Appendix 2: Summary of uncorrected misstatements	40

---

# Key messages

---

## 2022/23 Annual accounts

- 1 Audit opinions on the annual accounts of The Highland Council (the council), its group and the two section 106 charities administered by the council are unmodified, i.e. the financial statements and related reports are free from material misstatement.
- 2 A material adjustment has been made to the annual accounts as a result of the audit process. This relates to a pension adjustment to reflect the appropriate accounting treatment required where an in year surplus is reported by the actuary. The impact was a £178 million reduction to the pension asset in the balance sheet.

## Financial management

- 3 The council has effective and appropriate arrangements to secure sound financial management although challenges remain for the future.
- 4 The council had regular budget monitoring reports provided to those charged with governance providing appropriate opportunity for scrutiny.
- 5 Controls within the main financial systems except payroll were operating effectively. Standards for the prevention and detection of fraud remain appropriate.

## Financial sustainability

- 6 The council has effective and appropriate arrangements in place to deliver services into the medium term.
- 7 The council has developed a three year revenue budget to 2026/27 and a five year capital investment programme to 2028/29. These plans take into account the current economic climate but challenges remain.

## Vision, leadership and governance

- 8 The council's 2022-27 "Our Future Highland" clearly sets out the council's vision and key strategic priorities for the next five years.
- 9 The council has effective and appropriate governance arrangements for delivery of its plans and to support scrutiny of decisions made by members.

## Best Value

- 10** The Highland Council has a clear and well-articulated strategic vision. This is well embedded across the organisation and through the service planning process. It has set out its priority areas and the associated performance levels it wants to achieve and should now set the remaining outstanding targets.
- 11** Appropriate plans are in place and aligned to the council's priorities. The council has aligned its 2023/24 budget to its new priorities.

## Use of resources to improve outcomes

- 12** The council has appropriate arrangements in place to ensure that resources are deployed to improve strategic outcomes that meet the needs of service users.
- 13** The 2022/23 Corporate Performance Report provides performance information on the delivery of the council's Corporate Plan 2022 – 2027 and notes areas for improvement.
- 14** The council has satisfactory arrangements for the preparation and publication of statutory performance information (SPIs).

---

# Introduction

---

**1.** This report summarises the findings from the 2022/23 annual audit of The Highland Council. The scope of the audit was set out in the 2022/23 Annual Audit Plan presented to the March 2023 meeting of the Audit and Scrutiny Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of The Highland Council's annual accounts
- conclusions on The Highland Council's performance in meeting its Best Value duties
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
  - Financial Management
  - Financial Sustainability
  - Vision, Leadership, and Governance
  - Use of Resources to Improve Outcomes.

**2.** This report is addressed to the Members of The Highland Council and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

## Audit appointment from 2022/23

**3.** I, Claire Gardiner, have been appointed by the Accounts Commission as auditor of The Highland Council for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice 2021](#) which was introduced for financial years commencing on or after 1 April 2022.

**4.** My team and I would like to thank councillors, audit and scrutiny committee members, senior management, and other staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

## Responsibilities and reporting

**5.** The Highland Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The Highland Council is also responsible for compliance with legislation, and putting arrangements in

place for governance and propriety that enable it to successfully deliver its objectives.

**6.** The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.

**7.** Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of The Highland Council from its responsibility to address the issues we raise and to maintain adequate systems of control.

**8.** This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

## Auditor Independence

**9.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £495,570 (which includes the audit fee for the two S.106 charitable trusts) as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**10.** We add value to The Highland Council by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

---

# 1. Audit of 2022/23 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

---

## Main judgements

Audit opinions on the annual accounts of the council, its group and the two section 106 charities administered by the council are unmodified.

A material adjustment has been made to the annual accounts as a result of the audit process. This relates to a pension adjustment to reflect the appropriate accounting treatment required where an in year surplus is reported by the actuary. The impact was a £178 million reduction to the pension asset in the balance sheet.

---

## Audit opinions on the annual accounts are unmodified

**11.** The Highland Council (the council) approved its annual accounts including its group for the year ended 31 March 2023 on 24 January 2024. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- give a true and fair view of the state of affairs of the council and its group as at 31 March 2023 and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report was prepared in accordance with the financial reporting framework
- the management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

## Overall materiality was assessed as £22.2 million

**12.** The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

**13.** Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

## Exhibit 1

### Materiality values

Materiality level	Council	Group
Overall materiality	£21.7million	£22.2 million
Performance materiality	£14.1 million	£14.4 million
Reporting threshold	£250,000	£250,000

Source: Audit Scotland

**14.** The overall materiality threshold for the audit of the annual accounts of the council was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

**15.** Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 65% of overall materiality, reflecting our knowledge and understanding of the council to date; relatively few misstatements and material adjustments in the prior year; and relatively few issues identified during our risk assessment and planning process.

**16.** It is our responsibility to request that all misstatements, other than those below our reporting threshold of £250,000 are corrected, although the final decision on making the correction lies with those charged with governance.

## Significant findings and key audit matters

**17.** Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the council, including our view about the qualitative aspects of the council's accounting practices.

**18.** The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements. The significant findings are summarised in [Exhibit 2](#).



## Exhibit 2

### Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
<p><b>1. Valuation of the IAS 19 Pension asset / liability</b></p> <p>The IAS 19 report by the actuary to the Highland Pension Fund reported that the council had an in year surplus which changed the overall liability position in 2021/22 to a net asset position of £224 million at 31 March 2023.</p> <p>To fully comply with IAS 19 and IFRIC 14, a defined benefit asset requires to be limited to the lower of:</p> <ul style="list-style-type: none"> <li>• The surplus in the defined benefit plan; and</li> <li>• The asset ceiling determined using the discount rate (in line with general IAS 19 rules on discount rates).</li> </ul> <p>The revised calculation takes the net present value of employer future service costs against the net present value of employer future contributions. The difference represents the asset ceiling.</p> <p>The asset ceiling was not applied in the unaudited accounts and this was not compliant with the accounting standard. A change was requested by audit.</p>	<p>The council obtained a revised estimate from the actuary which determined an asset ceiling value of £45.9 million.</p> <p>Management revised the unaudited accounts to limit the net pension asset accordingly. This had the effect of reducing the pension asset by £178 million in the Balance Sheet. The impact of this change can be seen in Note 23 of the audited accounts.</p> <p>As a result of the above, we are satisfied that the valuation of the pension asset is not materially misstated. This was judged to be a key audit matter.</p>
<p><b>2. Payroll</b></p> <p>During the audit and through discussions with the Strategic Lead (Corporate Audit &amp; Performance), we found there were issues with leavers and how these were being notified and subsequently recorded on the council's systems.</p> <p>In general, there was a lack of oversight and timely housekeeping regarding the notification and processing of leavers. National Fraud Initiative (NFI) matches also confirmed that the current control was not working as intended.</p> <p>As a result we asked the council's payroll team to check the staffing establishment for the whole council to verify the existence of</p>	<p>Management have responded and are actively reviewing this area with a target date of March 2024 for completion. To date, the total number of payroll overpayments identified by the council is 602 with a value of £863k.</p> <p>A payroll briefing including key messages has been provided to executive chief officers and reiterated to managers. New procedures and processes are being built into the system as a result.</p> <p>Internal audit are carrying out a review of the area and the results will be reported to the Audit Committee during 2023/24.</p> <p>We are satisfied that payroll is not materially misstated and have noted the further controls</p>

Issue	Resolution
<p>staff on the council's payroll. This is a routine check that should be performed by employing departments at least once per year to ensure the validity and existence of staff.</p>	<p>and training being put in place by the council. We have raised a recommendation in the action plan and this area will be reviewed in 2023/24 as part of normal audit procedures.</p> <p>This was judged to be a key audit matter: <b>Recommendation 1</b> (refer <a href="#">Appendix 1</a>, action plan)</p>

## Our audit work responded to the risks of material misstatement we identified in the annual accounts

19. We have obtained audit assurances over the identified significant risks of material misstatement in the annual accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

### Exhibit 3

#### Significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Assessed the design and implementation of controls over journal entry processing.</p> <p>Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Reviewed journals at the year-end and post-closing entries and focus on significant risk areas.</p> <p>Considered the need to test journal entries and other adjustments during the period.</p> <p>Evaluated significant transactions outside the normal course of business.</p> <p>Assessed the adequacy of controls in place for</p>	<p><b>Satisfactory</b></p> <p>No issues were identified that indicate misstatements due to fraud caused by management override of controls.</p> <p>Testing focused on journal entries around the year-end that are open to management override of controls.</p> <p>Audit testing of income and expenditure transactions confirmed they had been accounted for in the correct financial year.</p> <p>Methodologies and assumptions employed by management in preparing account estimates did not significantly vary from the prior year and were consistently applied.</p> <p>Our testing of accruals and prepayments did not identify</p>

Audit risk	Assurance procedure	Results and conclusions
	<p>identifying and disclosing related party relationship and transactions in the financial statements.</p> <p>Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p> <p>Substantively tested income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</p> <p>Focussed testing of accounting accruals and prepayments.</p>	<p>any errors and we found no significant transactions outside the normal course of business.</p> <p>Areas identified for improvement / action are noted the action plan in <a href="#">Appendix 1</a>.</p>

Source: 2022/23 Annual Audit Plan

**20.** In addition, we identified “areas of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. The results of our audit procedures and conclusions are set out in [Exhibit 4](#).

## Exhibit 4

Identified areas of audit focus in the annual report and accounts

Audit risk	Results and conclusions
<p><b>The pension liability valuation</b></p> <p>This is an area of audit focus due to the material value and significant assumptions used in the calculation of the liability.</p>	<p><b>Satisfactory</b></p> <p>We kept this area under review throughout our audit. We considered the reasonableness of actuarial estimates on material elements of the valuation.</p> <p>We engaged PwC LLP to review actuarial assumptions across the Scottish Local Government Pension Scheme. We also sought assurances from the Highland Pension Fund auditor who noted no issues in their testing for the year.</p> <p>We have referred to this matter and its satisfactory resolution in <a href="#">Exhibit 2</a> above.</p>

Audit risk	Results and conclusions
<p><b>Property, plant and equipment (PPE)</b></p> <p>The value of PPE held by Highland Council is approximately £2.8 billion. Due to the level of complexity and judgement in the estimated valuations, there is an inherent risk of material misstatement in these valuations.</p>	<p><b>Satisfactory</b></p> <p>We reviewed the work of the council's valuers and confirmed the appropriateness of the methodology and assumptions used.</p> <p>We found that management have an appropriate level of involvement and oversight of the valuation process.</p> <p>We are satisfied that the value of PPE is not materially misstated.</p>
<p><b>Inverness common good fund investment property</b></p> <p>The value of the investment property held by Inverness Common Good Fund and the level of complexity and judgement in the estimated valuation means there is an inherent risk of material misstatement in the valuation of the investment property.</p>	<p><b>Satisfactory</b></p> <p>We reviewed the work of the council's valuers and confirmed the appropriateness of the methodology and assumptions used.</p> <p>We found that management have an appropriate level of involvement and oversight of the valuation process.</p> <p>We are satisfied that the value of investment property is not materially misstated.</p>

Source: 2022/23 Annual Audit Plan

**21.** We kept these areas under review throughout our audit. Based on the findings of the audit procedures performed, there are no other matters which we need to bring to your attention.

### **There were three non-material misstatements identified within the financial statements**

**22.** Other than the corrected material misstatement detailed as a significant finding in [Exhibit 2](#), 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. Further details of the uncorrected misstatements are included in [Appendix 2](#).

### **The unaudited annual accounts were received in line with the agreed audit timetable**

**23.** The unaudited annual accounts were received in line with our agreed audit timetable on 29 June 2023.

**24.** The working papers provided with the unaudited accounts were of a good standard and finance and other council staff provided good support to the audit team during the audit. This helped ensure that the audit of the annual accounts

process ran smoothly. A wash up meeting will be held to learn from one another and improve processes for the remaining audit appointment.

## Our audit opinions on the two Section 106 charities were unmodified

**25.** Due to the interaction of Section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of The Highland Council are sole trustees, irrespective of the size of the charity. There are two trusts where the council are sole trustees:

- Highland Charities Trust
- Highland Council Charitable Trusts

**26.** The Charities Accounts (Scotland) Regulations 2006 (as amended in 2010) permits a single set of accounts for charities that meet the definition of being 'connected'. Connected charities are defined as charities that have *'common or related purposes, or charities which have common control or unity of administration'*.

**27.** Audit Scotland views that the definition of connected charities is met for any section 106 charity administered by the same council. This 'unity of administration' requirement is met even where the trustees differ. Where a council administers multiple section 106 charities, the overall number of separate sets of statements of accounts can therefore be reduced by the effective application of the connected charities provisions.

**28.** We discussed the potential to connect the two charities listed above and officers have agreed to consider this going forward. We would encourage the council to review this position and consider making full use of the connected charities provisions in future years.

---

## Recommendation 2

The council should review the potential to jointly report the two section 106 charitable trusts financial position and consider making full use of the connected charities provision.

---

**29.** We have completed our audit. Our audit opinions on the two section 106 charities are unmodified.

## Good progress was made on prior year recommendations

**30.** The council has made good progress in implementing the audit recommendations identified by Grant Thornton, the previous external auditor. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

---

## 2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

---

### Conclusion

The council has effective and appropriate arrangements to secure sound financial management although challenges remain for future.

The council had regular budget monitoring reports provided to those charged with governance providing appropriate opportunity for scrutiny.

Controls within the main financial systems except payroll were operating effectively. Standards for the prevention and detection of fraud remain appropriate.

---

### The council operated within budget in 2022/23

**31.** The council approved its 2022/23 budget in March 2022. The budget was set at £675 million with a projected funding gap of £34.1 million before mitigation. The council was able to close the funding gap through a number of means including increasing council tax, agreeing savings of £11 million and a transfer from reserves. This enabled the council to set a balanced budget for 2022/23.

**32.** The budget was revised during the year for various funding changes and ring-fenced grant adjustments to £686 million.

**33.** The council underspent its general fund budget by £32.7 million. This was largely due to the council making use of financial flexibilities available to local authorities. The council agreed to make use of the loans fund principal repayment holiday in 2022/23, as a result loan charges were £29.3 million less than budgeted.

**34.** The council also agreed to approve the use of a financial flexibility to allow the Scottish Government capital grant (provided for the purpose of pay award funding) to fund loans fund repayments which allowed an equivalent amount to be repurposed to meet the 2022/23 pay award. The more significant service under and overspends are summarised in [Exhibit 5](#).

## Exhibit 5

Summary of significant under/overspends against budget

Area	£m	Reason for variance
<b>Underspends</b>		
Education and Learning	£2.6	Impact of teacher industrial action, and savings and cost control measures
Health, Wellbeing and Social Care	£4.0	Significant level of staff vacancies and underspend against Covid-19 pressure funding
<b>Overspends</b>		
Property and Housing	£2.8	Increased utility costs and revenue maintenance expenditure, and a shortfall in income recovery.

Source: The Highland Council 2022/23 Annual Accounts

## Housing revenue account overspent by £4 million

**35.** The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set a level which will at least cover the costs of its social housing provision.

**36.** During 2022/23 the council overspent on its housing revenue account by £4 million, this was largely due to an overspend on repairs and maintenance as a result of rising labour and material costs. The balance on the housing revenue account reserve decreased to £3.9 million (2021/22: £7.9 million).

**37.** We found no issues in our review of this area as part of normal audit procedures and have nothing else to draw to your attention.

## Budget reporting could be clearer but appropriate budget setting and monitoring processes are in place

**38.** The council agreed its 2023/24 revenue budget in March 2023, our initial review of the budget setting process is that budget papers are long with a lot of narrative and do not clearly identify key information such as budgeted gross expenditure nor gross expenditure per service in tabular form. As a result it may be difficult for members to identify key financial information.

**39.** However, we noted that performance against budget is reported regularly through quarterly papers presented to the Corporate Resources Committee. There were also regular, informative reports provided to the council throughout 2022/23 to highlight the significant future challenges the council faces. The report titled 'Financial Crisis – Our Council and Our Communities' (presented in

September 2022) was the first of a series of these reports highlighting how the council's finances are being affected by the current financial crisis and the impact on residents. The other reports presented include:

- Financial Crisis – Valuing Partners Through Collective Budget Strategies, Redesign and Co-production (October 2022)
- Financial Crisis- Workforce Planning and Preparation (December 2022).

**40.** From a review of the reports, it is evident that the council are actively trying to address both local and national issues and revisiting the short and medium term budgets accordingly.

**41.** In 2023/24 a mid-year budget update was presented to the council this provided members with an update of the council's financial position including progress achieving savings and any in year risks and pressures. This demonstrates that the council are proactive in keeping members up to date with financial challenges throughout the financial year.

**42.** In March 2023 the council agreed a single year capital budget for 2023/24. There was a mid-year budget review in September 2023 where the council have identified significant challenges in relation to their overall capital programme. A review of the capital investment programme for the medium to longer term was carried out. We have commented on this in the [financial sustainability](#) section of this report.

**43.** We observed that senior management and members receive regular and accurate financial information on the body's performance against budgets.

### **The council's general fund balance increased to £132 million at 31 March 2023**

**44.** One of the key measures of the financial health of a body is the level of reserves held. The level of usable reserves held by the body increased from £146 million in 2020/21 to £175 million in 2022/23. The general fund balance, which funds part of total usable reserves, increased by £13 million during 2022/23.

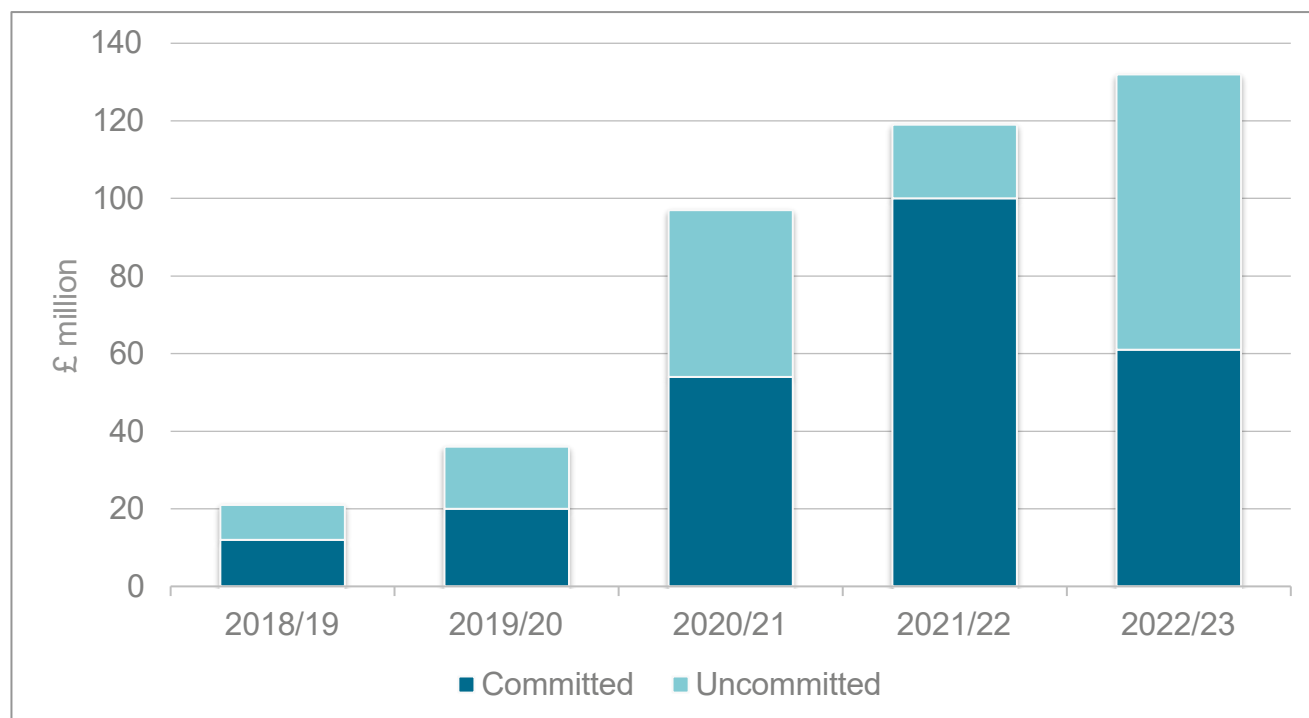
**45.** The council has earmarked £61 million of this general fund balance for specific areas of future spending, this decreased by £38 million during 2022/23. The unallocated general fund balance at 31 March 2023 was £71 million, this increased by £51 million during 2022/23.

**46.** [Exhibit 6](#) provides an analysis of the general fund over the last five years split between committed and uncommitted reserves. The council's total general fund balance and uncommitted portion of the general fund balance have risen to their highest level in the past five years, however the council plan to use £23 million of the uncommitted reserve to balance the 2023/24 budget.



## Exhibit 6

### Analysis of general fund balance



Source: The Highland Council Annual Accounts 2018/19 to 2022/23

## Capital expenditure increased in 2022/23 by £11.3 million

**47.** Total capital expenditure in 2022/23 was £155 million of which £97 million related to general services and £58 million to the housing revenue account. The council underspent against its capital budget by £50.6 million as a result of not meeting the profiled spend assumed in the capital investment programme. 44% (£67.7 million) of the capital programme was funded through borrowing during the year.

**48.** Investment in school buildings / infrastructure saw a decrease in spend against the prior year of £21 million. However there was an increase in capital investment in ferries and harbours (increase of £20 million from 2021/22) and roads / bridges (increase of £6 million from 2021/22).

**49.** The capital programme has since been reviewed and revised to take action and plan for the longer term. This has been commented on more fully in the [financial sustainability](#) section of this report.

## Reinforced Autoclaved Aerated Concrete (RAAC)

**50.** Reinforced Autoclaved Aerated Concrete (RAAC) is a lightweight construction material that was used in the construction of some public buildings like schools and hospitals between the 1950s and 1990s. It was used mostly in flat roofing, but also in some pitched roofs, floors and walls.

**51.** On 31 August 2023 the UK Department for Education (DfE) announced that any space or area in schools, colleges or nurseries in England, with confirmed RAAC should no longer be open without "mitigations" being put in place.

**52.** We discussed with officers the national issue regarding RAAC and if any council properties were impacted. We have been advised that officers have carried out a review during 2023 with RAAC identified in two schools, Charleston Academy and Nairn Academy as high priority areas.

**53.** A paper was presented to the Housing and Property Committee in August 2023 updating on progress of the works and a remedial programme to address the two schools both noted as 'high risk' with repairs to be completed urgently. Other works will be completed by the end of 2023. The cost of repairs including specialist structural engineering surveys, remedial works and other associated costs is estimated to be in the region on £500,000.

### **Borrowing levels have remained relatively static**

**54.** At 31 March 2023, long term borrowing stood at £890 million an increase of £5 million on the 2022 level of £885 million. During the same period, short-term borrowing increased from £154 million to £168 million.

**55.** Total external debt, which includes the council's long-term liabilities, was within the authorised limit and operational boundary set by the treasury management strategy. In recent years the council has benefited from low interest rates through use of short-term borrowing, however 2022/23 saw increases to interest rates for both long and short-term borrowing. The council plan to monitor interest rates to adopt a pragmatic approach to borrowing in a changing financial climate.

### **The council has adequate financial control arrangements in place except for payroll**

**56.** From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach, we did not identify any internal control weaknesses which would increase the risk of a material misstatement in the financial statements. We did however note an issue regarding the controls for payroll and hosting of systems.

#### **Payroll**

**57.** During the audit and through discussions with the officers, we found there were issues with leavers and how these were being notified and subsequently recorded on the council's systems. In general, there was a lack of oversight and timely general housekeeping regarding the notification and processing of leavers. National Fraud Initiative (NFI) matches also confirmed that the current control was not working as intended. As a result we asked the council's payroll team to verify the staffing establishments for the whole council to verify the existence of staff on the council's payroll. This has been reported in [Exhibit 2](#) with responses and subsequent actions taken by management. As a result we have raised a recommendation in the action plan at [Appendix 1](#).

**58.** As part of these discussions with management we were also made aware that the council issue manual cheques. In 2022/23 a total of 1,511 manual payroll cheques were issued by the council amounting to payroll payments of approximately £1 million. In one month alone, 189 manual cheques were issued (an average of 126 manual cheques are issued each month). We have queried this process and have been advised that some staff do not have a bank account or that the pay run occurs prior to the staff member being added to the system / a timing difference. However we found no evidence to suggest that the council were reviewing these manual payments with a view to moving staff to direct debit payments instead.

**59.** The process of issuing manual cheques is costly for the council and an additional unnecessary administrative burden. It also poses a risk around ensuring that payroll payments are made only to genuine staff members where leavers procedures and controls are not being correctly followed.

---

### Recommendation 3

The council should review and update their process/guidance regarding issuing manual payroll cheques with a view to discontinuing the process except for exceptional circumstances.

---

#### Third party hosting of key systems

**60.** From our review of the key systems used by the council, we note that the council do not formally obtain any control assurances over the procedures used by the third parties who host their systems. As a source of assurance for the council, we recommend that these assurances are sought from third parties to ensure the system is operating as expected.

---

### Recommendation 4

The council should obtain assurances over the controls and operations of the key externally hosted systems from the third party suppliers.

---

**61.** Our work has been undertaken to provide an audit opinion on the annual accounts and in response to our additional responsibilities set out in the Code of Audit Practice. The control deficiencies reported above are limited to those we identified while completing our audit work for these purposes.

#### Internal audit

**62.** Each year we consider whether we can rely on internal audit work to avoid duplication of work. The council's internal audit function is provided by an in-house function led by the chief audit executive.

**63.** We reviewed the council's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal

Auditors) to determine the extent we could rely on the work of internal audit. As stated in our 2022/23 annual audit plan we are not placing formal reliance on internal audit work. However, we did say that we would review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities. This review was done over the course of our audit.

**64.** Internal audit have completed their 2022/23 audit work and presented their annual audit report to the June 2023 Audit and Scrutiny Committee. The report has subsequently been updated and will be presented to the Audit Committee on 24 January 2023. The draft report concludes that, *On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However, as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, it is the audit opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and control for the year to 31st March 2023.*

### **Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate**

**65.** In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

**66.** Overall, Highland Council has adequate arrangements in place to prevent and detect fraud or other irregularities.

## 3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

### Conclusion

The council has effective and appropriate arrangements in place to deliver services into the medium term.

The council has developed a three year revenue budget to 2026/27 and a five year capital investment programme to 2028/29. The plans take into account the current economic climate but challenges remain.

### Audit work has addressed the wider scope risks identified in our Annual Audit Plan

67. [Exhibit 7](#) sets out the wider scope risks relating to financial sustainability we identified in our 2022/23 audit plan. It summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

### Exhibit 7

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p><b>Financial sustainability</b></p> <p>The council continues to operate in an increasingly complex and challenging environment, where core national funding is reducing, relative to rising demand for services.</p> <p>The council's revenue budget report details the budget gap over the next five years. The report shows a budget gap of £49.2 million in 2023/24 reducing to £18.4 million in 2027/28. Over the five years</p>	<p>Reviewed the council's annual budget setting arrangements.</p> <p>Reviewed and assessed the budget monitoring arrangements.</p> <p>Reviewed the council's medium to longer-term financial planning.</p> <p>On-going review of the council's financial position and delivery of planned savings.</p>	<p><b>Satisfactory</b></p> <p>Annual budget setting is in line with expectations and budget setting arrangements are appropriate.</p> <p>The council have addressed recommendations for medium to longer term financial plans.</p> <p>The council have recognised that addressing the considerable budget gap will require substantial</p>

Audit risk	Assurance procedure	Results and conclusions
<p>there is a forecasted total budget gap of £126.9 million.</p> <p>Financial sustainability remains a risk with ongoing financial pressures in the short to medium term. £22 million in recurring savings have already been identified but more is required to be found.</p> <p>The situation in The Highland Council is exacerbated by several factors such as increasing costs to deliver services due to the remote and rural nature of the area as well as a lack of providers for some key services (e.g. Gaelic language provision in schools).</p> <p>There remains a risk to financial sustainability and the sustainability and quality of services in the future.</p>		<p>transformative activity. Current plans include the use of a substantial portion of the council's reserves to bridge annual budget gaps.</p> <p>The council has revised its capital investment programme (prepared post March 2023) for the current financial climate.</p> <p><b>Conclusion:</b> The budget setting for 2023/24 and beyond includes longer term projections using the best information possible. Challenges will remain over the coming years given the current economic climate however the council have plans in place to mitigate these risks as far as possible.</p>

## Medium and longer term financial plans are in place but challenges remain

**68.** A prior year recommendation was made regarding the need for the council to have longer term financial planning in place. To address this the council have put in place a multi-year medium term financial planning approach for the three year period 2024/25 to 2026/27. Reports were presented to the council in September and October of 2023 and outline the context and budget planning working being taken forward. Further details of the council's actions are included in [Appendix 1](#).

**69.** A significant financial gap has been projected for 2024/25 with a projected budget gap of up to £70 million. Work is underway by officers to review proposals and set a balanced budget. This is due to be presented to the council in February 2024. The setting of this budget will be revisited following the Scottish Government's budget announcement for 2024/25 in December 2023. Until this time there remains uncertainty over the budget.

## Longer term capital investment programme has been updated

**70.** In March 2023 the council agreed a single year capital budget for 2023/24. A review of the council's capital investment programme has since been undertaken to address the affordability of the capital programme and include the

impact of rising capital costs, interest rates and inflation. In March 2023, the original capital programme was approximately £475 million for the five year period to 2028/29 with an affordability gap of some £150 million. The revised cost of delivering the original capital programme had increased from £475 million to £566 million at July 2023.

**71.** In September 2023 the council approved a new recommended capital programme covering the five year period 2024/25 to 2028/29. A reduction in the capital investment in schools (major projects) was the most affected area with a reduction of some £117 million. The revised programme includes £343 million of general fund capital investment over the five year period. The revised programme will be subject to ongoing review to determine priorities, phasing and affordability over the coming years.

---

# 4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement while working together with partners and communities to improve outcomes and foster a culture of innovation.

---

---

## Conclusion

The council's 2022-27 "Our Future Highland" clearly sets out the council's vision and key strategic priorities for the next five years.

The council has effective and appropriate governance arrangements for delivery of its plans and to support scrutiny of decisions made by members

---

## Elected Member changes

**72.** The council saw significant changes in its elected members following the local government elections in May 2022. Of the 74 sitting councillors before the election;

- 30 did not stand for re-election;
- 38 sitting councillors were re-elected in 2022 and;
- 36 of its 74 members were elected for the first time.

**73.** The council recognises that this brings opportunities with new ideas and approaches from the members but it also provides challenges for the council in ensuring the members have the right skills and confidence to be effective in their scrutiny role.

**74.** In March 2023 the Audit and Scrutiny Committee were presented updated guidance issued by CIPFA on audit committees. The updated guidance takes into account recent legislative changes and professional developments and supports the 2022 CIPFA Position Statement. It also includes additional guidance and resources to support audit committee members, and those working with and supporting the committee's development.

**75.** A number of actions were taken forward by internal audit. The council held a member's workshop in August 2023 and the results of this were presented by internal audit to the September 2023 Audit and Scrutiny Committee including a completed assessment against CIPFA's good practice guide. This has identified further areas of improvement and support which are being taken forward as part



of the wider Members' learning and development programme. Any changes will take effect from 2023/24 with the first report on committee performance available in June 2024.

**76.** In addition the Scottish Government has a consultation out on, Mandatory Training on Planning for Elected Members. We note the council are participating in this exercise. This will further strengthen member training and give those involved in the decision-making processes an increased understanding of their role.

**77.** We observed good committee engagement and scrutiny as well as good support from officers at various committee meetings throughout the year.

### **Governance arrangements are appropriate and operated effectively**

**78.** The council's governance arrangements have been set out in the annual governance statement in the annual accounts. We have reviewed these arrangements in line with our understanding of the business as well as observations made over the course of the year. We concluded that the governance arrangements are appropriate and effective.

**79.** Papers and minutes for various committee meetings including financial and performance information and details of decisions made are readily available on The Highland Council's website.

**80.** From our attendance and observation various committees and meetings during the year we are able to conclude that scrutiny arrangements are working well in the council. We also conclude that the council fully demonstrates a commitment to openness and transparency.

### **Management Commentary**

**81.** The management commentary that accompanies the annual accounts should explain in simple terms and provide clarity to readers in order to help them understand clearly how the council has performed against its budget and how this is reconciled to the financial statements. It should highlight the key success stories and challenges of the year and include a brief summary of the group components' financial performance. A clear overview of the council's overspend against the approved budget should be included with a clear explanation of the reason(s) for this especially in areas with significant under/overspends.

**82.** We reviewed the management commentary as part of our audit and noted that while it does meet the statutory requirements of Finance Circular 5/2015 it could be improved to tell a better story. We discussed this with officers and suggested improvements for management to consider going forward as well as sharing our [Good Practice Note on Enhancing the Quality of Local Authority Annual Accounts](#) and the UK Government's [How to publish on GOV.UK - Accessible formats guidance](#).

**83.** The 2022/23 management commentary meets the standard and there is no material issue overall affecting our opinions, it could however be improved as part of continuous improvement. In addition, the senior leadership team has had significant changes in last 12 months so it is an ideal time for a review / update to take forward for 2023/24 and beyond. Officers have agreed to review the content and layout of future annual accounts.

**84.** Based on our knowledge and work performed, we concluded that the management commentary, is consistent with the financial statements and accurately reflects the position of the council.

---

## Recommendation 5

Management should refer to the [Good Practice Note on Enhancing the Quality of Local Authority Annual Accounts](#) and review the content and layout of future annual accounts as part of continuous improvement in reporting.

---

### Climate change arrangements

**85.** The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

**86.** The Auditor General and Accounts Commission continue to develop the programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

**87.** We have noted from our audit work that the council are taking forward climate change objectives and initiatives as part of the Net Zero Strategy. For example, the council's electric vehicle team are working toward decarbonisation of its fleet and accelerated the transition to low carbon transport for the council and communities. Included in this work is the introduction of electric charge points within a 30 mile radius across the Highland region.

**88.** Internal audit reviewed the council's climate change plans and implementation and reported their findings to the September 2023 Audit and Scrutiny Committee. The report concluded with limited assurance and a number of key recommendations including the need for an action plan to accompany the Net Zero Strategy have been raised. The original timeline for completion was December 2023 however in order to ensure all areas of the council are embedded in climate change, it was agreed that the net zero action plans will be completed and reported to the Audit Committee in March 2024.

**89.** We have noted in our best value review and audit work to date that climate change was built into the corporate plan and as part of developing the council's strategy. We note that further actions and targets will be set going forward. The follow up work by internal audit will review the agreed actions and establish if

they have been implemented including whether service plans include actions around the Net Zero Strategy. We have not repeated these recommendations here.

---

# 5. Best Value

Local authorities have a statutory duty to make arrangements to secure continuous improvement in the performance of their functions.

---

---

## Conclusions

The Highland Council has a clear and well-articulated strategic vision. This is well embedded across the organisation and through the service planning process. It has set out its priority areas and the associated performance levels it wants to achieve and should now set the remaining outstanding targets.

Appropriate plans are in place and aligned to the council's priorities. The council has aligned its 2023/24 budget to its new priorities.

---

## Best Value work in 2022/23

90. The scope of our 2022/23 Best Value work included conclusions on:

- Leadership of the development of new local strategic priorities (2022/23 thematic work).
- Council service performance improvement ([part 6](#)).
- Effectiveness of council performance reporting ([part 6](#)).
- Progress made against Best Value improvement actions made in previous years.

91. As set out in the [Code of Audit Practice 2021](#), Best Value audit is integrated with other wider-scope annual audit work. Therefore, in addition to the work set out in the remainder of this section, Best Value work has informed the content and conclusions set out in the remainder of this annual audit report.

## Best Value thematic work: Leadership of the development of new local strategic priorities

92. Annual thematic Best Value work is determined by the Accounts Commission. For the 2022/23 financial year, auditors were asked to focus on councils' leadership in the development of new local strategic priorities. The results of this work were reported to elected members at the January 2024 Audit Committee. The report will be available on the [Audit Scotland website](#) in due course.

**93.** The key findings from this work are noted below. The audit recommendations with the management responses, can be found in the full report.

### **Council vision and priorities**

**94.** The council has a clear and well-articulated strategic vision. This is well embedded across the organisation and through the service planning process.

**95.** The council has set out its priority areas and the associated performance levels it wants to achieve and should now set the remaining outstanding targets.

**96.** The council has engaged with staff and partners in communicating its vision and priorities to its staff, citizens and partners through its website, social media channels and face to face events.

### **Citizen and community engagement**

**97.** The council has effectively engaged with citizens when developing its priorities and the key concerns of citizens are captured in the council's strategic plans.

**98.** Citizens feel they have little influence over decision-making and there was little awareness of the council's approach to community based funding for projects.

### **Reducing inequalities and tackling climate change**

**99.** "Our Future Highland" is the council's five year programme which sets out its vision and key strategic priorities including commitments to reducing inequalities, provide sustainable housing, progressing actions to address climate change and securing benefits from renewables.

**100.** The council has agreed equality outcomes with partners and is raising awareness of taking a rights based approach, but consistency is needed in the application and publication of Equality Impact and Fairer Scotland Assessments to ensure no person or community is disadvantaged.

**101.** Environmental sustainability is viewed as a priority for the council, and it has set a target of becoming a carbon neutral Inverness and a low carbon Highlands by 2025. A number of initiatives are in place to meet this including the creation of the Inverness and Cromarty Firth Green Freeport.

### **Alignment of delivery plans**

**102.** Appropriate plans are in place and aligned to the council's priorities. The council has aligned its 2023/24 budget to its new priorities.

**103.** Workforce plans are in place to deliver the services in line with council priorities

**104.** The Digital strategy 2022 recognises digital needs are to become integral to service and there are plans in place to address digital exclusion.

## Leadership

**105.** There has been high turnover of senior officers including the chief executive role since the last BVAR in 2020. A new, permanent chief executive has been appointed and started with the council in September 2023. Time is needed for new relationships to be established as the council has gone through a period of change.

**106.** We have observed good, collaborative working between members and officers towards the achievement of the council's priorities.

**107.** Members and officers demonstrate mutual respect, trust, honesty and openness and appropriate behaviours.

## Follow up of 2020 Best Value Assurance Report

**108.** The council received a full Best Value Assurance report in 2020. As part of our annual work programme, we followed up on agreed actions from that report. We noted good progress in addressing the four remaining recommendations. Items not addressed have been included in or 2022/23 Best Value thematic report Leadership in the Development of new Local Strategic Priorities. Items not addressed will be followed up as part of normal audit procedures in 2023/24.

## Council service performance improvement

**109.** [The Best Value: Revised Statutory Guidance 2020](#) sets out that councils should be able to demonstrate a trend of improvement over time in delivering its strategic priorities. The guidance also sets out that performance management arrangements should be in place to promote the effective use of the local authority's resource, which includes effective performance reporting. Further details on this are included in [part 6](#) of this report.

---

# 6. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

---

## Conclusions

The council has appropriate arrangements in place to ensure that resources are deployed to improve strategic outcomes that meet the needs of service users.

The 2022/23 Corporate Performance Report provides performance information on the delivery of the council's Corporate Plan 2022 – 2027 and notes areas for improvement with associated actions.

The council has satisfactory arrangements for the preparation and publication of statutory performance information (SPIs).

---

## Council service performance reporting and SPIs

**110.** [The Best Value: Revised Statutory Guidance 2020](#) sets out that councils should be able to demonstrate a trend of improvement over time in delivering its strategic priorities. The guidance also sets out that performance management arrangements should be in place to promote the effective use of the local authority's resource, which includes effective performance reporting.

**111.** The Accounts Commission's [2021 Statutory Performance Direction](#) defines the performance information that councils must publish. The commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

**112.** The 2022/23 Corporate Performance Report was presented to members in September 2023. It is the first report under the new administration demonstrating the council's performance against the delivery of the new Corporate Plan 2022–27, the framework for "Our Future Highland" (the Administration Programme). This is the first reporting year against the new programme and is the key annual report forming part of the council's overall performance management framework to meet the council's statutory duty on public performance reporting.

**113.** The report highlights areas where data may be missing and commits to reporting at a later date when the information becomes available. Some delays are beyond the council's control such as the availability of national data and

data obtained from other organisations including the LGBF. The report clearly identifies where this is the case. For example, for some indicators the target is based upon the council's ranked position using the LGBF data, and this is not available until later in the year, usually December.

**114.** We have evaluated the council's arrangements for fulfilling the above requirements. We conclude that in our first year of the audit appointment that the council have taken cognisance of current statutory guidance on Best Value requirements and have demonstrated:

- A dedicated BVAR Improvement Action Plan that is linked to the council's risk management system.
- There is balance in reporting areas of improvement that have been achieved and not achieved and the reports are transparent.
- Reporting is on an annual basis in September for the following year.
- There is easy access to its performance information for all citizens and communities, with such information presented in an accessible style.
- The Highland Council website has specific sections and pages dedicated to best value including the BVAR report, action plans and progress updates.

**115.** Our review of Best Value in the council including interviews held with the interim chief executive, members, the Executive Chief Officers group, review of minutes as well as our attendance and observation of meetings we have concluded that the council's approach to the eight directions have largely been met.

**116.** In line with the Commission's expectations, the council has reported on:

- Its performance in improving local public services, both provided by itself and in conjunction with its partners and communities.
- Progress against the desired outcomes agreed with its partners and communities.

**117.** From review of the 2021/22 annual audit report and other wider best value work conducted during 2022/23, we note that the council agreed relevant outcomes with its partners and communities, and reports on how it has engaged with, responded to and helped to empower its communities, including those who require greater support.

**118.** Overall, the council is delivering service levels consistent with its strategic objectives and where it requires improvement, actions are being taken as set out in the Annual Corporate Performance Report.



# Appendix 1: Action plan 2022/23

Issue	Recommendation	Agreed management action / timing
<b>2022/23 Financial statements recommendations</b>		
<p><b>1. Establishment checks</b></p> <p>There are currently no checks being done within the council to confirm the existence of its staff. There was a failure by departments to provide timely information to HR/Payroll regarding leavers and as a result, individuals were overpaid. National Fraud Initiative (NFI) matches also confirmed that the current control was not working.</p>	<p>An establishment check for the whole council should be done to verify the existence of staff on the council's payroll. This is a routine check that should be performed by employing departments at least once per year to ensure the validity and existence of staff (refer <a href="#">Exhibit 2</a>).</p>	<p><b>Management response:</b> A corporate exercise has been undertaken to provide a base line for an establishment check as at 31/03/2023 confirming staff paid in March 2023 payroll.</p> <p>This exercise will be scheduled on an annual basis as a minimum to confirm paid staff at 31 March in any year.</p> <p>Work is also being undertaken to develop a position management framework which will enable corporate visibility of the living establishment including vacancies at any point in time. A reminder of the staff change process and guidance will be issued along with information to staff to check their payslips to ensure accuracy.</p> <p><b>Responsible officer:</b> Head of People</p> <p><b>Agreed dates:</b> 31 March 2024 for next establishment check to be issued. 30 June 2024 for position management framework implementation (Project 3 of People Finance System Programme).</p>

Issue	Recommendation	Agreed management action / timing
<p><b>2. Section 106 charitable trusts</b></p> <p>The Charities Accounts (Scotland) Regulations 2006 permits a single set of accounts for charities that meet the definition of being ‘connected’. Connected charities are defined as charities that have <i>‘common or related purposes, or charities which have common control or unity of administration’</i>.</p> <p>Where a council administers multiple section 106 charities, the overall number of separate sets of statements of accounts can therefore be reduced by the effective application of the connected charities provisions.</p> <p>The benefit and impact of this is reduced administrative burden and potentially lower audit fees and recharges to each charity.</p>	<p>The council should review the potential to jointly report the two section 106 charitable trusts financial position and consider making full use of the connected charities provision (refer <a href="#">paragraph 25</a>).</p>	<p><b>Management response:</b> Agree to review and consider joint reporting for 2023/24 Annual Accounts</p> <p><b>Responsible officer:</b> Head of Corporate Finance</p> <p><b>Agreed date:</b> June 2024</p>
<p><b>3. Manual cheques</b></p> <p>In 2022/23 a total of 1,511 manual payroll cheques were issued by the council amounting to payroll payments of approximately £1 million.</p> <p>We found no evidence to suggest that the council were reviewing these manual payments with a view to moving staff to direct debit payments instead.</p> <p>The process of issuing manual cheques is costly for the council and an additional unnecessary administrative burden. It also poses a risk</p>	<p>The council should review and update their process/guidance regarding issuing manual payroll cheques with a view to discontinuing the process except for exceptional circumstances (refer <a href="#">paragraph 60</a>).</p>	<p><b>Management response:</b> The procedure for issuing cheques is being reviewed and policy is being developed to reinforce payment to staff will be through direct debit to remove the need to issue cheques. This procedure will also include partner agencies in which HC processes their payroll.</p> <p><b>Responsible officer:</b> Head of People</p> <p><b>Agreed date:</b> 31 March 2024</p>

Issue	Recommendation	Agreed management action / timing
<p>around ensuring that payroll payments are made only to genuine staff members where leavers procedures and controls are not being correctly followed.</p>		
<p><b>4. Assurances from third party system hosts</b></p> <p>From our review of the key systems used by the council, we note that the council do not formally obtain any control assurances over the procedures used by the third parties who host their systems. As a source of assurance for the council, we recommend that these assurances are sought from third parties.</p>	<p>The council should obtain assurances over the controls and operations of the key externally hosted systems from their third party suppliers to ensure the systems are operating as expected (refer <a href="#">paragraph 62</a>).</p>	<p><b>Management response:</b> An annual request will be sent to key suppliers to get formal assurance about controls and operating procedures. Standard wording will be agreed based on best practice and consultation with internal and external audit.</p> <p><b>Responsible officer:</b> Head of ICT &amp; Digital</p> <p><b>Agreed date:</b> By 31st March 2024 – for the issue of requests to suppliers, for reliance on those responses then received for the 2023/24 Annual Accounts.</p>
<p><b>5. Management commentary</b></p> <p>The management commentary is informative but could do more to demonstrate performance, explain outcomes and its impact.</p>	<p>Management should refer to the <a href="#">Good Practice Note on Enhancing the Quality of Local Authority Annual Accounts</a> and review the content and layout of future annual accounts as part of continuous improvement in reporting. (refer <a href="#">paragraph 83</a>).</p>	<p><b>Management response:</b> Agree to review and revise the Management Commentary for the 2023/24 Annual Accounts</p> <p><b>Responsible officer:</b> Head of Corporate Finance</p> <p><b>Agreed date:</b> June 2024</p>

## Follow-up of prior year (2021/22) recommendations

Issue / recommendation	Management response with updated action(s) / timing(s)
<p><b>Financial statements action plan and recommendations</b></p>	
<p><b>1. Valuation assumptions</b></p> <p>Council dwellings are valued by an external valuer, the District Valuer. Land and Buildings continue to be valued by the in house valuer.</p>	<p><b>Complete</b></p> <p>Valuations received from the valuers for 22/23 were reviewed and any increase or decrease over £250k was followed up with</p>

Issue / recommendation	Management response with updated action(s) / timing(s)
<p>On review of the valuation movements in year there is a marked different to valuation trends in Council Dwellings to those in Land and Buildings. We appreciate the different nature of these assets.</p> <p>However, the Council should continue to challenge the assumptions of both valuers, to understand why there is likely to be a different valuation trend, or whether the data indicates a further review of assumptions, particularly within the Land and Building valuation for 2022/23.</p>	<p>the valuer team to ensure it could be supported and that no error had been made. The underlying assumptions used in the valuations are supported by evidence from wider sources.</p>
<p><b>2. Infrastructure assets</b></p> <p>The Council should review its arrangements for recording infrastructure assets and the level of detail, to support additions, disposals and derecognition once the statutory override is removed. Alongside this we would recommend a full review of the UELs and ensuring that management can justify the UEL determined, and how this is evidenced.</p>	<p><b>In progress</b></p> <p>The review of the future accounting treatment of infrastructure assets remains ongoing and the statutory override remains in place. When there is clarity on any changes to be applied the Council will consider the appropriate changes to its internal recording and accounting of infrastructure assets. This review will also include a full assessment of the UEL's with input from specialist engineers.</p> <p>Original action owner: Council Finance Team Original timescale for implementation: September 2023</p> <p><b>Revised action:</b> To review the national position relating to Infrastructure Assets, and any further / changed guidance or implications for statutory overrides.</p> <p><b>Responsible officer:</b> Head of Corporate Finance</p> <p><b>Revised date:</b> June 2024</p>
<p><b>3. Critical judgements and assumptions</b></p> <p>Officers should review the critical judgements and estimates note in the Accounting policies to ensure the disclosures fully comply with the IAS 1 requirements. This includes whether there is a critical judgement and estimate which impacts on the financial statements, in a material way, that the user of the financial statements should consider.</p>	<p><b>Complete</b></p> <p>Critical judgements and assumptions note reviewed for 22/23 accounts. Assumptions note has included some further clarifications in 22/23.</p>

Issue / recommendation	Management response with updated action(s) / timing(s)
<p><b>4. Related party transactions</b></p> <p>Officers should review the related party disclosure note within the annual report and accounts. We think this could be further enhanced to fully comply with IAS 24 and take into account the Audit Scotland good practice note on disclosing related parties.</p>	<p><b>Complete</b></p> <p>Related party transaction note reviewed for 22/23 accounts. This has resulted in some additional information disclosed.</p>
<p><b>5. Review of valuation reports</b></p> <p>Officers should review valuation reports in detail when received from their expert valuers to ensure the report is in line with expectation and there are no errors that go unidentified.</p>	<p><b>Complete</b></p> <p>Any valuation increases or decreases over £250k were followed up with the valuation team for 22/23 to confirm there were no errors and that there was a valid reason for the movement.</p>
<p><b>6. Bank reconciliations</b></p> <p>During our audit work we identified an instance where the bank reconciliation of the payroll bank account was not reviewed by a secondary individual. Officers should ensure all bank reconciliations are reviewed by a secondary individual and that a consistent approach is taken across all reconciliations.</p>	<p><b>Outstanding</b></p> <p>This will be put in place in financial year 23/24.</p> <p><b>Revised action:</b> A secondary individual will review the payroll and pensioner bank reconciliations no later than June 2024 onwards.</p> <p><b>Responsible officer:</b> Head of Corporate Finance</p> <p><b>Revised date:</b> June 2024</p>
<p><b>Wider Scope Action Plan and Recommendations</b></p>	
<p><b>7. Finance Team capacity</b></p> <p>Once the S.95 Officer is appointed, there is a further review of the capacity within the finance team and where necessary, recruitment takes place to fill any gaps identified. We recognise, for Highland Council, the recruitment market is challenging.</p>	<p><b>In Progress</b></p> <p>A number of actions have been taken forward, and further actions being progressed relating to the Finance Team Structure, and Team capacity.</p> <ul style="list-style-type: none"> <li>• New Pensions Team structure approved by Committee in February 2023, including an increased overall FTE of 4.5 on pensions administration and a revision to investment and accounting structure which included the addition of 1 FTE accountant post compared to current resourcing.</li> <li>• 4 FTE of the new pension posts job-sized and approved through Council recruitment process Q3 2023 and now moving to advert.</li> </ul>

Issue / recommendation	Management response with updated action(s) / timing(s)
	<ul style="list-style-type: none"> <li>Interim review of accounting resources has led to revision to certain job roles and recruitment of further posts in Q3 of 2023 to support capacity for the project to implement new corporate financial systems, and support core workload.</li> </ul> <p>Further review of capacity and resilience within the Finance team is taking place to support the Council's financial management approach.</p> <p><b>Responsible officer:</b> Depute Chief Executive and Head of Corporate Finance</p> <p><b>Revised date:</b> June 2024</p>
<p><b>8. Longer Term financial planning</b></p> <p>The Council has yet to approve saving plans beyond 2022/23. Once the new Corporate Plan is developed, following the May 2022 elections, there is the opportunity to look to align current and future savings plans, in the context of the Corporate Plan. The revised plans will need to reflect the significantly challenging financial climate the Council is operating within, and link to service plans, where a change or reduction in service will be needed, to achieve longer term financial balance.</p>	<p><b>Ongoing</b></p> <p>A multi-year medium term financial planning approach is being taken forward for the three year period 2024/25 to 2026/27. Reports to Council in September and October of 2023 outline the context and budget planning working being taken forward on multi-year basis. Further reports will be considered by Council in December 2023, and in advance of formal budget setting in February 2024.</p> <p>Re-setting of the Highland Outcome Improvement Plan, Corporate Plan, and alignment of the Council's medium term financial plan to those plans has also been stated as a clear objective within those reports with work being taken forward on those actions.</p> <p>A new and revised 5 year capital programme, firmly based in the context of the capital programme being affordable, prudent and sustainable, was approved by Council in September 2023.</p>
<p><b>9. Equality impact assessments</b></p> <p>The Council has a process in place to consider equality and socio-economic disadvantage (including rural and island impacts) in the review and development of policies, practices and decision (Impact Assessments) and record the outcome for relevant committee reports. However, the practice of carrying out impact assessments</p>	<p><b>In Progress</b></p> <p><b>Management action:</b> The council has been progressing a project to refresh its approach to impact assessment.</p> <p>The purpose of this project is to:</p> <ul style="list-style-type: none"> <li>Identify improvements to the council's impact assessment process(es)</li> </ul>

Issue / recommendation	Management response with updated action(s) / timing(s)
<p>is inconsistent. Some regard is given but there is a greater understanding in some services than others. In addition, the Council recognise the need to ensure a consistent approach is adopted to undertaking impact assessments, including ensuring officers involved are appropriately trained and that there is wider staff awareness of requirements to assess all new and reviewed policy regarding equality.</p>	<ul style="list-style-type: none"> <li>• Increase staff and member awareness of the need to undertake impact assessments</li> <li>• Include development of training on carrying out different types of impact assessments and on use of the toolkit</li> </ul> <p>Work to date has identified that an integrated impact assessment tool will be developed. This will incorporate the different types of impact assessment required, including equality and socio-economic impact.</p> <p>The tool to capture assessments will provide a means to record, track and audit impact assessments across the organisation. The benefits to this approach include providing a 'hub' for impact assessments with guidance and prompts incorporated and associated training – both on the tool and specific impact assessment requirements – and providing a co-ordinated approach to assessing impacts, for example making it easier to identify areas of overlap, such as evidence gathering and engagement. This commenced in April 2023.</p> <p><b>Responsible officer:</b> Head of Community Support, Contact and Engagement</p> <p><b>Revised date:</b> Implementation by June 2024</p>
<p><b>10. Performance management</b></p> <p>The final two years of the plan were significantly impacted by Covid 19, with the Council's focus on the response and recovery from the pandemic. This has impacted on the effectiveness of performance monitoring and scrutiny as it is challenging to measure and baseline targeted performance. It will be important that going forward the Council seek to establish a new Corporate Plan, supported through measurable targets and indicators to support delivery.</p>	<p><b>Complete</b></p> <p>This has been completed as agreed.</p> <p>Following approval of the Council Programme in December 2022, the Corporate Plan was approved by Council on 09/03/23. This Plan contains a number of actions and indicators including SPIs, and LGBF indicators which are also used to benchmark the Council's performance against other Scottish Councils. The 2022/23 Annual Performance Report was reported to Council on 14 September 2023.</p>

# Appendix 2: Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual accounts that are individually greater than our reporting threshold of £250,000.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 1](#). We are satisfied that these errors do not have a material impact on the financial statements.

Narrative	Account areas	Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr £m	Cr £m	Dr £m	Cr £m
<b>Accounting Misstatements</b>					
1. Assets not on Common Good Fund asset register	Investment Property			0.27	
	Revaluation Reserve				0.27
2. Creditor which had been repaid in a previous year	Expenditure		1		
	Creditors			1	
3. DRC uplift applied to asset which had been revalued in year	PPE				1.81
	Revaluation Reserve			1.81	



# The Highland Council

## 2022/23 Annual Audit Report

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

For the latest news follow us on social media or [subscribe to our email alerts.](#)



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
Phone: 0131 625 1500 Email: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)