Highland Council Charitable Trust Funds

Annual Audit Plan 2024/25

Prepared for The Trustees of Highland Council Charitable Trust Funds

March 2025

Contents

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Introduction

Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2024/25 audit of Highland Council Charitable Trust Funds annual report and accounts. It outlines the audit work planned to meet the audit requirements set out in auditing standards and the Code of Audit Practice, including supplementary guidance.

Appointed auditor and independence

2. Esther Scoburgh, of Audit Scotland, has been appointed by the Accounts Commission as external auditor of Highland Council Charitable Trust Funds for the period 2024/25. The 2024/25 financial year is the third of the five-year audit appointment of Audit Scotland.

3. The audit team are independent of Highland Council Charitable Trust Funds in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with ethical standards. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

4. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. There are no such relationships pertaining to the audit of Highland Council Charitable Trust Funds to communicate.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (UK), and relevant legislation. These set out the requirements for the scope of the audit.

6. Our 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 the audit opinion.

7. Members of the council are sole trustees for two charitable trusts; Highland Council Charitable Trusts and Highland Charities Trust. Both are registered as Scottish charities, with total assets of some £2.6 million. The trusts have adopted the “connected charities” provision whereby the accounts are collated into a single document and are known collectively as Highland Council Charitable Trust Funds. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

Responsibilities

8. The Code of Audit Practice sets out the respective responsibilities of Highland Council Charitable Trust Funds and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

9. The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information reported within the annual report and accounts.

Highland Council Charitable Trust Funds responsibilities

10. Highland Council Charitable Trust Funds has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of an annual report and accounts, comprising financial statements and other information that properly presents the receipts and payments of the trusts.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.

Audit of the annual report and accounts

Introduction

11. The audit of the annual report and accounts is driven by materiality and the risks of material misstatement in the financial statements, with greater attention being given to the significant risks of material misstatement. This chapter outlines materiality, the significant risks of material misstatement that have been identified, and the impact these have on the planned audit procedures.

Materiality

12. Materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual report and accounts.

13. The concept of materiality is to determine whether matters identified during the audit could reasonably be expected to influence the decisions of users of the financial statements. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

14. We have assessed materiality based on the total values for Highland Council Charitable Trust Funds (HCCTF). Our audit testing will consider both Highland Council Charitable Trusts and Highland Charities Trust. The materiality levels determined are outlined in Exhibit 1.

Exhibit 1
2024/25 Materiality levels for Highland Council Charitable Trust Funds

Materiality	HCCTF
Materiality: Based on an assessment of the needs of users of the financial statements and the nature of Highland Council Charitable Trust Funds' operations. The benchmark used to determine materiality is net assets based on the audited 2023/24 financial statements. Materiality has been set at 2% of the benchmark.	£51,000

Materiality	HCCTF
Performance materiality: This acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 75% of planning materiality.	£38,000
Reporting threshold: All misstatements greater than the reporting threshold will be reported.	£2,500

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. The risk assessment process draws on the audit team's cumulative knowledge of HCCTF, including the nature of its operations and its significant transaction streams, the system of internal control, governance arrangements and processes, and developments that could impact on its financial reporting.

16. Exhibit 2 outlines the significant risks of material misstatement to the financial statements that have been identified, including those that have greatest impact on the planned audit procedures and require most attention when performing the audit.

Exhibit 2

Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response
Fraud caused by management override of controls Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	The audit team will: • Evaluate the design and implementation of controls over journal entry processing including a review of the move from Integra ledger to the new Tech One system. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end. • Evaluate significant transactions outside the normal course of business.

Risk of material misstatement	Planned audit response
	• Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias. • Substantively test a sample of receipts and payments.

Source: Audit Scotland

17. The risk assessment process is an iterative and dynamic process. The assessment of risks set out in this Annual Audit Plan and Exhibit 2 may change as more information and evidence is obtained over the course of the audit. Where such changes occur, these will be reported to HCCTF and those charged with governance, where relevant.

Reporting arrangements, timetable and audit fee

Audit outputs

18. The outputs from the 2024/25 audit include:

- This Annual Audit Plan.
- An Independent Auditor's Report to trustees of HCCTF and the Accounts Commission setting out opinions on the annual report and accounts.
- An Annual Audit Report to the trustees of HCCTF and the Accounts Commission setting out significant matters identified from the audit of the annual report and accounts.

19. The matters to be reported in the outputs will be discussed with senior officers for factual accuracy before they are issued. All outputs from the audit will be published on Audit Scotland's website, apart from the Independent Auditor's Report, which is included in the audited annual report and accounts.

20. Target dates for the audit outputs are set by the Accounts Commission. In setting the target dates for the audit outputs, consideration is given to the target date for approving the annual report and accounts, which is 30 September 2025 for local government bodies.

21. The Independent Auditor's Report and Annual Audit Report are planned to be issued by the target date of 30 September 2025.

Audit timetable

22. Achieving the timetable for production of the annual report and accounts, supported by complete and accurate working papers, is critical to delivery of the audit to agreed target dates. Exhibit 3 includes a timetable for the audit, which has been agreed with management. Agreed target dates will be kept under review as the audit progresses, and any changes required, and their potential impact, will be discussed with officers and reported to those charged with governance, where required.

Exhibit 3
2024/25 audit timetable

Audit activity	HCCTF target	Audit team target
Issue of Annual Audit Plan	N/A	31 March 2025
Annual report and accounts:		
Consideration of unaudited annual report and accounts by those charged with governance	30 June 2025	
Submission of unaudited annual report and accounts and all working papers to audit team	30 June 2025	
Latest date for audit clearance meeting	5 September 2025	5 September 2025
Issue of: • Draft Letter of Representation (ISA 580) including Proposed Independent Auditor's Report • Proposed Annual Audit Report		12 September 2025
Agreement of audited and unsigned annual report and accounts	19 September 2025	19 September 2025
Approval by those charged with governance and signing of audited annual report and accounts	30 September 2025	30 September 2025
Signing of Independent Auditor's Report and issue of Annual Audit Report	30 September 2025	30 September 2025

Source: Audit Scotland

Audit fee

23. The HCCTF audit fee is determined in line with Audit Scotland's fee setting arrangements. The audit fee for the 2024/25 audit is £2,000 (23/24: £2,000).

24. In setting the audit fee, it is assumed that HCCTF has effective governance arrangements in place and the complete annual report and accounts will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

Other matters

Audit quality

25. Audit Scotland is committed to the consistent delivery of high-quality audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. Details of the arrangements in place for the delivery of high-quality audits is available from the Audit Scotland website.

26. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2024/25 audits are:

- ISQM (UK) 1, which deals with an audit organisation's responsibilities to design, implement, and operate a system of quality management (SoQM) for audits. Audit Scotland's SoQM consists of a variety of components, such as: governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.
- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in an audit, to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions on high-risk audits.

27. To monitor quality at an individual audit level, Audit Scotland carries out internal quality reviews on a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews on a sample of audits.

28. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan, which is used to support continuous improvement. Progress with implementing planned actions is monitors on a regular basis by Audit Scotland's Quality and Ethics Committee.

29. Audit Scotland may periodically seek the views of the trustees and senior officers on the quality of audit services provided. The audit team would also welcome feedback at any time.

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 **Email: info@audit.scot**
www.audit.scot

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