

The Highland Council

2023/24 Annual Audit Report



 AUDIT SCOTLAND

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

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Key messages

2023/24 annual accounts

- 1 Audit opinions on the annual accounts of 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 There was one material adjustment made to the Common Good Fund account as a result of the audit process.

Best Value

- 3 The council has an appropriate and effective Best Value framework in place.
- 4 The Best Value thematic review on workforce was presented in September 2024 and contains recommendations for follow up in 2024/25.

Financial management

- 5 The council has effective and appropriate arrangements to secure sound financial management. A balanced budget was set for 2023/24 and 2024/25.
- 6 There are appropriate and effective financial management arrangements in place with regular budget monitoring reports provided to members and committee.
- 7 Controls within the main financial systems were operating effectively while standards for the prevention and detection of fraud remain appropriate.

Financial sustainability

- 8 Medium and longer-term financial plans are in place and have been updated to align with the recent council restructure.
- 9 There are effective and appropriate arrangements in place to plan the use of its resources to sustain delivery of continue to deliver services into the medium term.

Vision, leadership and governance

- 10 The council has a clear vision, strategy, and priorities.
- 11 There are effective and appropriate governance arrangements for delivery of its plans.

- 12** There are effective and appropriate governance arrangements in place that support scrutiny of decisions made by the council.

Use of resources to improve outcomes

- 13** The council has effective and appropriate arrangements in place to ensure that resources are deployed to improve strategic outcomes, that meet the needs of service users.
- 14** There is an effective performance management framework in place.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of The Highland Council. The scope of the audit was set out in an Annual Audit Plan presented to the March 2024 meeting of the Audit 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 Highland Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment

3. Claire Gardiner has been appointed by the Accounts Commission as auditor of The Highland Council for the period from 2022/23 until 2026/27. The 2023/24 financial year was the second of her five-year appointment

4. We would like to thank councillors, audit committee members, senior management, and other staff, particularly those in finance, for their cooperation and assistance in this year's audit, and we look forward to working together constructively over the remainder 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. Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973, 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 the attention of the audit team 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 raised and to maintain adequate systems of control.

8. There are no new recommendations raised for 2023/24 other than those already raised as part of our Best Value thematic review on workforce (September 2024). Recommendations raised in prior years have been followed up below in [Appendix 1, Follow up of prior years' recommendations.](#)

Auditor Independence

9. The audit team have complied with the Financial Reporting Council's Ethical Standard. The audit team have not undertaken any non-audit related services and therefore the 2023/24 total audit fee of £525,160 as set out in the 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. The annual audit adds 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, and
- sharing intelligence and good practice identified.

1. Audit of 2023/24 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.

There was one material adjustment made to the Common Good Fund account as a result of the audit process.

Audit opinions on the annual accounts are unmodified

11. The Audit Committee approved the annual accounts for The Highland Council and its group (the council) for the year ended 31 March 2024 on 28 November 2024. As reported in the independent auditor's report:

- give a true and fair view of the state of affairs of the council and its group as at 31 March 2024 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Overall materiality was assessed on receipt of the unaudited annual accounts as £20.3 million

12. Auditors apply to concept of materiality 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 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 values	Council	Group
Overall materiality (2% of gross expenditure)	£20 million	£20.3 million
Performance materiality (70% of overall materiality)	£14 million	£14.2 million
Reporting threshold	£0.5 million	£0.5 million

Source: Audit Scotland and 2023/24 Highland Council unaudited annual accounts

14. The overall materiality threshold for the audit of the annual accounts of the council was set with reference to gross expenditure, which was 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 increased in year two of the audit appointment and set at 70% of overall materiality. This reflects 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 the reporting threshold are corrected although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

17. Under ISA (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 us to highlight key audit matters, which are defined in ISA (UK) 701 as those matters judged to be of most significance. The significant findings including key audit matters, are summarised in [Exhibit 2](#).

19. In line with normal audit practice presentational and disclosure issues were discussed and agreed with management. We are satisfied that amendments made to the accounts are appropriate.

Exhibit 2

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

Issue	Resolution
<p>1. Common Good Fund (CGF) adjustment</p> <p>We noted within the CGF's unusable reserves a capital adjustment account (CAA). Per LASAAC's guidance on accounting for the CGF, this account is not permitted. This is a classification error.</p>	<p>An accounting adjustment for £36.3 million has been made within the unusable reserves note in the CGF. This removed the CAA and transferred the balance into capital funds. The balances at 1 April 2023 have also been restated.</p> <p>There is no financial impact with this change. The previous unusable reserve balance remains unchanged at £41.3m and the total reserves balance for the CGF remains unchanged at £48.9 million.</p> <p>This was judged to be a key audit matter due to the value involved.</p>

Source: Audit Scotland

Audit work responded to the risks of material misstatement we identified in the annual accounts

20. The team 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 identified in our 2023/24 Annual Audit Plan; summarises the further audit procedures performed during the year to obtain assurances over those 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>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (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>Satisfactory</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>

Audit risk	Assurance procedure	Results and conclusions
	<p>Tested journals at the year-end and post-closing entries and focused on significant risk areas.</p> <p>Considered the need to test journal entries and other adjustments throughout the year.</p> <p>Evaluated significant transactions outside the normal course of business.</p> <p>Assessed the adequacy of controls in place for 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 and confirmed they are accounted for in the correct financial year.</p> <p>Focused testing of accounting accruals and prepayments.</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 any errors and we found no significant transactions outside the normal course of business.</p>
<p>2. Estimation in the valuation of land and buildings</p> <p>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions, and changes in these can result in material changes to valuations.</p> <p>All non-current assets are revalued on a five-year rolling basis. Values may also</p>	<p>Reviewed the information provided to the external valuer to assess for completeness.</p> <p>Reviewed the information used by the in-house valuer to assess accuracy and completeness.</p> <p>Evaluated the competence, capabilities, and objectivity of the professional valuer.</p> <p>Obtained an understanding of the management's involvement in the valuation</p>	<p>Satisfactory</p> <p>We reviewed the work of the council's valuers and confirmed the appropriateness of the methodology and assumptions used. As part of our review we found an error in one of the factors used by the valuer (the location factor used for schools). The result is that one school is overstated by £3.8 million.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>change year on year, and it is important that the council ensures the financial statements accurately reflect the value of the land and buildings.</p> <p>Due to the inherent complexity and subjectivity risks regarding land, buildings and dwellings' valuations, a significant risk of material misstatement in the 2023/24 valuations has been identified.</p>	<p>process to assess if appropriate oversight has occurred.</p> <p>Examined management's assessment of any assets not revalued in 2023/24 against evidence of changes in other revalued assets.</p> <p>Tested the reconciliation between the financial ledger and the property asset register.</p> <p>Performed sample testing of individual asset valuations and lives.</p> <p>Critically assessed the council's disclosures regarding the assumptions in relation to the valuation of land and buildings.</p>	<p>We accept this was the result of human error given the valuers have clearly documented guidance for factors used including build rates and location factors by type / size / area. We did further work to assure ourselves the error was limited to that one secondary school and found no material issues.</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 estimates used in the valuation of land and buildings is not materially misstated.</p>

Source: 2023/24 Annual Audit Plan

Areas of audit focus and areas to be kept under review

21. In addition, we identified "areas of audit focus" and "areas to be kept under review" in our 2023/24 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. Our results and conclusions for these areas are noted in [Exhibit 4](#).

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

Exhibit 4

Identified areas of audit focus in the annual report and accounts

Audit risk	Results and conclusion
Areas of audit focus	
<p>Pension valuation</p> <p>This is an area of audit focus due to the material value and range of significant</p>	<p>Satisfactory</p> <p>We kept this area under review throughout our audit.</p>

Audit risk	Results and conclusion
assumptions (financial and demographic) used in the calculation of the liability.	<p>We established officer's arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by The Highland Council.</p> <p>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>

Areas to be kept under review during the year

IFRS 16 (International Financial Reporting Standard 16: Leases): takes effect for local government bodies from 2024/25. This will change the way in which the council accounts for operating leases, including recognising assets and liabilities for the rights and obligations arising from leases previously classified as operating leases. We will assess the council's preparedness for this and review any disclosure made in relation to the new standard in line with guidance.

Satisfactory

The council have commenced their review of leases and the accounting treatment required for 2024/25.

To date, the council have identified 1,500 leases impacted by the new reporting standard. Service departments have been asked to review leases relevant to their area for completeness and are liaising with the capital accountant. In addition, as part of this preparatory work, the council are reviewing current processes, documentation and key judgments with a view to streamlining where possible and to ensure consistency.

An appropriate disclosure has been made in Note 4 to the 2023/24 annual accounts, "accounting standards issued but not yet adopted."

We are content with the work the council have undertaken to implement the new IFRS 16 for leases and note work remains ongoing. The impact on the accounts has yet to be determined but will form part of our 2024/25 annual audit.

Infrastructure assets: The statutory override relating to valuation of infrastructure assets is due to end for the 2024/25 financial statements. We will review the progress made by the council in preparing for this.

Ongoing

Finance Circular 8/2024 extends the applicable override period to include 2024/25. The council have correctly included a

Audit risk	Results and conclusion
	<p>disclosure in Note 3 of the accounting policies in the 2023/24 accounts.</p> <p>The review of the future accounting treatment of infrastructure assets remains ongoing. 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>We will monitor this in our 2024/25 audit and it will be included within the annual audit plan. As a result the action point in the prior year follow up PY6 is regarded as completed.</p>

Source: 2023/24 Annual Audit Plan

There were two non-material misstatements identified within the financial statements above the reporting threshold

23. Misstatements adjusted by the council totalled £36.3 million and related to the CGF as outlined in [Exhibit 2](#).

24. The audit team identified two 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

25. The unaudited annual accounts were received in line with the agreed audit timetable on 28 June 2024. The unaudited accounts were of a good quality and had been subject to review prior to submitting to audit.

Our audit opinions on Section 106 connected charities were unmodified

26. 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.

27. Regulation 7 of the Charities Accounts (Scotland) Regulations 2006 (as amended in 2010) permits a single set of accounts for connected charities.

Connected charities are defined as charities that have common or related purposes or charities which have common control or administration. The application of the connected charities regulation means the overall number of separate sets of statements of accounts to be produced and audited can be reduced.

28. In 2022/23 we recommended that the council review the two trusts with a view to applying the connected charity regulation. For 2023/24, the council have implemented this recommendation and combined the two charitable trusts, Highland Charities Trust and Highland Council Charitable Trusts accounts, into one annual report and accounts.

29. Our audit opinions on the Section 106 connected charities are unmodified and there are no significant issues or adjustments over our reporting threshold to bring to your attention.

Good progress was made on prior year recommendations

30. The council has made good progress in implementing the agreed prior year audit recommendations including those raised in the Best Value reports. The table below summarises the recommendations and progress to date. Prior year action plans are set out in [Appendix 1, Follow up of prior years' recommendations](#).

	Total	Completed during 23/24	Superseded	In progress
Prior year recommendations	10	7	2	1
Best Value prior year recommendations	5	3	---	2
Total prior year recommendations	15	10	2	3

31. For those actions not yet implemented, revised responses and timescales have been agreed with management. We will monitor the remaining actions and report progress over the course of the audit appointment.

2. Financial management

Financial management means having sound budgetary processes with 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. A balanced budget was set for 2023/24 and 2024/25.

There are appropriate and effective financial management arrangements in place with regular budget monitoring reports provided to members and committee.

Controls within the main financial systems were operating effectively while standards for the prevention and detection of fraud remain appropriate.

The council operated within budget in 2023/24

32. The council approved its 2023/24 budget of £703 million in March 2023. The initial budget projected a funding gap of £54.2 million. The council addressed and closed the gap through a number of means including increasing council tax, agreed savings of £22 million and a transfer from reserves. This enabled the council to set a balanced budget for 2023/24. The budget was revised during the year for funding changes and adjustments to £730 million.

33. The council underspent its general fund budget by £1.1 million. This was due to an overspend on council service budgets of £5.7 million which was offset up underspends on capital financing costs by £3.7 million, unallocated budgets by £2.5 million and council tax income exceeded the budget by £0.6 million.

34. The overspend on council service budgets was largely due to the unbudgeted costs associated with the Corran Ferry service. The more significant under and overspends are summarised in [Exhibit 5](#).

Exhibit 5

Summary of significant under/overspends against budget

Area	£m	Reason for variance
Overspends		
Infrastructure, Environment and Economy	3.7	Unbudgeted costs relating to the Coran Ferry and cost of bus transport contracts
Communities and Place	2.0	Impact of costs pressures relating to fleet costs

Source: 2023/24 Highland Council Annual Accounts

Housing revenue account underspent by £0.8 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 2023/24 the council underspent on its housing revenue account by £0.8 million compared to budget, this was due to a combination of over and underspends resulting in an overall small underspend. The balance on the housing revenue account reserve increased to £4.7 million (2022/23: £3.9 million). 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 processes were appropriate

37. The council agreed its 2024/25 revenue budget in February 2024 including a package of savings and other measures to balance the projected budget gap. Our review of the outturn against budget has not identified that services are consistently over or underspent.

38. While the budget papers are long they include key financial information such as budgeted gross expenditure. Performance against budget is reported regularly to the Corporate Resource Committee and service performance to the relevant service committee.

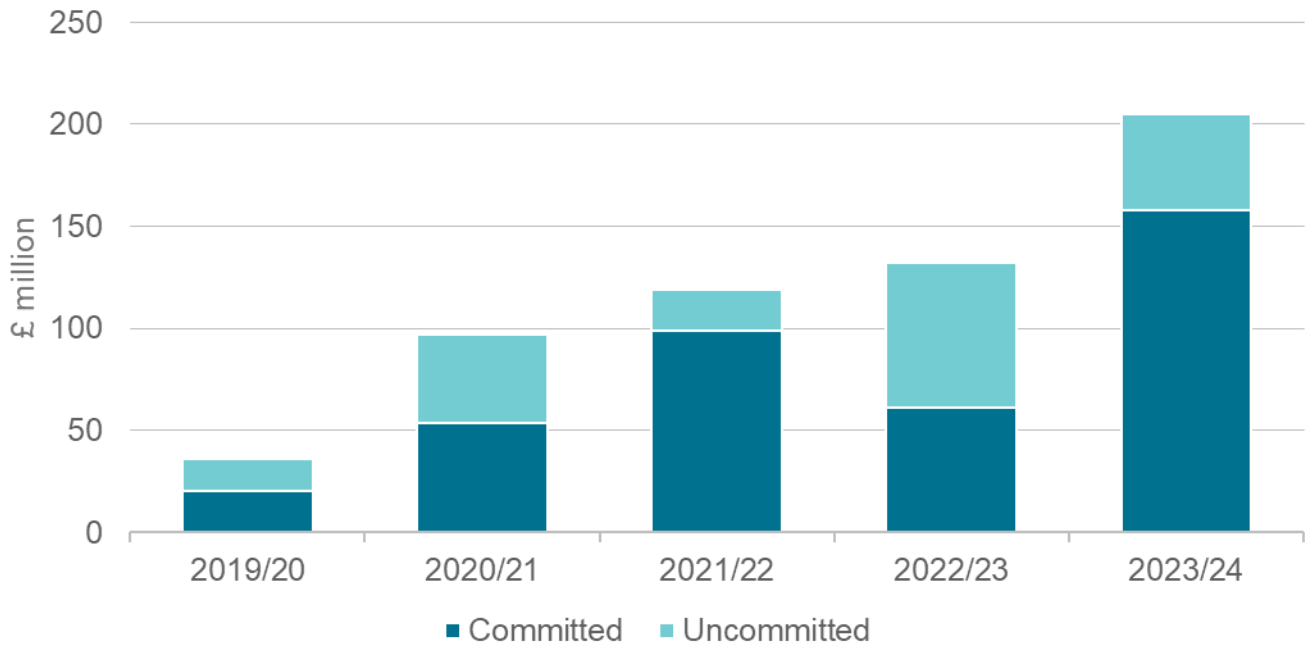
39. We observed that senior management and members receive regular and accurate and updated financial information on the council's performance against budgets. Overall the council has appropriate budget setting and monitoring arrangements.

There has been a significant movement in the level of General Fund reserves

- 40.** 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 £175 million in 2022/23 to £202 million in 2023/24 (15.5% increase).
- 41.** The general fund balance, which forms part of total useable reserves, increased by £26.3 million during 2023/24 to £158 million. Of the total general fund balance the council has earmarked £111 million for specific areas of future spending, this increased by £50 million during 2023/24. Amendments to the budget were presented during the year to the council and were subject to review and scrutiny.
- 42.** [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 committed portion of the general fund balance have risen to their highest level in the past five years. However, the uncommitted part of the general fund balance has decreased by £23 million during 2023/24 and is expected to decrease further in 2024/25 as the council use the balance to support change and deliver savings to address future budget gaps.
- 43.** The increase in the level of the earmarked general fund balance is largely due to the implementation of the Scottish Government's service concession accounting flexibility related to private financed school contracts during 2023/24, which was approved by the council in February 2024.
- 44.** The council's reserves policy is to retain a minimum level of non-earmarked general reserve equivalent to 3% of the annual revenue budget, which is approximately £23 million. At 31 March 2024, the unallocated general fund balance is double the minimum level. In times where there is scarcity this could feel at odds with the messages around the council facing significant financial challenges. The council has plans to utilise the funds and these will transfer to earmarked reserves.
- 45.** Unusable reserves relate to revaluation gains or to hold adjustments to reconcile accounting and statutory requirements. These reserves are not available to fund the day to day running expenses of the council and do not reflect cash held.

Exhibit 6

Analysis of general fund balance



Source: The Highland Council Annual Accounts 2019/20 to 2023/24

The council were not able to meet all planned savings

46. The 2023/24 budget included planned savings and contributions of £22.2 million across a number of areas including reductions in expenditure and proposals to increase service income. Budget savings and plans are included as part of the Our Future Highland: Budget Strategy 2023/24.

47. Examples of the largest areas identified include:

- £7.9 million savings through service redesign and efficiency
- £3.2 million from increasing income.
- £1.3 million savings from reducing waste and avoidable spend

48. The council achieved actual savings of £18 million (82% of planned savings). Of this total, £15 million of savings were on a recurring basis (83%) with the remainder on a non-recurring basis (17%). Recurring savings are savings, that once achieved, recur year-on-year from that date. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years.

Capital expenditure increased in 2023/24

49. Total net capital expenditure in 2023/24 was £167 million of which £100 million related to general services and £67 million to the housing revenue

account. The council underspent against its capital budget by £24.9 million due to challenging market conditions resulting in rising prices and a limited availability of contractors and materials. 70% (£118.3 million) of the capital programme was funded through borrowing during the year, this is an increase from 61% in 2022/23.

50. Gross capital expenditure in general services was broadly similar to 2022/23, however investment in council housing saw an increase of £9 million compared to the prior year.

Borrowing levels have increased to finance the council's capital programme

51. At 31 March 2024, long term borrowing stood at £944 million, an increase of £54 million on the 2023 level of £890 million. During the same period, short term borrowing decreased from £224 million to £168 million. Short term borrowing increased significantly as a result of the council's plan to finance the capital programme with short term borrowing. In 2024/25 the council will have to consider long term borrowing options to replace the short term borrowing.

52. 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. The financial climate over the last two years has seen both interest and borrowing rates increase in excess of forecasts, the council plan to continue to monitor interest rates and adopt a flexible approach to borrowing.

There are appropriate financial control arrangements in place

53. From a 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 could affect the council's ability to record, process, summarise, and report financial and other relevant data and result in a material misstatement in the financial statements.

Payroll

54. Our 2022/23 Annual Audit Report noted an issue regarding the controls for payroll. In general, there was a lack of oversight and timely general housekeeping regarding the notification and processing of leavers as well as an annual establishment check. This led to overpayments. We can confirm that the council have responded and are actively implementing our recommendations. The following progress has been made by the council during 2023/24.

- An internal audit review of the payroll control environment presented to the Audit Committee in June 2024. The report concluded there was limited assurance however, actions and recommendations are being addressed including the agreement of a new recovery policy for the council.
- The Assistant Chief Officer Corporate has set up a working group to progress the remaining internal audit actions.

- An update paper on progress is due to be presented to the November 2024 Audit Committee.

55. We will continue to review the council's progress in this area but consider the actions taken by management including the monitoring by internal audit and routine reporting to the Audit Committee to be sufficient and we have not raised a recommendation.

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

56. 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.

57. The fraud and whistleblowing annual report was presented to the June 2024 Audit Committee. The report has been enhanced and now includes details of fraud investigations and other activities undertaken by the council's Corporate Fraud Team. The council have also self-assessed against compliance with the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption which resulted in an update of the Anti-Fraud and Anti-Corruption Policy, now renamed as the Counter Fraud Policy.

58. Overall, the council has adequate arrangements in place to prevent and detect fraud or other irregularities.

National Fraud Initiative

59. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The council participates in this biennial exercise. The 2022/23 exercise concluded during the 2023/24 financial year and the final report, [The National Fraud Initiative in Scotland 2024](#) was published in August 2024

60. The council has participated in the recent NFI exercise. We concluded that the council had adequate arrangements in place to submit NFI data and investigate any potential frauds but further work could be done to improve the data matches and results. The council agreed to review this feedback with a view to improving the process for the next exercise.

61. The council presented the final NFI report at the September 2024 Audit Committee meeting. It included the local results of Highland Council and also confirmed the council are looking at more controls to build into its system. Plans and preparations are already in place for next NFI exercise and the council are exploring the use of AI going forward as well as other IT solutions to help decrease fraud and demonstrate better use of its resources. Audit welcomes these improvements and will follow up as part of the next NFI exercise due to be reported nationally in summer of 2025.

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

Medium and longer-term financial plans are in place and have been updated to align with the recent council restructure.

There are effective and appropriate arrangements in place to plan the use of its resources to sustain delivery of continue to deliver services into the medium term.

Audit work has addressed the wider scope risks identified in the 2023/24 Annual Audit Plan

62. As part of our planning work we identified a risk around financial sustainability and the ongoing need to balance the short term budgetary pressures with long term priorities. Our work in this section provides an overview of our work and the council's position.

Medium and longer-term financial plans are in place and have been updated

63. The three-year budget plan (MTFP) presented in February 2024 included commitments to continuous improvement and sustainability. For 2024/25 a balanced budget has been set and includes a freeze to council tax. The initial budget gap reported for 2024/25 was £61.7 million and has risen to £65.5 million, rising to an estimated £113 million by 2026/27. Going forward, to bridge the funding gap and allow the council to progress with their infrastructure plans, the council are considering annual council tax increases of approximately 5% - 7%. A 5% increase equates to £160 million total income from council tax in 2025/26; £169 million in 2026/27; and £179 million in 2027/28.

64. The 2024/25 budget includes planned savings and contributions from reserves to address the budgeted funding gap. Savings plans include £22 million savings which included: £7 million savings from the redesign of Adult Social Care, £2.6 million efficiencies from procurement, £2.6 million increase income from fees and charges.

65. In March 2024, the draft operational delivery plan was presented but was subject to further scrutiny and a final review by members and stakeholders. In May 2024, the final operational delivery plan 2024-2027 was approved by members. The new multi-year operational delivery plan sets out how the savings

and other measures to balance the projected budget gap over that period will be delivered in the MTFP.

66. The council also revised its 5-year capital programme in September 2023 and in May 2024 agreed a new Highland Investment Plan (HIP) representing a longer-term strategic approach to capital investment and funding. The latest progress against the agreed HIP was provided to members on 31 October 2024.

67. In June 2024, the Highland Community Planning Partnership agreed a revised Highland Outcome Improvement Plan (HOIP). The latest update on the revised approach to the HOIP, next steps and proposals for future progress updates was considered by the council at its meeting on 19 September 2024.

68. The latest update on the MTFP was presented to the council on 31 October 2024. The paper's purpose is to, *“ensure the Council takes an ongoing and rolling three-year financial planning approach to support budgeting and financial sustainability...and represents the commencement of revenue budget planning for the coming three financial year period, 2025/26 to 2027/28.”*

69. The recent updates to the MTFP, HIP, HOIP and other key strategic documents will form part of our 2024/25 audit planning process.

70. Overall, there are effective and appropriate arrangements in place to plan the use of its resources to sustain delivery of continue to deliver services into the medium term.

Local Government budgets 2024/25 and The Highland Council

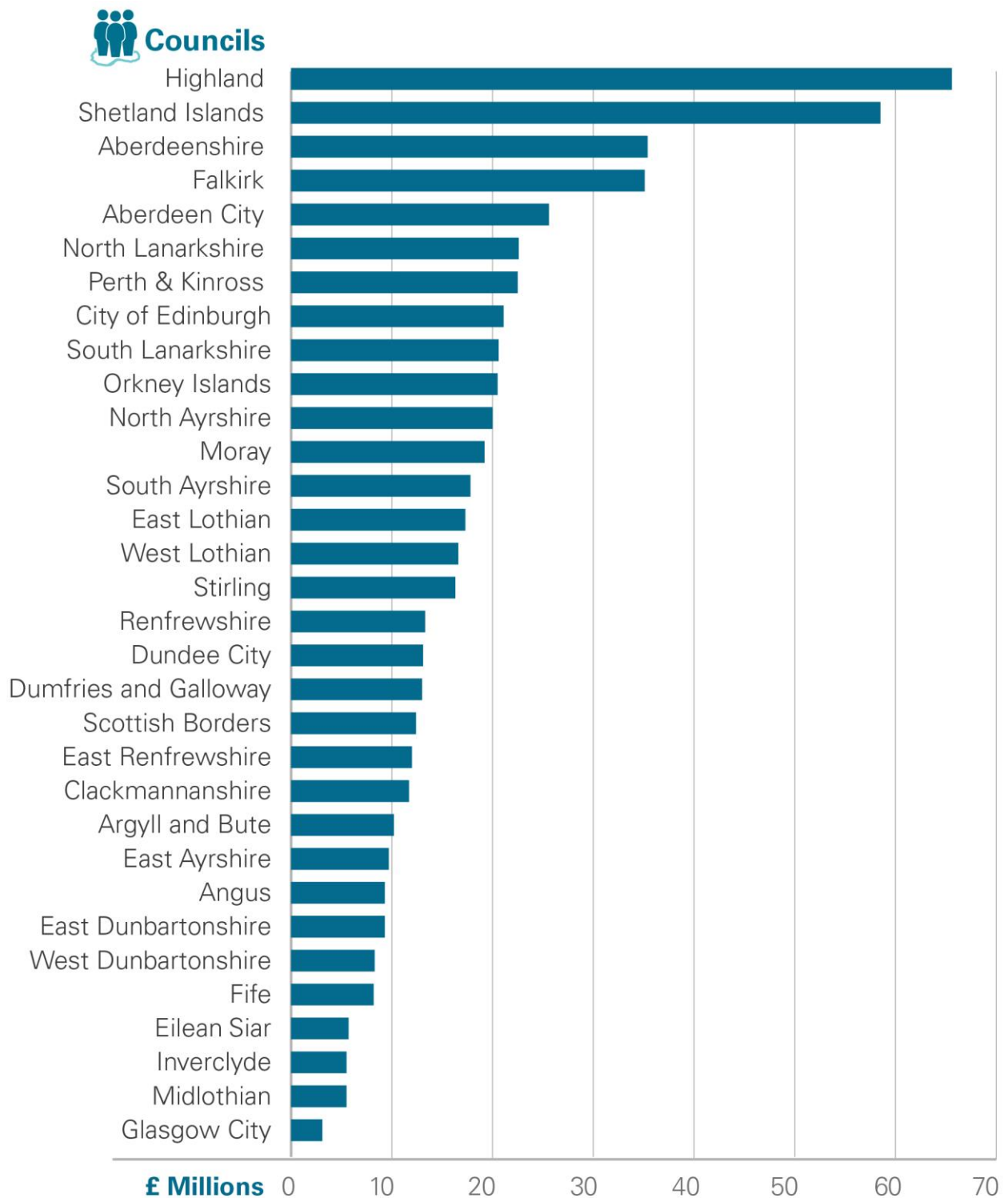
71. The Audit Scotland report on [Local government budgets 2024/25](#) published in May 2024 considered the revenue budgets for all 32 local authorities for 2024/25. Audit Scotland found that the total shortfall this financial year amounts to around £585 million, but within two years it will rise £195 million to £780 million for the sector. For 2024/25 it noted that Highland Council's has a budget gap of £65.6 million equating to 8.5% of its revenue budget. [Exhibit 7](#) below, taken from the report, shows all 32 councils and their respective budget gaps for 2024/25.

72. The report highlights that, *“Highland has the largest budget gap both in terms of value and as a percentage of their revenue budget. Their gap is largely due to pay increase assumptions (£16.9 million), service pressures (£15 million) as well as the need to address the use of £23 million of reserves in 2023/24 in a sustainable way.”*

73. The size and rural nature of the region that Highland Council services has added implications, complexities and impact that other councils do not necessarily experience. This is a significant challenge for the council's future plans and budgets.

Exhibit 7

Council budget gaps 2024/25



Note: There are differences in the way councils approach and present their budget and identify budget gaps. This means that direct comparison should be taken with caution. Glasgow is a significant outlier due to their approach.

Source: Local government budgets 2024/25 report

Long term investment plans have been updated

74. The Highland Investment Plan (HIP) was presented to and approved by the council in May 2024. The HIP has been under development since December 2023 and includes existing and new commitments including revised long-term investment plans for roads and transport infrastructure as well as improving the school estates including a new generation of community facilities (Points of Delivery / PODs).

75. The HIP estimates it can deliver an overall level of new and additional capital investment of £797 million over 10 years and £2.1 billion over 20 years. It is underpinned by a policy commitment to ring fence 2% of council tax for the next twenty years to fund borrowing. This represents substantial and transformational change for the Highland area.

76. In June 2024, a further detailed update was provided to the council who were asked to approve a variety of key decisions to progress the implementation of the investment plan. The update included an 'asset place-based asset mapping exercise' to assist in determining areas for central operations (e.g. offices and depots) and community points of delivery, which involve services working in co-designed facilities providing services to communities.

Progress has been made to increase financial capacity

77. A recommendation was raised in the 2021/22 audit by the previous external auditor to review the capacity and resilience within the Finance team to support the council's financial management approach.

78. The council have progressed this action point and we note that a permanent Chief Officer Corporate Finance (S.95 Officer) was made effective from September 2024. A review of the finance structure was completed in summer 2024 including full staff and trade union engagement on the new structure. Advertising and recruitment campaigns have recently commenced with posts to be filled and increased capacity in place in early 2025. As a result of the recent actions and given the nature of the progress made, the action point is regarded as completed.

Transformation is essential to protect the delivery of vital public services

79. Audit Scotland recently published the national report [Transformation in councils](#) in October 2024. The overarching key message is that "*faster reform is needed to protect key services.*" The report notes that councils have been transforming how they operate and deliver services for many years and now reform is increasingly urgent. Councils and key partners must significantly increase the pace and scale of major changes if they are to protect vital public services.

80. The Society of Local Authority Chief Executives (Solace) and the Improvement Service have established an ambitious sector-led Transformation Programme. This represents a positive change to how councils work towards transformation. But work is at an early stage, and there are significant risks

around workforce capacity and skills to realise ambitions, given the need to continue delivering vital services every day. Councils cannot deliver the required reforms alone.

81. The council have updated their transformational plans in line with the new operational delivery plan, MTFP and HIP. These are aligned with new council structure and priorities.

82. The updated reserves strategy agreed in December 2023 focuses on redesign and transformation, and the use of reserves to support these outcomes. The reserves strategy puts a greater emphasis on use of reserves for investment, change and transformation and not to balance the council's budget.

83. As at 31 March 2024 and per the audited 2023/24 annual accounts, £110.8 million of general fund earmarked reserves is held for specific purposes including investment, change and transformation.

84. Our third Best Value thematic review to be carried out in 2024/25 will focus on transformation within Highland Council and will look further into this area. We will report our findings to the Audit Committee in September 2025.

The council is seeking to benefit from Green Freeport arrangements

85. Inverness and Cromarty Firth Green Freeport is a partnership of public and private sector organisations– including The Highland Council – which aims to ensure the Cromarty Firth and wider region becomes a major global hub for green energy and deliver transformational benefits to Highland communities and the decarbonisation agenda. Over thirty regional and national businesses, public sector organisations and academic bodies including the council have collaborated to support this transformative project.

86. The newly formed Inverness and Cromarty Firth Green Freeport company includes Port of Cromarty Firth, Port of Nigg (Global Energy Group), Port of Inverness, Highland Deephaven and Port of Ardesier (Haventus).

87. The council have highlighted in the management commentary of the annual accounts in the looking ahead section details about the investment plan and the Green Freeport business case. It is anticipated that Green Freeport status will maximise local and Scotland-wide benefits from a pipeline of renewable energy projects placing the Highlands at the heart of the drive towards net-zero potentially creating up to 11,300 jobs locally and a total of 18,300 across the UK.

4. Vision, leadership and governance

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

Conclusion

The council has a clear vision, strategy, and priorities.

There are effective and appropriate governance arrangements for delivery of its plans.

There are effective and appropriate governance arrangements in place that support scrutiny of decisions made by the council.

The council has a clear vision, strategy, and priorities.

88. In 2022/23 we concluded and reported that the council had a clear and well-articulated strategic vision, embedded across the organisation and through the service planning process. “Our Future Highland” is the council’s programme setting out its vision, and key strategic priorities for 2022 to 2027. The Corporate Plan 2022-2027 provided the framework required to deliver and monitor the council’s programme and includes its commitments, associated targets and measurements. Strategic documents including the council’s operational delivery plan, MTFP and HIP were updated during 2023/24 to take account and reflect the current situation and council structure.

89. In July 2024 Audit Scotland published the short, high level report, [Delivery for the Future, Why Leadership Matters](#). It summarises and highlights the common points identified by auditors from the 2022/23 Best Value leadership thematic reviews. The report aims to assist councils as they review and develop their priorities further and includes a summary of the Commission’s expectations for Best Value in this area, along with improvement areas frequently identified by auditors. The key findings of the report are:

- The leadership in all councils have established a clear vision supported by revised priorities informed by the views of citizens and communities.

- Most councils have set out what they want to achieve in their priority areas, but improvements are needed in performance monitoring and reporting.
- Councils need to do more to ensure budget decisions and financial strategies are aligned to priorities. Councils have a variety of strategic plans focused on workforce, digital, assets and service plans but the extent to which these have been updated to reflect new priorities is varied.
- Members and officers are working collaboratively, but maintaining and strengthening these relationships, and ensuring strong governance and scrutiny is key to ensuring tough decisions are made effectively.

Governance arrangements are effective and appropriate

90. The council's governance arrangements have been set out in the Annual Governance Statement in the annual accounts. We have reviewed these arrangements and concluded that they are appropriate and effective.

91. However, we noted that the Audit Committee's Annual Report / self-assessment was not completed by June 2024. This is a key governance assurance in relation to the effectiveness of the Committee in demonstrating the fulfilment of its duties as required by the CIPFA Guidance on Audit Committees. This has been recognised and accepted by internal audit who are in the process of preparing for the new Global Internal Audit Standards(GIAS) effective January 2025. The GIAS requirements for quality include internal and external assessments. An update on GIAS will be provided to the November 2024 Audit Committee. A recommendation has not been re-raised and we will continue to follow this up as part of our 2024/25 review of internal audit.

92. The Audit Committee's Annual Report is due to be presented at the November 2024 Audit Committee.

93. All papers and reports are made available on the council's website for all its committees and the full council. There council has a positive approach to openness and transparency with the various committee and council papers and minutes, including financial and performance information and details of decisions made, available on the council's website and also easily accessible.

94. Members are given the chance to participate, ask questions and comment on the papers at the Audit Committee and at full council meetings with good scrutiny demonstrated.

95. Overall, we conclude that there are effective and appropriate governance arrangements for delivery of the council's plans; and there are effective and appropriate governance arrangements in place that support scrutiny of decisions made by the council.

5. Best Value

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

Conclusions

The council has an appropriate and effective Best Value framework in place.

The Best Value thematic review on workforce was presented in September 2024 and contains recommendations for follow up in 2024/25.

Best Value work in 2023/24

96. For 2023/24, the scope of our Best Value work includes conclusions on:

- Workforce Innovation: how councils are responding to workforce challenges 2023/24 thematic review, summarised below
- Council service performance improvement ([Part 6](#))
- Effectiveness of council performance reporting ([Part 6](#))
- Progress against the [Highland Council Best Value thematic work in councils 2022-23](#) recommendations and made in the previous years ([Appendix 1, Follow up of prior years' recommendations](#)).

97. 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 this Annual Audit Report.

Workforce Innovation: How councils are responding to workforce challenges

98. Annual thematic Best Value work is set by the Accounts Commission. For the 2023/24 financial year, auditors were asked to focus on workforce innovation within each council. The results of this work were reported to elected members at the September 2024 Audit Committee. The key findings from this work are noted in [Exhibit 8](#). The agreed action plan has not been replicated in this report. The full report will be published on [Audit Scotland's website](#) in due course.

Exhibit 8

Workforce innovation: Best Value thematic key messages – Highland Council

Workforce innovation topic	Key messages
Workforce strategy and priorities	<p>Highland council faces inherent challenges of delivering services across a large rural and geographic area. The council's workforce planning approach endorses a wider focus on the Highland area and economy but workforce planning strategies are not easily accessed or aligned in one place.</p> <p>A corporate workforce plan covering the new council structure was due to be presented in June but has been delayed until December 2024.</p>
Digital technology and the workforce	<p>The Digital Strategy 2022-27 sets out the council's ambitions for a Digital Highland Council and has been incorporated into the Council Delivery Plan 2024-27. Having a digitally skilled workforce is key to the strategy, but greater pace is needed in implementing the actions to improve skills across the workforce.</p>
Flexible working and other innovative staff deployment	<p>The hybrid and flexible working policy is scheduled to be issued in November 2024. The council is supportive of flexible and hybrid working but has yet to carry out a formal assessment of hybrid working and its impact.</p>
Developing future skills and capacity	<p>The council is responsive in implementing initiatives in response to ongoing workforce challenges. There are examples of 'grow your own' approaches in key sectors such as social work.</p> <p>The council utilises modern apprenticeships and is working to develop its workforce across the Highland area. Work to develop employability and skills initiatives across key growth sectors has been identified but much of this work is at an early stage.</p>
Joint workforce arrangements	<p>The council collaborates with partners through established strategic partnerships such as the Community Planning Partnership and Health and Social Care Partnership.</p>
Measuring the impact of workforce planning	<p>There is room for improvement in the council's approach to measuring impact of its workforce planning approach. Action plans to support each of the eight themes in the People Strategy remain outstanding creating a gap in how to assess progress.</p> <p>Service workforce plans do not identify specific KPIs and some only contain vague action plans. Service level reporting against the corporate measures is varied, making it difficult to track progress.</p>

Source: Workforce Innovation: How councils are responding to workforce challenges 2023/24

99. Since the report was presented in September 2024, several actions have already been addressed as part of the council's new senior management restructuring including:

- the appointment of five new Chief Officers (August and September 2024)
- a recruitment campaign for a new Chief Officer for HR and Communications (September 2024) as well as a variety of finance posts.

100. The council have estimated that the new management structure will initially deliver savings of £310,000, as part of the budget savings agreed by the council in February 2024. These estimated savings will eventually equate to around 20% of senior management team costs as part of the new streamlined management structure. The council needs to ensure it measures and reports on these initial saving targets in a timely manner to demonstrate improvement against the intended plans.

Follow up of Best Value improvement recommendations from prior years

101. Highland Council received a full [Best Value Assurance report in 2020](#). All the recommendations from this report which had not been addressed prior to our appointment were considered in the Best Value thematic report: Leadership in the Development of new Local Strategic Priorities and have been followed up as part of normal audit procedures in 2023/24.

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 effective and appropriate arrangements in place to ensure that resources are deployed to improve strategic outcomes, that meet the needs of service users.

There is an effective performance management framework in place.

Council service performance improvement

102. 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.

Effectiveness of performance reporting

103. In Highland Council the Annual Performance Report is presented to the council in September for the prior year. This is the key annual report forming part of the council's overall performance management framework and meets the council's statutory duty on Public Performance Reporting and is an important strategic assessment of the council's performance.

104. The report, *Annual Corporate Performance Report 2023/24*, was presented to members on 19 September 2024 and provides performance information on the delivery of the council's Performance Plan 2022 to 27. Performance against the Local Government Benchmarking Framework (LGBF) will be reported to members at a later date once the figures are published. The report also highlights to members that several actions are now being taken forward through projects and workstreams within the updated delivery plan portfolios.

105. The council have made good progress in reviewing and setting key performance targets however as part of our work in 2023/24, we noted seven KPIs without targets. Management have explained that for five targets no data is available and for the remaining two KPIs the plan simply states they 'do not have a target.' We understand this is being actively worked on by the council to

establish the remaining KPIs. The recommendation remains 'in progress' in the action plan.

106. Overall, we conclude that the council has an established performance management framework that managers and councillors clearly understand, and that it provides a sound base for improvement. Reports are provided on an annual basis and scrutinised by members and also publicly available.

The council has satisfactory arrangements for the preparation and publication of Statutory Performance Information (SPIs)

107. 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.

108. The council is required to report on its SPIs within 12 months of the end of the financial year they refer to. The SPIs include both LGBF indicators and locally defined performance indicators. The council has submitted its 2023/24 data returns to the Improvement Service which will enable LGBF performance indicators to be calculated. A report on the outcomes and performance for 2023/24 is due to be presented to the March 2025 council meeting.

109. We have evaluated the council's arrangements for fulfilling the above requirements and concluded that there are satisfactory arrangements for the preparation and publication of SPIs.

The council is working effectively with partners to meet stated outcomes and improvement objectives

110. Our outcomes for public audit note that tackling complex social and environmental challenges requires better collaboration across public bodies, with an increase in the pace and scale of reform needed across the Scottish public sector. While public bodies need to deal with immediate financial pressures, they also need to change how services are delivered to people in a way that more effectively meets their needs.

111. Our 2023/24 Best Value thematic review on workforce innovation (issued in September 2024) looked at progress the council has made with sharing roles or functions across its services and/or with other councils and partners. Our review found that work collaborative working with partners was happening including the following examples:

- Collaborates with partners through established strategic partnerships such as the Community Planning Partnership and Health and Social Care Partnership;
- Supports managers to consider place-based employment opportunities in partnership with other services or partner organisations;
- Works with partners to adopt a place-based approach to workforce and skills planning for the Highland area;

- Identified cross-cutting areas and sectors to be prioritised to support partners in delivering the revised Highland Outcome Improvement Plan.
- Collaborates with partners in the education sector to support the council's own workforce capacity and that of the wider area
- Engaging with the University of Highland and Islands (UHI) to develop a local social work qualification.

Appendix 1. Follow-up of prior years' recommendations

Issue	Year raised	Original recommendation and agreed action(s)	2023/24 Progress
Annual Audit Report Prior Year Recommendations			
<p>PY1: Establishment checks</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.</p>	2022/23	<p>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. 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>Implemented</p> <p>An establishment check as at 31 March 2024 has been undertaken and the results analysed. The appropriate action will then be taken to address any changes required as a result of this check.</p> <p>The establishment check will be repeated 6 monthly with the next check undertaken in September 2024 which will include checking employee hours and pay rates.</p> <p>An update on payroll controls and the progress made by the council is included above in paragraph 53.</p>

Issue	Year raised	Original recommendation and agreed action(s)	2023/24 Progress
		<p>Responsible officer: Head of People</p> <p>Agreed dates:</p> <p>31 March 2024 for next establishment check to be issued.</p> <p>30 June 2024 for position management framework implementation (Project 3 of People Finance System Programme)</p>	
<p>PY2: Section 106 charitable trusts</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</p>	2022/23	<p>Agree to review and consider joint reporting for 2023/24 Annual Accounts</p> <p>Responsible officer: Head of Corporate Finance</p> <p>Agreed date: June 2024</p>	<p>Implemented</p> <p>These were collated into a single document for the 2023/24 Annual Accounts.</p>
<p>PY3: Manual cheques</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.</p>	2022/23	<p>The procedure for issuing cheques is being reviewed and policy is being developed to reinforce payment to staff will be through BACS to remove the need to issue cheques. This procedure will also include partner agencies in which HC processes their payroll.</p> <p>Responsible officer: Head of People</p> <p>Agreed date: 31 March 2024</p>	<p>Implemented from 31 July 2024</p> <p>Internal audit carried out work in this area during 2023/24 and have reported their findings to the June 2024 Audit Committee. There remain ongoing control issues with payroll and we note that manual cheques continued to be issued throughout 2023/24 with little reduction.</p> <p>However internal audit have advised that manual cheques for payroll has been discontinued from 31/07/24. Prior to this date the payroll team reviewed</p>

Issue	Year raised	Original recommendation and agreed action(s)	2023/24 Progress
			<p>those staff who were being paid by cheque to obtain their bank details and transfer this to payment by BACS.</p> <p>Payroll is being actively monitored by internal audit and as a result we will not be duplicating the audit scrutiny and recommendations. We will remain engaged with internal audit and the council on progress over the implementation of payroll recommendations.</p>
<p>PY4: Assurances from third party system hosts</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.</p>	2022/23	<p>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>Responsible officer: Head of ICT & Digital</p> <p>Agreed date: 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>Completed</p> <p>The 2024 returns have been received and collated. These have also been shared with Internal Audit.</p> <p>Feedback from suppliers was that this repeated many of the assurances that were covered in the original contracts and required resending of documents shared at that time. For future years we are changing the approach to issue what we know to suppliers and ask them to confirm changes and/or provide any changed documents or certifications, so this is a lower overhead, and highlights any changes.</p>
<p>PY5: Management commentary</p> <p>Management should refer to the Good Practice Note on Enhancing the Quality of Local Authority Annual Accounts and review the content and layout of</p>	2022/23	<p>Management response: Agree to review and revise the Management Commentary for the 2023/24 Annual Accounts</p> <p>Responsible officer: Head of Corporate Finance</p>	<p>In progress</p> <p>Council Officers reviewed the Good Practice Note when considering what improvements could be made, and to ensure the Council was fulfilling its statutory requirements in relation to disclosures. The following changes and improvements were made for 2023/24:</p>

Issue	Year raised	Original recommendation and agreed action(s)	2023/24 Progress
future annual accounts as part of continuous improvement in reporting.		Agreed date: June 2024	<ul style="list-style-type: none"> • An improved shared working paper setup between the Finance team and Graphic Design team, to allow changes by Finance to be picked up immediately by the graphic design team. This assisted with the tight timeframe for producing this document. • Presentational improvement included a more unified colour coding system and looking at the original layout and making some minor changes taking the graphic design teams expertise in these areas into account. <p>Revised action: Further review and refinement for 2024/25 is planned, noting that the go live of the Council's new Corporate Finance System in April 2024 limited the finance team's capacity for major review of the Management Commentary for 2023/24.</p> <p>Responsible officer: Chief Officer Corporate Finance</p> <p>Agreed date: June 2025</p>
<p>PY6: Infrastructure assets</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</p>	2021/22	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>Superseded</p> <p>We remain in communication with the council regarding this accounting issue.</p> <p>The statutory overrides remain in place for infrastructure assets until 31 March 2025.</p> <p>The Council is still waiting for a longer-term solution to be put in place by CIPFA/LASAAC in order for the Council to review the position. A timetable for this longer-term solution has yet to be published by CIPFA/LASAAC.</p>

Issue	Year raised	Original recommendation and agreed action(s)	2023/24 Progress
justify the UEL determined, and how this is evidenced.		<p>Original timescale for implementation: September 2023</p> <p>Revised action: To review the national position relating to Infrastructure Assets, and any further / changed guidance or implications for statutory overrides.</p> <p>Responsible officer: Head of Corporate Finance</p> <p>Revised date: June 2024</p>	<p>We will follow this item up as part of normal audit procedures in 2024/25 as well as when further guidance is issued by the Scottish Government.</p> <p>An update has been provided in Exhibit 4 above.</p>
<p>PY7: Bank reconciliations</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>	2021/22	<p>This will be put in place in financial year 23/24.</p> <p>Revised action: A secondary individual will review the payroll and pensioner bank reconciliations no later than June 2024 onwards.</p> <p>Responsible officer: Head of Corporate Finance</p> <p>Revised date: June 2024</p>	<p>Completed</p> <p>The final position for both payroll bank reconciliations were both reviewed by a secondary individual for 2023/24.</p>
<p>PY8: Finance Team capacity</p> <p>Once the S95 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.</p>	2021/22	<p>A number of actions have been taken forward, and further actions being progressed relating to the Finance Team Structure, and Team capacity.</p> <p>New Pensions Team structure approved by Committee in February 2023, including an increased overall FTE of</p>	<p>Completed</p> <p>The Council has reviewed its Senior Leadership Team and in September 2024 appointed a permanent new post of Chief Officer – Corporate Finance (Section 95 Officer).</p>

Issue	Year raised	Original recommendation and agreed action(s)	2023/24 Progress
<p>We recognise, for Highland Council, the recruitment market is challenging.</p>		<p>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.</p> <p>4 FTE of the new pension posts job-sized and approved through Council recruitment process Q3 2023 and now moving to advert.</p> <p>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.</p> <p>Further review of capacity and resilience within the Finance team is taking place to support the Council's financial management approach.</p> <p>Responsible officer: Depute Chief Executive and Head of Corporate Finance</p> <p>Revised date: June 2024</p>	<p>The budget approved by Council in February 2024 provided additional funding for staffing in Corporate Services which will address the remaining action.</p> <p>Since that time, a redesign of the accounting structure has taken place with the clear focus of increasing capacity and resilience within the team, and utilising the additional funding referred to above.</p> <p>Full staff and trade union engagement on the new structure was completed in summer 2024, and arrangements are underway to progress implementation (advertising and recruitment) with the intent that the structure and increased capacity is in place in the current (2024/25) financial year (refer to paragraphs 75-76 on financial capacity above).</p>
<p>PY9: Longer Term financial planning</p> <p>The Council has yet to approve saving plans beyond 2022/23.</p>	2021/22	<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</p>	<p>Completed</p> <p>The Council in December 2023 agreed a General Fund Reserves Strategy.</p>

Issue	Year raised	Original recommendation and agreed action(s)	2023/24 Progress
<p>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>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>The Council in February 2024 agreed a new medium term financial plan and three-year revenue budget for 2024/25 to 2026/27, including a package of savings and other measures to balance the projected budget gap over that period.</p> <p>In May 2024, the Council agreed a new multi-year Operational Delivery Plan 2024-2027, the purpose of which is to support the delivery of the Council's three-year package of budget savings, change and transformation, and Council programme commitments.</p> <p>The Council revised its 5-year capital programme in September 2023 and subsequently in May 2024 agreed a new Highland Investment Plan representing a longer-term strategic approach to capital investment and funding thereof.</p> <p>In June 2024, the Highland Community Planning Partnership agreed a revised Highland Outcome Improvement Plan, and this was considered by Highland Council at its meeting of 19 September 2024.</p>
<p>PY10: Equality impact assessments</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</p>	2021/22	<p>The council has been progressing a project to refresh its approach to impact assessment. The purpose of this project is to:</p> <ul style="list-style-type: none"> • Identify improvements to the council's impact assessment process(es) • Increase staff and member awareness of the need to undertake impact assessments 	<p>Superseded</p> <p>Progress update and recommendation has been amalgamated with the 2022/23 Best Value recommendation below.</p>

Issue	Year raised	Original recommendation and agreed action(s)	2023/24 Progress
<p>Assessments) and record the outcome for relevant committee reports. However, the practice of carrying out impact assessments is inconsistent.</p> <p>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"> • Include development of training on carrying out different types of impact assessments and on use of the toolkit <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. 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>Responsible officer: Head of Community Support, Contact and Engagement</p> <p>Revised date: Implementation by June 2024</p>	

Issue	Year raised	Original recommendation and agreed action(s)	2023/24 Progress
Best Value Thematic Review – Leadership - Prior Year Recommendations			
<p>BV1: Corporate Plan 2022-27 some targets still to be set</p> <p>The council should review and set the outstanding targets in the Corporate Plan in order to track performance and outcomes in a meaningful way.</p>	2022/23	<p>14 of these have now been set and 3 have been removed (1 duplicate and 2 where no useful data is available). For the remaining 5 these will be addressed when the Programme is recalibrated (see 2 below).</p> <p>Responsible officer: Strategic Lead (Corporate Audit & Performance)</p> <p>Action by: end June 2024</p>	<p>In progress</p> <p>This has been partially completed as there are still 2 Performance Indicators awaiting targets within the Performance (formerly Corporate) Plan:</p> <ul style="list-style-type: none"> • <u>PI 1.7:</u> Community Planning Partnership (CPP), increase the total number of Highland workforce trained in supporting people with mental health and well-being concerns. The actual numbers were reported in 2023/24, but the target has still to be agreed by the CPP. • <u>PI 4.3 (ii):</u> Number of Funding Opportunities aimed at Community Energy Projects. This was a new indicator for 2023/24 but the work on this has not progressed as quickly as planned. <p>As part of our work in 2023/24, we noted seven performance indicators without targets. Management have explained that for five targets, no data is available (e.g. the LGBF average is the target). The remaining two indicators state they simply do not have a target.</p>
<p>BV2: Partnership working</p> <p>The council should ensure there is a greater alignment and explicit linkages between the Corporate Plan and the Highland Outcome Improvement</p>	2022/23	<p>The CPP Board has agreed to review the HOIP to ensure it aligns with the strategic priorities of partner organisations and reflects some of the significant challenges facing the Highland area. This includes the financial challenges facing public</p>	<p>Completed</p> <p>The CPP Board agreed a revised HOIP and Delivery Plan on 5 June 2024. This has been designed to address the significant challenges facing the Council area and to align with the Operational Delivery Plans 2024-27 of partner organisations including the</p>

Issue	Year raised	Original recommendation and agreed action(s)	2023/24 Progress
<p>Plan 2017-2027 with regards to the CPP.</p>		<p>funding. A report to Council on 14/12/23 outlined the need to recalibrate the Council Programme to reflect the financial challenges being faced. All plans including the Corporate Plan and refreshed HOIP (see 4 below) will be amended to align with this.</p> <p>Responsible officer: Head of Community Support, Contact and Engagement with the Strategic Lead (Corporate Audit & Performance)</p> <p>Action by: end June 2024</p>	<p>Council's. This has been designed to focus on priorities and action.</p>
<p>BV3: Views of citizens and communities reflected in the priorities and decisions taken by the council</p> <p>The council should increase awareness of its approach to participatory budgeting more widely so that citizens can be more involved in community decision-making.</p>	<p>2022/23</p>	<p>The ongoing review of Area Committees will consider the opportunities to strengthen the Council's approach to participatory resourcing, including the involvement of local communities.</p> <p>Responsible officer: Head of Community Support, Contact and Engagement with Interim ECO for Performance & Governance</p> <p>Action by: end June 2024</p>	<p>In progress</p> <p>The review of Area Committees is complete and resulted in two committees merging.</p> <p>The Council's approach to participatory resourcing continues to evolve. Some local committees have directly devolved local car park income to the Community Councils / Community Trusts to allocate local funds and a participatory budgeting approach has been adopted as part of the whole family wellbeing programme.</p> <p>Overall, the intention is the agreement of Area Place Plans for each committee area, which set out the shared priorities for each community, will assist in targeting specific strands of funding, e.g. Community Regeneration Funds, based on the priorities agreed with the local community. This action is set out in the</p>

Issue	Year raised	Original recommendation and agreed action(s)	2023/24 Progress
<p>BV4: Highland Outcomes Improvement Plan to be updated</p> <p>The council and partners should ensure that the HOIP is subject to review on a regular basis to ensure priorities remain relevant and up to date.</p>	2022/23	<p>This has been recognised and a review was agreed by the CPP Board in September. A report on “Resetting the HOIP” was considered by Council on 14/12/23 which outlines the progress so far. It is intended that a revised HOIP will be considered by the CPP Board on 01/03/24 and then submitted for approval by Council on 14/03/24.</p> <p>Responsible officer: Head of Community Support, Contact and Engagement</p> <p>Action by: end March 2023</p>	<p>Corporate Performance Plan with the completion date of quarter 3 in 2025/26 i.e. by 31 March 2025.</p> <p>Completed</p> <p>The draft HOIP was considered by the CPP Board on 1 March 2024 and then by Council on 14 March. The revised HOIP and associated Delivery Plan 2024-2027 actions were agreed by the CPP Board on 5 June 2024.</p> <p>Regular updates will continue to be provided to the CPP Board and Council.</p>
<p>BV5: Equality impact assessments</p> <p>The council should implement Impact Equality Assessments consistently at the planning stage to ensure no person or community is disadvantaged. Plans and assessments should be available on the website per the planning guidance and to also demonstrate transparency.</p>	2022/23	<p>The council has been progressing a project to refresh its approach to impact assessment. The purpose of this project is to:</p> <ul style="list-style-type: none"> • Identify improvements to the council’s impact assessment process(es) • Increase staff and member awareness of the need to undertake impact assessments • Include development of training on carrying out different types of impact assessments and on use of the toolkit 	<p>Completed</p> <p>The approach to impact assessment has been reviewed, processes updated, and a new digital tool developed to support this which went live on 1st July 2024.</p> <p>Awareness of the changes were communicated through:</p> <ul style="list-style-type: none"> • A series of staff briefings which were held twice weekly throughout June • Information published on Staff Connections and shared with staff by email.

Issue	Year raised	Original recommendation and agreed action(s)	2023/24 Progress
<p>The Council 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>		<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>Responsible officer: Head of Community Support, Contact and Engagement</p> <p>Revised date: Implementation by end June 2024</p>	<p>Members of the project team also attended all Service Senior Management Team meetings to raise awareness of the changes at this level.</p> <p>Ongoing implementation:</p> <ul style="list-style-type: none"> • Online training has been developed using Traineeasy to Managers together with staff on grade HC7 or above who may be required to undertake impact assessments. The training covers impact assessment in general and specific subject matter training. • The Committee Report templates and format have been updated to give greater focus on impact assessment and reporting the results and impacts to members.

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £500k.

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	Cr	Dr	Cr
Accounting Misstatements		£m	£m	£m	£m
1. PPP liability overstated	PPP liability			4.7	
	Capital Adjustment Account				4.7
2. PPE (school) overstated	Revaluation Reserve				3.8
	Land and Buildings			3.8	
Total unadjusted items				8.5	8.5

The Highland Council

2023/24 Annual Audit Report

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