

# Highlands and Islands Enterprise

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Highlands and Islands Enterprise and the Auditor General for Scotland

November 2024

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# Key messages

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## 2023/24 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified.
- 2 Key risks arising from the audit of Highlands and Islands Enterprise's annual report and accounts in my Annual Audit Plan were presented to the Audit Committee in March 2024. Significant findings and key audit matters from the audit are outlined in [Exhibit 2](#).
- 3 Officers made adjustments of £4.1 million to the annual report and accounts.

## Financial management

- 4 Appropriate and effective financial management arrangements are in place, with regular budget monitoring reports provided to the Board.
- 5 Highlands and Islands Enterprise operated within its revised budget for 2023/24, reporting an underspend of £8.9 million, of which £5.6m related to an underspend on the capital budget due to Highlands and Islands Enterprise receiving additional income.
- 6 Standards for the prevention and detection of fraud remain appropriate. However, there is scope for enhancing some financial systems of internal control.

## Financial sustainability

- 7 The 2024/25 opening budget included over-allocations of £3.4 million, which Highlands and Islands Enterprise anticipate will be reduced due to slippage on projects over the course of the year resulting in a balanced budget at 31 March 2025.
- 8 Highlands and Islands Enterprise has developed a medium-term financial strategy for 2024/25 to 2028/29 reflecting a range of scenarios and financial assumptions which will support the effective delivery of services.

## **Vision, leadership, and governance**

- 9 Highlands and Islands Enterprise has developed a strategy to implement its vision, strategy and priorities. The strategy is aligned with the Scottish Government's National Strategy for Economic Transformation.
- 10 There are effective and appropriate governance arrangements in place that support scrutiny of decisions made by the Board.
- 11 Cyber security arrangements continue to improve.

## **Use of resources to improve outcomes**

- 12 Appropriate arrangements are in place for securing best value.
- 13 The majority of the primary outcome measures for 2023/24 have been successfully delivered.
- 14 Highlands and Islands Enterprise is working effectively with partners to meet stated outcomes and improvement objectives.

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# Introduction

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**1.** This report summarises the findings from the 2023/24 audit of Highlands and Islands Enterprise. The scope of the audit was set out in the Annual Audit Plan presented to the March 2024 meeting of the Risk and Assurance Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of Highlands and Islands Enterprise’s annual report and accounts
- 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 Risk and Assurance Committee and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

## Audit appointment

**3.** I, Pauline Gillen, have been appointed by the Auditor General for Scotland as auditor of Highlands and Islands Enterprise for the period from 2022/23 until 2026/27. The 2023/24 financial year was the second of my five-year appointment.

**4.** My team and I would like to thank Board members, Risk and Assurance Committee members, executive directors, 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 course of the remainder of the five-year appointment.

## Responsibilities and reporting

**5.** Highlands and Islands Enterprise has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the account's direction from the Scottish Ministers. Highlands and Islands Enterprise is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

**6.** My responsibilities as the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the Code of Audit Practice 2021, supplementary guidance and International Standards on Auditing in the UK (ISAs).

**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 Highlands and Islands Enterprise from its responsibility to address the issues raised and to maintain adequate systems of control.

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

## **Auditor Independence**

**9.** I can confirm that the audit team comply with the Financial Reporting Council's Ethical Standard. I can also confirm that I have not undertaken any non-audit related services and I am not aware of any relationships that could compromise our objectivity and independence.

**10.** The 2023/24 Annual Audit Plan set out an audit fee of £199,530 for the 2023/24 audit. However, a rebate of £2,066 was issued, relating to previous years audit fees, resulting in a final audit fee of £197,464.

**11.** The annual audit adds value to Highlands and Islands Enterprise by:

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

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# 1. Audit of 2023/24 annual report and accounts

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

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## Main judgements

Audit opinions on the annual report and accounts are unmodified.

Key risks arising from the audit of Highlands and Islands Enterprise's annual report and accounts in my Annual Audit Plan were presented to the Audit Committee in March 2024. Significant findings and key audit matters from the audit are outlined in Exhibit 2.

Officers made adjustments of £4.1 million to the annual report and accounts.

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## Audit opinions on the annual report and accounts are unmodified

**12.** The Risk and Assurance Committee approved the annual report and accounts for Highlands and Islands Enterprise and its group for the year ended 31 March 2024 on 19 November 2024. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were in accordance with applicable enactments and guidance
- the audited part of the Remuneration and Staff Report was prepared in accordance with the Government Financial Reporting Manual
- the Performance Report and Governance Statement were consistent with the financial statements and properly prepared in accordance with the Government Financial Reporting Manual.

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

**13.** In line with the timetable set out in our Annual Audit Plan, we received the annual report and accounts and working papers in line with the agreed audit timetable. We received good support from management and the wider finance team which enabled us to complete the audit in accordance with the agreed timetable.

**14.** However, a number of the working papers provided included calculations that were linked to other supporting schedules that had not been provided as part of the working paper package. We have no concerns around the accounting records maintained, however there is scope for improvement in relation to the completeness of the working paper package provided at the outset of the financial statements audit.

## Overall materiality was assessed as £1.6 million

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

**16.** 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 report and accounts and is summarised in [Exhibit 1](#).

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### Exhibit 1 Materiality values

Materiality level	Single entity	Group
Overall materiality	£1.6 million	£1.6 million
Performance materiality	£0.8 million	£0.8 million
Reporting threshold	£80,000	£80,000

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**17.** The overall materiality threshold was set with reference to gross expenditure which I judged as the figure of most interest to the users of the financial statements.



**18.** Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 50% of overall materiality, reflecting a history of errors in prior years.

**19.** It is my responsibility to request that all misstatements are corrected other than those below the reporting threshold. The final decision on making the correction lies with those charged with governance.

## Significant findings and key audit matters

**20.** Under ISA (UK) 260, we communicate significant findings from the audit to the Board, including our view about the qualitative aspects of the Board's accounting practices.

**21.** The Code of Audit Practice also requires me to highlight key audit matters which are defined in ISA (UK) 701 as those matters judged to be of most significance.

**22.** The significant findings and key audit matters are summarised in [Exhibit 2](#).

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## Exhibit 2

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

Issue	Resolution
<p><b>1. Staff Costs</b></p> <p>The FReM requires that the Staff Report discloses an analysis of staff costs and numbers which should distinguish between:</p> <ul style="list-style-type: none"> <li>• staff with a permanent UK employment contract</li> <li>• other staff (e.g. short-term contract staff, agency/temporary staff).</li> </ul> <p>£0.5 million of permanent staff costs were incorrectly recharged to operating expenditure. This is to allocate central administration costs to projects and should have been recharged from administration costs. In addition, £0.3 million of costs relating to permanent staff who spend a proportion of their time on projects was incorrectly deducted from permanent staff costs.</p> <p>The impact of this is to increase net management expenditure on staff costs by £0.8 million and</p>	<p>Management have adjusted for this in the audited annual report and accounts.</p> <p><b>Recommendation 1</b></p> <p>(Refer to <a href="#">Appendix 1</a>, action plan)</p> <p>This was judged to be a key audit matter.</p>

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Issue	Resolution
<p>decrease operating expenditure by £0.8 million on the Statement of Comprehensive Net Expenditure.</p> <p>From analysis of operating expenditure, it was identified that other staff costs within the Staff Report did not include £0.2 million of contract/temporary staff who are not paid through the payroll system but are instead invoiced for their services. In addition, £0.2 million of other staff costs processed through the payroll system were incorrectly omitted from the other staff costs.</p> <p>The impact of this is to increase net management expenditure on staff costs by £0.2 million and decrease operating expenditure by £0.2 million on the Statement of Comprehensive Net Expenditure. The remaining £0.2m affected the Staff Report only and had a nil impact on the Statement of Comprehensive Net Expenditure.</p>	
<p><b>2. IAS 19 Pension Costs</b></p> <p>Highlands and Islands Enterprise operate two pension schemes being the Highlands and Islands Enterprise Superannuation Scheme and the Local Government Pension Scheme (LGPS).</p> <p>The following points were noted from review of the pension accounting treatment in the unaudited accounts:</p> <ul style="list-style-type: none"> <li>• Interest on the effect of the pension asset ceiling</li> </ul> <p>The application of an asset ceiling in relation to the LGPS scheme in 2022/23 in accordance with IFRIC 14, has an impact on the amount of interest income that can be recognised in 2023/24. The IAS 19 schedule of results provided to Highlands and Islands Enterprise by the actuary did not include the impact of the asset ceiling adjustment applied in 2022/23. Therefore, the 'interest on the effect of the asset ceiling' of £0.3 million was not accounted for in the unaudited Statement of Comprehensive Net Expenditure.</p> <ul style="list-style-type: none"> <li>• Accounting for unfunded pension liability</li> </ul> <p>IAS 19 does not permit bodies to offset the unfunded pension liability against a pension asset. Highlands and Islands Enterprise's unfunded pension liability for the LGPS of £0.6 million was incorrectly offset against the scheme asset in year</p>	<p>Management have adjusted for this in the audited annual report and accounts.</p> <p>This was judged to be a key audit matter.</p>

Issue	Resolution
<p>instead of being added to the pension liability recognised on the Statement of Financial Position.</p> <ul style="list-style-type: none"> <li>• Offset of pension asset against pension liability</li> </ul> <p>In the unaudited accounts, the LGPS surplus was incorrectly offset against the Highlands and Islands Enterprise Superannuation Scheme liability on the Statement of Financial Position. Highlands and Islands Enterprise's pension schemes do not meet the criteria per IAS 19 to be able to offset an asset relating to one plan against a liability relating to another plan.</p>	
<p><b>3. Holiday Pay Accrual</b></p> <p>The working papers provided for the annual leave accrual incorrectly calculated the balance for part time staff due to a formula error.</p> <p>The impact of this is to increase trade and other payables by £0.2 million on the Statement of Financial Position and increase net management expenditure on staff costs by £0.2 million on the Statement of Comprehensive Net Expenditure.</p>	<p>Management have adjusted for this in the audited annual report and accounts.</p>
<p><b>4. Related Parties</b></p> <p>International Accounting Standard 24 (IAS 24) details the requirements for disclosing transactions and balances with related parties. In the unaudited financial statements, Highlands and Islands Enterprise did not disclose material transactions or balances with its subsidiaries on the basis that these items are eliminated on consolidation.</p> <p>As the 2023/24 annual report and accounts reflect the financial position from both a group and single-entity perspective, material transactions and balances with subsidiaries should be disclosed.</p> <p>Audit procedures included a review of the existing processes in place for identifying related party relationships. During the interim audit, we identified improvements that could be made to year-end processes around related parties. This included a recommendation that management consider using Companies House as a third-party source to confirm the completeness of Registers of Interests for both Board Members and Leadership Team.</p>	<p>Management have adjusted for this in the audited annual report and accounts and disclosed all material transactions and balances with subsidiaries and associates.</p> <p>During the financial statements audit, there was limited evidence that management had performed completeness checks of Board Members and Leadership Team registers of interest.</p> <p><b>Recommendation 2</b></p> <p>(Refer to <a href="#">Appendix 1</a>, action plan)</p>

Issue	Resolution
<p><b>5. Classification Error in Land and Buildings</b></p> <p>The split of land and buildings held for regeneration and land and buildings – held for own use had been calculated incorrectly within the unaudited annual report and accounts. Due to issues with the formulae applied in the working papers, a small number of assets had been wrongly classified.</p> <p>The effect of revaluation was understated for land and buildings – own use resulting in the carrying value at 31 March 2024 being overstated by £0.4 million. This had the opposite effect on land and buildings – held for regeneration.</p> <p>This affected the note only and had a net impact of nil across the total property, plant and equipment reported within the Statement of Financial Position.</p>	<p>Management have adjusted for this in the audited annual report and accounts.</p> <p><b>Recommendation b/f 1</b></p> <p>(Refer to <a href="#">Appendix 1</a>, action plan)</p>
<p><b>6. Classification of Plant and Equipment Revaluations within the Statement of Comprehensive Net Expenditure</b></p> <p>On review of the trial balance, it was identified that a new account code which related to plant and equipment revaluations of £0.2 million had been recognised within other management expenditure instead of operating expenditure on the Statement of Comprehensive Net Expenditure.</p> <p>The impact of this is to increase operating expenditure by £0.2 million and decrease other management expenditure by £0.2 million on the Statement of Comprehensive Net Expenditure.</p>	<p>Management have adjusted for this in the audited annual report and accounts.</p>
<p><b>7. Adjustment to Provision for two loans</b></p> <p>After the year-end, Highlands and Islands Enterprise monitoring arrangements identified potential issues with the recoverability of two loans. These had been considered low risk as at 31 March 2024. To recognise the increased risk, the provision for each loan was subsequently recalculated as £0.2 million. This is considered to be a non-adjusting event under IAS 10 as there was no indication of this occurring at the reporting date and does not require disclosure as it is below our materiality levels.</p>	<p>Management have adjusted for this in the audited annual report and accounts.</p>

Issue	Resolution
<p>However, management opted to adjust for this within the audited annual report and accounts.</p> <p>The impact of this is to increase other management expenditure by £0.2 million on the Statement of Comprehensive Net Expenditure and decrease financial assets on the Statement of Financial Position.</p>	

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

**23.** We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements identified in my 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

### Exhibit 3

#### Identified Significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in 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>	<ul style="list-style-type: none"> <li>Assessed the design and implementation of controls over journal entry processing.</li> <li>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.</li> <li>Tested journals at the year-end and post-closing entries and focus on significant risk areas.</li> <li>Considered the need to test journal entries and other adjustments throughout the year.</li> </ul>	<p><b>Results:</b> Work undertaken included detailed testing of journal entries, accruals, prepayments and invoices; as well as review of accounting estimates and transactions for appropriateness. Specific enquiries were made of individual staff as to whether they had knowledge or awareness of manipulation of financial recording or processing of fraudulent journals.</p> <p><b>Conclusion:</b> No incidents of management override of controls were identified.</p>

Audit risk	Assurance procedure	Results and conclusions
	<ul style="list-style-type: none"> <li>• Evaluated significant transactions outside the normal course of business.</li> <li>• Assessed the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.</li> <li>• Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm</li> <li>• they are accounted for in the correct financial year.</li> <li>• Focussed testing of accounting accruals and prepayments.</li> </ul>	
<p><b>2. Capital Accounting</b></p> <p>In prior years, our work on capital accounting identified significant issues with the accounting treatments applied and the clarity of working papers used to prepare the annual report and accounts.</p> <p>Given the number of issues identified and adjustments made to the annual report and accounts, this is considered to be an area where there is significant risk of material misstatement.</p>	<ul style="list-style-type: none"> <li>• Review management action against our 2022/23 audit recommendation relating to capital accounting.</li> <li>• Examination of the accuracy, completeness and valuation of capital accounting disclosures in the 2023/24 financial statements.</li> </ul>	<p><b>Results:</b> Work undertaken confirmed that action had been taken by management to address the issues identified in the prior year in relation to the recognition of gains and losses on revaluation. Improvements had also been made to working papers to ensure calculations could be followed.</p> <p>However, a number of issues were identified due to the level of manual input required within the working papers. These were immaterial, however could result in a misstatement in future years if not corrected.</p>

Audit risk	Assurance procedure	Results and conclusions
		<p><b>Conclusion:</b> Progress has been made in improving the working papers for non-current assets. No material misstatements have been identified in this area. However, further action is required to reduce the risk of this going forward.</p> <p><b>Recommendation b/f 1</b> (Refer <a href="#">Appendix 1</a>, action plan)</p>

**24.** In addition, the 2023/24 Annual Audit Plan identified other “areas of audit focus” where there may be risks of material misstatement to the financial statements. These areas of specific audit focus were:

- **Estimations in valuation of land and buildings:** we assessed the design and implementation of controls over the valuation of land and buildings. We carried out ‘reliance on a management expert’ work on the valuer and concluded that we could place reliance on their valuation report for the property portfolio. We reviewed the revaluation adjustments throughout the financial statements and confirmed that these had been accurately processed.
- **Estimations in valuation of pension assets and liabilities:** we assessed the design and implementation of controls over the valuation of pensions. We carried out ‘reliance on a management expert’ work on the actuary. Based on the findings of the audit procedures performed we concluded that we could place reliance on the actuary’s valuation of the pension liability. We reviewed the pension adjustments throughout the financial statements and identified a number of significant findings as outlined in [Exhibit 2](#).

**25.** Based on the findings of the audit procedures performed, there are no other matters which we need to bring to your attention other than those already outlined above.

## Officers made adjustments of £4.1 million to the annual report and accounts

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

**27.** Adjustments to the annual report and accounts totalled £4.1 million. This includes the adjustments set out in [Exhibit 2](#). Adjustments made in the audited annual report and accounts increased net expenditure in the Group Statement

of Comprehensive Net Expenditure by £0.4 million and decreased net assets in the Group Statement of Financial Position by £0.4 million.

**28.** We have reviewed the nature and cause of these adjustments and have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. While these have resulted in adjustments, we do not consider them to be errors.

### **We obtained assurance from the work of internal audit**

**29.** We carried out a review of the internal audit function under ISA (UK) 610 to determine the extent to which we could use the work of internal audit.

**30.** Internal audit is provided by an in-house team supported by additional resources provided by a firm of accountants. Specialist IT audit services are provided by an independent third party on behalf of Highlands and Islands Enterprise and their partners in Enterprise Information Services (the shared IT arrangement with Skills Development Scotland, Scottish Enterprise, and South of Scotland Enterprise).

**31.** Our review concluded that Highlands and Islands Enterprise's internal audit arrangements are effective. We placed reliance on internal audit's testing of significant transactions and its work on the certificates of assurance which support the governance statement. This works supports our audit opinion.

**32.** As noted in the Code of Audit Practice, we coordinate with internal audit and rely on their work to achieve efficiencies where this is possible in line with audit quality standards. We thank Highlands and Islands Enterprise's internal audit team for their assistance in this regard.

### **Limited progress was made on prior year recommendations**

**33.** Highlands and Islands Enterprise has made limited progress in implementing the agreed prior year audit recommendations. A number of recommendations made were not actioned in line with the agreed timescales and remain in progress. For actions not yet implemented, revised responses and timescales have been agreed with management and are set out in [Appendix 1](#).



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## 2. Financial management

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

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### Conclusion

Appropriate and effective financial management arrangements are in place, with regular budget monitoring reports provided to the Board.

Highlands and Islands Enterprise operated within its revised budget for 2023/24, reporting an underspend of £8.9 million, of which £5.6m related to an underspend on the capital budget due to Highlands and Islands Enterprise receiving additional income.

Standards for the prevention and detection of fraud remain appropriate. However, there is scope for enhancing some financial systems of internal control.

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### **Appropriate and effective financial management arrangements are in place, with regular budget monitoring reports provided to the Board**

**34.** Senior management and members receive regular and accurate financial information on Highlands and Islands Enterprise performance against budgets. These reports allow officers and members to scrutinise financial performance effectively throughout the year.

### **Highlands and Islands Enterprise operated within its revised budget in 2023/24, with an overall underspend of £8.9 million**

**35.** The main financial objective for Highlands and Islands Enterprise is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

**36.** The body has reported an outturn of £66.5 million against its overall budget for 2023/24 with an underspend of £8.9 million. The financial performance against the 2023/24 budget is shown in [Exhibit 4](#).

## Exhibit 4

### Performance against total budget in 2023/24

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Fiscal Resource	29.9	20.7	21.4	0.7
Fiscal Capital	28.4	36.6	31.0	(5.6)
Financial Transactions	1.9	1.9	2.3	0.4
<b>Sub-total</b>	<b>60.2</b>	<b>59.2</b>	<b>54.7</b>	<b>(4.5)</b>
Non-Cash Costs	2.5	3.2	2.2	(1.0)
Annually Managed Expenditure	-	13.0	9.6	(3.4)
<b>Total</b>	<b>62.7</b>	<b>75.4</b>	<b>66.5</b>	<b>(8.9)</b>

Source: Highlands and Islands Enterprise – 2023/24 Annual Report and Accounts

37. The key movements as outlined in [Exhibit 4](#) were in main due to:

- Fiscal Resource – reduction of £9.2 million to reflect the Scottish Government’s decision to claw back a significant proportion of the £11 million income that Highlands and Islands Enterprise received in 2023/24 in relation to the out of court settlement for the Cairngorm Funicular Railway.
- Fiscal Capital – timescale changes on several major projects as well as additional income received in year.
- Annual Managed Expenditure - the increase in pension liabilities was lower than expected.

### Budget processes were appropriate

38. Highlands and Islands Enterprise’s budget was adjusted as part of the Scottish Government’s in-year budget revision. Details on the budget revisions were reported to the Board throughout the year. The most significant revisions over the course of the year for Highlands and Islands Enterprise included:

- An additional Fiscal Capital allocation of £8.2 million to cover expenditure incurred on additional capital projects.

- An increase in the Annually Managed Expenditure allocation of £13.0 million to cover volatile costs which cannot be predicted or controlled including impairment, pension costs and provisions.

### Net liabilities decreased by £0.8 million

**39.** Highlands and Islands Enterprise's net liabilities decreased by £0.8 million from £1.1 million in 2022/23 to £0.3 million in 2023/24. While the overall movement is a decrease in net liabilities, there have been significant upward and downward movements in assets and liabilities on the Statement of Financial Position. The most significant movements are:

- a £8.5 million increase in cash and cash equivalents, largely due to the compensation received for the Cairngorms Funicular Railway.
- a £5.4 million decrease in the retirement benefit obligation, mainly due to changes in actuarial assumptions as a result of changes in market conditions affecting yield and inflation rates.

**40.** Highlands and Islands Enterprise continues to be in a net liability position as at 31 March 2024. We considered this position as part of our work on the use of the going concern assumption to prepare the annual report and accounts and concluded that there were no issues with using the going concern assumption for their preparation. We also concluded there were no material uncertainties in the use of the going concern assumption to prepare the annual report and accounts.

### There is scope for enhancing some financial systems of internal control

**41.** From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach, we noted the following areas where there is scope for improvement to the operation of certain internal controls:

- **Review of the fixed asset register** – Highlands and Islands Enterprise maintains its fixed asset register on an Excel workbook. Management have advised that a review process is in place for any updates made to the workbook and reconciliations completed between the fixed asset register and general ledger are also subject to review. However, this was not evidenced within the working papers provided and there is no record of this review occurring.
- **Maintenance and functionality of the fixed asset register** – a number of issues were identified with the formulae used and calculations performed within the fixed asset register due to the level of manual input required. The errors identified were below our reporting threshold and therefore did not require amendment within the financial statements, however, if this is not addressed, it could result in a material error in future years.

- **Impairment of non-current assets** – management have advised that the process around the impairment of non-current assets involves discussions between various teams and business groups. However, there is no formal policy or procedure in place around the process including how any decisions or judgements made as a result of the discussions are documented. Furthermore, there are no formal procedures in place for assessing the potential impairment of assets that have been subject to revaluation prior to the year-end. Assurances have been obtained to confirm there is no indication of impairment of these assets following enquiry by audit, but this should be conducted in advance of the annual report and accounts being prepared.
- **Authorisation of journal entries** - our substantive testing of journal entries identified six instances where journals were processed and authorised by the same individual. Highlands and Islands Enterprise's process for journal entries requires these to be processed and authorised by separate individuals. Therefore, these journals were not in line with policy. These journals were the only instances of the same individual processing and authorising a journal during the year. Evidence of retrospective review was provided for some of these journal entries but was not available for all. We reviewed these journals and concluded that there was no evidence of management override of controls, therefore this issue did not impact our audit approach.
- **Employee expenses** – sample testing of employee expense claims where using corporate travel cards identified instances where there was a lack of supporting documentation being retained to evidence approval. Additional supporting information provided to audit confirmed the expenses were appropriate and demonstrated value for money. Highlands and Islands Enterprise had also been overcharged by two suppliers which had not been recognised during the checks completed prior to approval of the expense. Refunds have been requested for these.
- **Service auditor reports** – the systems used by Highlands and Islands Enterprise for its payroll and financial ledger are externally hosted by third party suppliers. Meetings are held periodically with the suppliers; however, minutes of these meetings are not maintained. Furthermore, service auditor reports are not available for either system to provide assurance over the hosting arrangements.

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### Recommendation 3

Highlands and Islands Enterprise should implement improvements to address the internal control weaknesses identified.

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

**42.** 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.

**43.** We concluded that Highlands and Islands Enterprise has appropriate arrangements for the prevention and detection of fraud, error, and irregularities. We also reviewed arrangements to maintain standards of conduct, including the Board and staff code of conduct and register of interests. We concluded that Highlands and Islands Enterprise has established procedures for preventing and detecting any breaches of these standards.

## National Fraud Initiative

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

**45.** We reviewed Highlands and Islands Enterprise's NFI arrangements and concluded that it is pro-active in investigating matches and reporting outcomes. Regular reports are presented to the Risk and Assurance Committee to update members on progress with the NFI exercise.

# 3. Financial sustainability

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

## Conclusion

The 2024/25 opening budget included over-allocations of £3.4 million, which Highlands and Islands Enterprise anticipate will be reduced due to slippage on projects over the course of the year resulting in a balanced budget at 31 March 2025.

Highlands and Islands Enterprise has developed a medium-term financial strategy for 2024/25 to 2028/29 reflecting a range of scenarios and financial assumptions which will support the effective delivery of services.

## 2024/25 budget position

46. Highlands and Islands Enterprise's opening budget for 2024/25 included expenditure of £74.3 million against income of £70.9 million resulting in an over-allocation of £3.4 million. The opening budget for 2024/25 against fiscal resources is shown in [Exhibit 5](#).

## Exhibit 5

### Opening budget for 2024/25 against fiscal resources

Performance	Expenditure £m	Income £m	Over/(under) allocation £m
Fiscal Resource	31.2	31.3	(0.1)
Fiscal Capital	43.1	39.6	3.5
<b>Total</b>	<b>74.3</b>	<b>70.9</b>	<b>3.4</b>

Source: Highlands and Islands Enterprise Opening Budget 2024/25

**47.** For 2024/25, Highlands and Islands Enterprise have based budget allocations on forecast demand and anticipate the over-allocation will be reduced due to slippage on projects over the course of the year in order to deliver a balanced budget.

**48.** As at the end of September 2024, the overall expenditure forecast had reduced by net £5.2 million compared to the opening budget over-allocation of £3.4 million resulting in a revised forecast under-allocation of £1.8 million. The most significant reductions relate to:

- Discretionary Spend (capital) which has a current forecast of £6.8 million which demonstrates a decrease of 45% from £12.5 million.
- Top Slice (capital) which has a current forecast of £29.4 million, demonstrating an increase of 12% from £26.3 million.
- BAU Reserve balance of (£3.5 million) has been eliminated with a current forecast of nil.

### Highlands and Islands Enterprise has a medium-term financial strategy in place

**49.** The Board considered Highlands and Islands Enterprise's Financial Strategy 2024/25 – 2028/29 in June 2024. The purpose of the strategy is to maximise spend in the Highlands and Islands, whilst ensuring a balanced budget for each financial year. The strategy sets out the expected financial environment over the five-year period and includes the resources that Highlands and Islands Enterprise is expected to have available to deliver its priorities and the pressures that could impact on expected resources.

**50.** The strategy outlines funding from the Scottish Government as the most important variable for Highlands and Islands Enterprise's financial position as this underpins around 90% of the Fiscal Revenue and Fiscal Capital budgets, excluding exceptional income.

**51.** The strategy notes Highlands and Islands Enterprise's capital budget was cut by 10% in 2024/25 and the Green Jobs Fund budget was removed for 2024/25 and 2025/26. If Highlands and Islands Enterprise's baseline is not restored in 2025/26 then this will limit Highlands and Islands Enterprise's ability to deliver its strategy which includes supporting regional transformational opportunities and providing discretionary funding for projects across the region.

**52.** It also provides an outlook of Highlands and Islands Enterprise's revenue budget over the next five years in a scenario where there are no material reductions in "running the business" costs and discretionary budgets are kept at 2024/25 levels. The current budget levels are generally achievable, with 2024/25 discretionary budgets of 25% less than in 2023/24.

**53.** Highlands and Islands Enterprise is operating in a challenging financial environment that will impact on resources over the medium and longer-term. In order to address these challenges, actions will have to be taken. The strategy

outlines Highlands and Islands Enterprise has established two working groups to scrutinise and challenge costs in order to manage the pressures going forward.

**54.** Despite the challenging financial environment Highlands and Islands Enterprise is operating in, we have noted that senior management and Board members consider the medium to longer-term horizons as part of their strategic and operational decision making and this is also reflected in corporate plans and strategies. As a result, we are satisfied that there is effective medium to longer-term planning.



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# 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.

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## Conclusion

Highlands and Islands Enterprise has developed a strategy to implement its vision, strategy and priorities. The strategy is aligned with the Scottish Government's National Strategy for Economic Transformation.

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

Cyber security arrangements continue to improve.

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

**55.** We identified a significant wider scope risk in relation to the Cairngorm Funicular Railway reinstatement works. Audit procedures were developed to assess the governance arrangements in place and consider the financial impact on Highlands and Islands Enterprise.

**56.** A timeline of events was established in the early stages of the 2023/24 audit:

- September 2018 - The funicular railway was closed due to concern over the structures that are in place to support the tracks.
- November 2020 - Balfour Beatty were appointed as contractor by Highlands and Islands Enterprise through the SCAPE framework for public sector procurement to commence the £25 million reinstatement project.
- January 2023 - The funicular was reopened following the completion of these works.
- August 2023 – Highlands and Islands Enterprise secured £11 million in August 2023 in an out of court settlement against the original construction

and design team for work undertaken in the 1990s and early 2000s. The settlement also included payment relating to guarantees issued by Natural Assets Investments Ltd (parent company of previous operator Cairngorm Mountain Ltd) and its main shareholder.

- August 2023 - The funicular was taken out of service on 25 August 2023 as a result of concerns over the strengthening works installed in 2022 following routine inspections by NEC Supervisors and subsequently confirmed by spot checks by the main contractor, Balfour Beatty during a period of planned summer defects works. These were initially expected to be carried out quickly, however a revised timescale of the end of September 2023 was subsequently announced. This was delayed further to November 2023 as the works required had proven more time consuming and complex than initially anticipated.

**57.** A programme of remediation works led by the main contractor has been ongoing throughout the calendar year. In addition to reinstating tension in scarf joints, further checks have been carried out on the tension in beams and diaphragms and grouting works on the piers. This remains ongoing at time of writing.

**58.** Highlands and Islands Enterprise have liaised with the contractors during the year to keep informed on progress with the works to date and raise any concerns timeously to reduce the likelihood of further delay.

**59.** The current aim is for the funicular to be back in service ahead of the snow sports season in December 2024. A proactive approach has been adopted by Highlands and Islands Enterprise when confirming the additional works to be carried out to mitigate the risk of this issue recurring.

**60.** During this time, the costs involved with reinstating the funicular continue to increase and are currently being borne by Balfour Beatty. However, Highlands and Islands Enterprise continue to incur costs relating to project management, investigative works, design input, NEC Supervisor, health and safety and legal support, as well as the cost of Highlands and Islands Enterprise staff time. Experts have been appointed to assess these costs and the resulting financial impact, as well as the impact on the operator of the funicular, Cairngorm Mountain (Scotland) Limited.

**61.** The Highlands and Islands Enterprise Board has received updates on progress throughout the year at each meeting held. Additionally, the Cairngorm sub-group reconvened in an advisory role to support Highlands and Islands Enterprise on Cairngorm matters.

**62.** We will continue to review progress with the Cairngorm Funicular Railway reinstatement works in 2024/25.

## **Highlands and Islands Enterprise has a clear vision and strategy aligned with Scottish Government's National Strategy for Economic Transformation**

**63.** Highlands and Islands Enterprise launched its five-year strategy, *Highlands and Islands Enterprise Strategy 2023-28*, in August 2023. The vision outlined in the strategy is “The Highlands and Islands is a leading net zero region with a dynamic wellbeing economy, which benefits its growing population and makes a valued contribution to Scotland.” The strategy is guided by national policy, principally the National Strategy for Economic Transformation (NSET) and sets out a strategic framework to deliver the strategy that aligns to NSET and the key outcomes that Highlands and Islands Enterprise will look to achieve through delivery of the strategy.

**64.** The strategy is supported by the annual operating plan which outlines the actions for each year that will allow the outcomes of the strategy to be met. The annual operating plan is updated each year and will reflect developments against the vision and outcomes in the strategy.

## **Executive and non-executive directors demonstrate effective leadership, challenge and scrutiny of the organisation's activity and performance**

**65.** The Chief Executive and senior leadership team are responsible for the delivery of day-to-day services and for ensuring that Highlands and Islands Enterprise achieves its corporate priorities as outlined in the Corporate Plan.

**66.** There is significant uncertainty in the economic and political environment in which Highlands and Islands Enterprise operates, with a complex range of opportunities and challenges. We have concluded that senior management and non-executive directors have demonstrated effective leadership and scrutiny of operational activity and performance in 2023/24.

## **Governance arrangements are appropriate and Highlands and Islands Enterprise operates in an open and transparent manner**

**67.** Highlands and Islands Enterprise's governance arrangements have been set out in the Governance Statement in the annual report and accounts. We have reviewed these arrangements and concluded that they are appropriate and support robust scrutiny and challenge of decision-making processes.

**68.** There continues to be an increasing focus on demonstrating the best use of public money. Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources.

**69.** Highlands and Islands Enterprise's website is clear and well structured. Board minutes are available to the public along with key publications including the most recent annual report and accounts.

**70.** We concluded that the board conducts its business in an open and transparent manner.

### **Cyber security arrangements continue to improve**

**71.** Information technology services for Highlands and Islands Enterprise are managed by its internal IT service and the externally led Enterprise Information Services (EIS) partnership. The EIS partnership board provides the strategic oversight of the EIS partnership (also involving Skills Development Scotland, Scottish Enterprise and South of Scotland Enterprise).

**72.** Overall, responsibility for cyber security lies with each partner body. Cyber Essentials Plus was accredited to Highlands and Islands Enterprise and all EIS partner bodies in 2023/24 and was renewed in September 2024. IT security tools and measures are in place to mitigate any cyber security risks, including anti-virus and virus scanning software, intrusion prevention and detection systems, firewalls, and security information and event management systems.

**73.** The Risk and Assurance Committee continue to receive regular updates on cyber security, with the most recent delivered to the meeting in September 2024.

**74.** Highlands and Islands Enterprise and the EIS partnership board are committed to cyber security and ongoing improvement in this area. Cyber-related risks are reported to the EIS partnership board and are shared by the EIS partnership at the cross-organisational security council.

**75.** During the year, staff completed regular cyber security training to improve vigilance in this area, with additional training provided as required. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that relevant training and monitoring is in place to mitigate this.

**76.** On review of Highlands and Islands Enterprise's cyber security arrangements, it was confirmed that a formal IT Strategy has not yet been finalised. Detailed work is ongoing supported by EIS and a plan is in place to have a draft strategy for beginning of the 2025/26 financial year. Much of Highlands and Islands Enterprise's activity is covered by the EIS IT strategy.

**77.** Progress in revising business continuity and disaster recovery planning arrangements has continued throughout the year but have not yet been finalised.

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# 5. 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.

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## Conclusions

Appropriate arrangements are in place for securing best value.

The majority of the primary outcome measures in 2023/24 have been successfully delivered.

Highlands and Islands Enterprise is working effectively with partners to meet stated outcomes and improvement objectives.

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## Appropriate arrangements are in place for securing best value

**78.** [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

**79.** We consider whether Accountable Officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. We may also, in conjunction with Highlands and Islands Enterprise, agree to undertake local work in this area. We did not undertake any specific work in 2023/24 but concluded that appropriate arrangements were in place for securing best value based on the outcome of our other audit work.

**80.** Highlands and Islands Enterprise has a robust approach to gaining assurance in this regard and has a Best Value plan in place with regular reporting to the Risk and Assurance Committee.

## **The majority of the primary outcome measures in 2023/24 have been successfully delivered**

**81.** Highlands and Islands Enterprise monitored key performance indicators throughout the year with performance reported to the Board on a regular basis.

**82.** Due to focus on developing a new strategy to align with NSET, which included extensive planning and consultation, a specific 2023/24 Operating Plan was not produced. Specific targets for 23/24 were however updated and presented to the Board in June 2023.

**83.** Outturn against the primary outcome measures was reported in the Performance Report in the annual report and accounts. Of the 14 primary outcome measures, 10 were in line with or surpassed the target range with four that did not meet the target range.

**84.** Senior management and the Board should continue to review the primary outcome measure targets set each year to ensure they are challenging but achievable.

## **Highlands and Islands Enterprise is working effectively with partners to meet stated outcomes and improvement objectives**

**85.** There is an increasing recognition of the need for an increase in the pace and scale of reform needed across the Scottish public sector to help tackle the complex financial and environmental challenges facing public bodies. An important part of that reform is partnership working and collaboration with partners.

**86.** Highlands and Islands Enterprise's new strategic ambition includes an explicit commitment to work effectively with Scottish Government and other partners to help deliver NSET objectives. Highlands and Islands partners include businesses, universities and other partner bodies such as: Scottish Enterprise, South of Scotland Enterprise, and Skills Development Scotland.

# Appendix 1. Action plan 2023/24

## 2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Staff Costs recognised within Operating Expenditure</b></p> <p>A proportion of both permanent staff and other staff costs had incorrectly been recognised within Operating Expenditure. Further, it was unclear how the staff costs per the payroll information reconciled with the staff costs recorded in the general ledger.</p> <p><b>Risk</b> – Staff costs reported per the Staff Report are misstated.</p>	<p>Highlands and Islands Enterprise should review the procedures in place for recognising Staff Costs within the annual report and accounts to ensure this captures all staff costs incurred during the year. All costs recorded within the general ledger should be allocated to a relevant staff cost account code.</p> <p>A reconciliation should be prepared between the payroll reports and general ledger information to ensure the costs recorded agree.</p> <p><a href="#">Exhibit 2</a></p>	<p><b>Accepted</b></p> <p>We will carry out an additional reconciliation to ensure the payroll costs are correctly stated.</p> <p><b>Responsible officer</b> – Head of Financial Services</p> <p><b>Agreed date</b> – 31 March 2025</p>
<p><b>2. Related Parties</b></p> <p>It was identified that the procedures in place for assessing the related parties disclosure do not include completing a review of Companies House against the Register of Interests for both Board Members and Leadership Team.</p> <p><b>Risk</b> – There is a risk that the related parties disclosure is not complete.</p>	<p>Highlands and Islands Enterprise should consider including a year-end procedure which assesses interests declared per Register of Interests for Board Members and the Leadership team against Companies House. A record should be maintained as evidence of this review.</p> <p><a href="#">Exhibit 2</a></p>	<p><b>Accepted</b></p> <p>Process will be put in place for the 24/25 accounts to ensure completeness of disclosure.</p> <p><b>Responsible officer</b> – Head of Financial Services</p> <p><b>Agreed date</b> – 31 March 2025</p>

Issue/risk	Recommendation	Agreed management action/timing
<p><b>3. Internal Controls</b></p> <p>We noted a number of areas where there is scope for improvement to the operation of certain internal controls, some of which remain from the prior year.</p> <p><b>Risk</b> – there is a risk that internal controls do not operate effectively.</p>	<p>Highlands and Islands Enterprise should implement improvements to address the internal control weaknesses identified. This includes but is not limited to:</p> <ul style="list-style-type: none"> <li>- Ensuring any review of the FAR is evidenced.</li> <li>- Formalising procedures for assessing the impairment of non-current assets.</li> <li>- Regularly reviewing journal entries processed to identify any instances of self-approval.</li> <li>- Enhancing the review process in place and evidence maintained for the approval of employee expenses.</li> <li>- Obtaining service auditor reports for systems which are externally hosted.</li> </ul> <p><a href="#">Paragraph 40</a></p>	<p><b>Accepted</b></p> <p>Processes will be put in place to address and document the issues identified.</p> <p><b>Responsible officer</b> – Head of Financial Services</p> <p><b>Agreed date</b> – 31 March 2025</p>

## Follow-up of prior year recommendations

Issue/risk	Recommendation and Agreed Action	Progress
<p><b>b/f 1. Capital accounting</b></p> <p>Our work on capital accounting identified significant issues with the accounting treatments applied and the clarity of working papers used to prepare the annual report and accounts.</p> <p><b>Risk</b> – there is a risk that the annual report and accounts do not comply with</p>	<p><b>Recommendation -</b></p> <p>Highlands and Islands Enterprise finance staff should continue to improve their understanding of capital accounting. Working papers used to prepare the annual report and accounts should be reviewed to apply a clearer and more straightforward method of identifying how the annual report and accounts have</p>	<p><b>Work in progress</b></p> <p>Noting the improvements already made to the working papers, we will further focus on reducing areas of potential error.</p> <p><b>Responsible officer</b> - Head of Financial Services</p> <p><b>Revised date</b> - 31 March 2025</p>



Issue/risk	Recommendation and Agreed Action	Progress
<p>accounting standards and accounting policies. Significant audit input is required to ensure the accounts are not materially misstated resulting in additional audit fees.</p>	<p>been prepared, whilst reducing the risk of manual error.</p> <p><b>Agreed action – Agreed.</b> 31 March 2024</p>	
<p><b>b/f 2. Non-compliance with the FReM</b></p> <p>Two instances of non-compliance with the FReM were identified with the Performance Report.</p> <p><b>Risk –</b> the Performance Report does not fully comply with the FReM.</p>	<p><b>Recommendation -</b> Management should complete the disclosure checklists prepared by the National Audit Office (NAO) and review Audit Scotland’s good practice note on improving the quality of central government annual report and accounts when preparing their 2023/24 annual report and accounts.</p> <p><b>Agreed action -</b> Highlands and Islands Enterprise will update its process in line with NAO and Audit Scotland’s good practice note.</p> <p>31 March 2024</p>	<p><b>Partially implemented</b></p> <p>We will ensure the relevant disclosure checklists are complete and provided at the start of the audit.</p> <p><b>Responsible officer -</b> Head of Financial Services</p> <p><b>Revised date -</b> 30 June 2025</p>
<p><b>b/f 3. Internal controls</b></p> <p>We noted a number of areas where there is scope for improvement to the operation of certain internal controls.</p> <p><b>Risk –</b> there is a risk that internal controls do not operate effectively.</p>	<p><b>Recommendation -</b> Highlands and Islands Enterprise should implement improvements to address the internal control weaknesses identified.</p> <p><b>Agreed action -</b> We will Implement revised procedures to ensure internal control actions are clearly evidenced.</p> <p>31 March 2024</p>	<p><b>Superseded –</b> see <a href="#">Appendix 1</a> Action Plant Point 3</p>
<p><b>b/f 4. Assurances to Accountable Officer</b></p> <p>We identified that checklists and assurances provided to the Accountable Officer were</p>	<p><b>Recommendation -</b> Highlands and Islands Enterprise should review the process in place for providing assurances to the Accountable Officer and</p>	<p><b>Implemented</b></p>

Issue/risk	Recommendation and Agreed Action	Progress
<p>not fully completed in all instances.</p> <p><b>Risk</b> – there is a risk that all details requiring disclosure to the Accountable Officer and in the Governance Statement are not identified.</p>	<p>ensure all checklists and certificates of assurance are fully complete.</p> <p><b>Agreed action</b> - Highlands and Islands Enterprise will update the process for completion of the annual assurance returns to ensure no post submission changes or control issues identified up to year end.</p> <p>31 March 2024</p>	
<p><b>b/f 5. Climate Change Strategy</b></p> <p>We noted that Highlands and Islands Enterprise does not have a formal climate change strategy in place or up-to-date baselines for its carbon footprint.</p> <p><b>Risk</b> – there is a risk that Highlands and Islands Enterprise is not able to demonstrate its plans and actions to achieve climate related requirements and targets.</p>	<p><b>Recommendation</b> - Highlands and Islands Enterprise should work to prepare a climate change strategy and finalise up-to-date baselines for its carbon footprint.</p> <p><b>Agreed action</b> - Highlands and Islands Enterprise is completing a benchmarking of its carbon footprint and is working towards a climate change strategy.</p> <p>Carbon foot printing – end of 2023/24.</p> <p>Climate Change Strategy to Highlands and Islands Enterprise Board in 2024/25.</p>	<p><b>Work in progress</b></p> <p>Significant progress has been made in year including training, achieving accreditation and independent benchmarking reports. This work will inform an updated action plan. HIE’s operational strategy also includes cross cutting priorities relating to Net Zero and one of HIE’s 4 priority themes relate to Planet recognising the huge opportunities the just transition to net zero offers our region over the coming decades.</p> <p><b>Responsible officer</b> - Director of Strategy and Regional Economy (through HIE’s Net Zero Steering Group)</p> <p><b>Revised date</b> – 31 March 2025</p>
<p><b>b/f 6. Cyber security arrangements</b></p> <p>We noted that back-ups carried out by EIS were not tested for part of the year.</p>	<p><b>Recommendation</b> - Management should perform regular testing of data back-up files to ensure that they can be regenerated without loss and that an up-to-date</p>	<p><b>Implemented</b></p>

Issue/risk	Recommendation and Agreed Action	Progress
<p><b>Risk</b> – there is a risk that data back-up files cannot be regenerated without loss if regular testing is not carried out to identify any issues with processes.</p>	<p>statement of assurance is obtained from EIS to evidence this.</p> <p><b>Agreed action</b> – Agreed. 31 October 2023</p>	
<p><b>b/f 7. Financial capacity</b></p> <p>There is some evidence that the new posts have improved the finance team’s capacity. However, we have yet to see significant improvement in accounting for complex areas such as capital accounting, Financial Transactions, and Investments.</p> <p><b>Risk</b> – the annual report and accounts submitted for audit are materially misstated or require significant adjustment.</p>	<p><b>Recommendation -</b> Highlands and Islands Enterprise senior management should consider how to develop the required skills and experience to ensure complex areas are appropriately reflected in the annual report and accounts.</p> <p><b>Agreed action –</b> Outstanding. 31 January 2024</p>	<p><b>Work in progress</b></p> <p>We will continue to progress the improvements made in 23/24 and work with our technical advisers to ensure complex matters are reviewed prior to audit</p> <p><b>Responsible officer -</b> Director of Corporate Services</p> <p><b>Revised date -</b> 30 June 2025</p>

# Highlands and Islands Enterprise

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