

# Highland Council (Section 106) Charitable Trust Funds

2024/25 Annual Audit Report



Prepared for the Trustees of the Highland Council (Section 106) Charitable Trust Funds and  
the Controller of Audit  
November 2025

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# Key messages

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## **Audit of the annual report and financial statements**

- 1** All audit opinions stated that the Highland Council (Section 106) Charitable Trust Fund's annual report and financial statements were free from material misstatement.
  - 2** All audit adjustments required to correct the financial statements were processed by the Trust.
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# Introduction

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## Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2024/25 audit of the Highland Council (Section 106) Charitable Trust Funds annual report and financial statements.
2. The Annual Audit Report is addressed to the trustees of the Highland Council (Section 106) Charitable Trust Funds, hereafter referred to as 'the Trust'. The Trust includes the Highland Council Charitable Trusts (HCCT) and the Highland Charities Trust (HCT). The report is also addressed to the Controller of Audit, and will be published on Audit Scotland's website in due course.

## Appointed auditor and independence

3. Esther Scoburgh of Audit Scotland, has been appointed as external auditor of the Trust for the period from 2024/25 until 2026/27. As reported in the Annual Audit Plan, the audit team are independent of the Trust in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team from the Trust, including no provision of non-audit services.

## Acknowledgements

4. We would like to thank the staff, particularly those involved in preparation of the annual report and financial statements, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the audit appointment.

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# Audit scope and responsibilities

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## Scope of the audit

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

- An audit of the financial statements and an opinion on whether they properly present the receipts and payments and are free from material misstatement.
- An opinion on statutory other information published with the financial statements in the Trust's annual report and financial statements.
- Provision of this Annual Audit Report.

## Responsibilities and reporting

**6.** The Code of Audit Practice sets out the respective responsibilities of the Trust and the auditor. A summary of the key responsibilities is outlined below.

### Auditor's responsibilities

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

**8.** The matters reported in the Annual Audit Report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve the Trust from its responsibilities outlined below.

### The Trust's responsibilities

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

- Establishing arrangements to ensure the proper conduct of its affairs.

- Preparation of a Trustees' annual report and annual accounts, comprising financial statements that properly present the receipts and payments and other specified information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.

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# Audit of the annual accounts

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## Main judgements

All audit opinions stated that the Highland Council (Section 106) Charitable Trust Fund's annual report and financial statements were free from material misstatement.

All audit adjustments required to correct the financial statements were processed by the Trust.

## Audit opinions on the annual report and financial statements

**10.** The Trust's annual report and financial statements were approved by The Highland Council Audit Committee on 12 November 2025 and certified by the appointed auditor on 12 November 2025. The Independent Auditor's Report is included in the Trust's annual report and financial statements, and this reports that, in the appointed auditor's opinion, these properly present the receipts and payments of the Highland Council Charitable Trust Funds.

## 2024/25 activity

**11.** During 2024/25 there has been significant structural reform and changes to streamline and modernise the trust portfolio including Trust activity. In December 2024 a new sub-committee, the Educational Trust Fund Sub-Committee (approved by the Highland Council Education Committee) was formed to oversee the Trust and ensure robust governance. We welcome this approach to the governance of the Trust.

**12.** The new Educational Trust Fund Sub-Committee has led to a positive increase in activity in the Trust during 2024/25 including awarding of grants of approximately £125,000 (HCCT: £123,000, HCT: £2,000). This is a significant increase from 2023/24 where only £35,000 was awarded from HCCT.

**13.** Total funds of £3.6 million were reported at year end 2024/25 compared to £2.6 million in 2023/24. The increase is mainly due to the transfer in of Trusts and bequests of £988,000 which were previously held as Educational Trusts to Highland Council Charitable Trust Funds. The largest of these transfers was Inverness Royal Academy Endowments Trust.

## Audit timetable

**14.** The unaudited annual report and financial statements were received on 27 June 2025 in accordance with the agreed audit timetable. The working papers provided by officers were satisfactory however there was a delay in obtaining some audit evidence.

**15.** There was a delay in obtaining some audit evidence due to the increased activity in the Trust in 2024/25 which impacted our signing date from September to November. Officers did provide all audit evidence requested allowing us to conclude the audit.

**16.** Officers have agreed to have an improved audit trail including tracking of investment income and shareholdings available for the 2025/26 audit and ensure that the classification of funds between unrestricted and restricted categories reflects the current Trust Schemes.

## Audit Fee

**17.** The audit fee for the 2024/25 audit was reported in the Annual Audit Plan and was set at £2,000. There have been no developments that impact on planned audit work required, therefore the audit fee reported in the Annual Audit Plan remains unchanged.

## Materiality

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

**19.** Materiality is used to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual report and accounts. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Materiality is ultimately a matter of the auditor's professional judgement.

**20.** We assessed materiality based on the total values for Highland Council Charitable Trust Funds (HCCTF) at the risk assessment phase of the audit and reported it in the Annual Audit Plan. Following receipt of the unaudited annual report and financial statements materiality was reassessed and updated as shown in [Exhibit 1](#).



Exhibit 1

2024/25 Final materiality levels for Highland Council (Section 106) Charitable Trust Funds

Materiality	Amount
<b>Materiality:</b> Set at 2% of total investments HCT and HCCTF (funds).	£72,300
<b>Performance materiality:</b> Set at 75% of materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required.	£54,200
<b>Reporting threshold:</b> Set at 5% of materiality.	£3,600

Source: Audit Scotland

Significant findings and key audit matters

21. ISA (UK) requires auditors to communicate significant findings from the audit to those charged as governance, which for the Trust is the trustees.

22. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor’s professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

23. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

24. There was one significant finding which breached our materiality and required an audit adjustment as noted in [Exhibit 2](#) below:

Exhibit 2

Significant findings and key audit matters

Significant findings and key audit matters	Outcome
During our review of the HCCT Trust, we identified that the classification between unrestricted and restricted funds was	Officers have reviewed and corrected the HCCT accounts to accurately reflect the

Significant findings and key audit matters	Outcome
<p>misstated for the Caithness Educational Trust, Inverness Royal Academy Endowments Trust and Gairloch &amp; Plockton High Schools Educational Trust.</p> <p>These misstatements arise from the introduction of new restrictions on revenue surpluses and a cap on the amount that may be retained as unrestricted funds in these Trust Schemes which were revised in 2024/25.</p> <p>Under the revised Trust Schemes, the Trusts are permitted to hold a maximum of £10,000 as unrestricted funds, representing a significant change from prior years' arrangements.</p>	<p>requirements of the three revised Trust Schemes as follows:</p> <ul style="list-style-type: none"> <li>• A decrease to the HCCT unrestricted fund of £127,415.</li> <li>• An increase to the HCCT permanent endowment (capital) funds of £127,415.</li> </ul> <p>The total funds balance for the Trust remains unchanged.</p>

## Audit adjustments

**25.** An audit adjustment was required to the financial statements to correct misstatements that were identified from the audit. Details of all audit adjustments greater than the reporting threshold of £3,600 are outlined above in [Exhibit 2](#).

**26.** Management of the body processed audit adjustments for all misstatements identified greater than the reporting threshold. As a result, there are no uncorrected misstatements to report.

## Qualitative aspects of accounting practices

**27.** ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of the body's accounting practices, including accounting policies and disclosures in the financial statements.

### Accounting policies

**28.** The appropriateness of accounting policies adopted by the Trust was assessed as part of the audit. These were considered to be appropriate to the circumstances of the Trust, and there were no significant departures from the accounting policies set out in the applicable accounting framework.

### Disclosures in the financial statements

**29.** The adequacy of disclosures in the financial statements was assessed as part of the audit. Officers updated disclosures based on audit findings and have processed all updates and adjustments.

## Significant risks of material misstatement identified in the Annual Audit Plan

**30.** Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan with the outcome summarised in [Exhibit 3](#).

### Exhibit 3

#### Significant risk of material misstatement to the financial statements

##### Risk of material misstatement

##### Fraud caused by management override of controls:

Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.

##### Audit response - The audit team:

- Evaluated the design and implementation of controls over journal entry processing including a review of the move from Integra to the new Tech One system.
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries.
- Tested journals entries, focusing on those that are assessed as higher risk, such as those affecting receipts and payments around the year-end.
- Evaluated if there were significant transactions outside the normal course of business.
- Assessed the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.
- Assessed if the methods and underlying assumptions used to prepare accounting estimates for evidence of management bias.
- Substantively tested a sample of receipts and payments, endowments and investments.

##### Audit work found:

- The design and implementation of controls over journal processing were appropriate.
- No inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting.
- No significant issues were identified from testing of journal entries.
- There were no transactions outside the normal course of business.
- No issues were found regarding related parties.
- There were no estimates used or underlying assumptions in preparing the accounts.
- Substantive testing of receipts and payments, endowments and investments was satisfactory overall.

## Outcome / conclusion

We found no evidence of fraud caused by management override of controls.

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## Prior year recommendations

**31.** There were no prior year recommendations or actions raised which require to be followed up.

# Highland Council (Section 106) Charitable Trust Funds

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