

# Highlands and Islands Enterprise

2024/25 Annual Audit Report



Prepared for Highlands and Islands Enterprise and the Auditor General for Scotland  
November 2025

---

# Contents

---

Key messages	3
Introduction	5
Audit of the annual report and accounts	8
Financial Management and Sustainability	22
Vision Leadership and Governance	28
Use of Resources to Improve Outcomes	32
Appendix 1 - Action plan 2024/25	34
Appendix 2 – National reports	40

---

## Accessibility

You can find out more and read this report using assistive technology on our website [www.audit.scot/accessibility](http://www.audit.scot/accessibility).

---

# Key messages

---

## Audit of the annual report and accounts

- 1 All audit opinions stated that the annual report and accounts were free from material misstatement.
- 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 Risk and Assurance Committee in March 2025. Significant findings and key audit matters from the audit are outlined in [Exhibit 2, \(page 10\)](#).
- 3 All audit adjustments have been processed by Highlands and Islands Enterprise.

## Financial Management and Sustainability

- 4 Highlands and Islands Enterprise operated within its revised budget in 2024/25, with an overall underspend of £2.0 million.
- 5 Clear policies and procedures are in place that ensure financial management is effective, with regular budget monitoring reports issued to the Board.
- 6 Highlands and Islands Enterprise has a medium-term financial strategy in place, which includes financial scenario planning to reflect uncertainties and to support the effective delivery of services.
- 7 Standards for the prevention and detection of fraud remain appropriate. However, scope remains for enhancing some financial systems of internal control.

## Vision, Leadership and Governance

- 8 Highlands and Islands Enterprise continue to have a clear vision and strategy aligned with Scottish Government's National Strategy for Economic Transformation.
- 9 There are effective and appropriate governance arrangements in place that support scrutiny of decisions made by the Board.

- 10** Cyber security has been a key focus area for Highlands and Islands Enterprise as progress continues in relation to the development of an IT Strategy.

## **Use of Resources to Improve Outcomes**

- 11** The majority of Highlands and Islands Enterprise's primary outcome measures in 2024/25 have been successfully delivered.
- 12** Highlands and Islands Enterprise's medium-term strategy covering 2023-28 includes an explicit commitment to work effectively with Scottish Government and other partners to help deliver National Strategy for Economic Transformation objectives.
- 13** Appropriate arrangements are in place for securing Best Value.

---

# Introduction

---

## 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 Highlands and Islands Enterprise's annual report and accounts and the wider scope areas specified in the [Code of Audit Practice \(2021\)](#). These are:

- Financial Management
- Financial Sustainability
- Vision, Leadership and Governance
- Use of Resources to Improve Outcomes.

2. The Annual Audit Report is addressed to Highlands and Islands Enterprise (the body) and the Auditor General for Scotland, and will be published on [Audit Scotland's website](#) in due course.

## Scope of the audit

3. 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 give a true and fair view and are free from material misstatement, including the regularity of income and expenditure.
- An opinion on statutory other information published with the financial statements in the annual report and accounts, namely the Performance Report and Governance Statement.
- An opinion on the audited part of the Remuneration and Staff Report.
- Conclusions on the body's arrangements in relation to the wider scope areas: Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.
- Reporting on the body's arrangements for securing Best Value.

- Provision of this Annual Audit Report.

## Appointed auditor and independence

4. Pauline Gillen, of Audit Scotland, has been appointed as the external auditor of the body for the period from 2022/23 until 2026/27. As reported in the Annual Audit Plan, Pauline Gillen and the audit team are independent of the body 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 body, including no provision of non-audit services.

## Responsibilities and reporting

5. The Code of Audit Practice sets out the respective responsibilities of the auditor and the body. A summary of the key responsibilities is outlined below.

### Auditor's responsibilities

6. The responsibilities of auditors in the public sector are established in the Public Finance and Accountability (Scotland) Act 2000. These include providing an independent opinion on the financial statements and other information reported within the annual report and accounts, and concluding on the body's arrangements in place for the wider scope areas and Best Value.

7. 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 body from its responsibilities outlined below.

8. The Annual Audit Report includes an agreed action plan at [Appendix 1, \(page 37\)](#) setting out specific recommendations to address matters identified and includes details of the responsible officer and dates for implementation.

### The body's responsibilities

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

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

- Preparation of an annual report and accounts, comprising financial statements for the body and its group that gives a true and fair view 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.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

## National and performance audit reporting

**10.** The Auditor General for Scotland and the Accounts Commission regularly publish national and performance audit reports. These cover a range of matters, many of which may be of interest to the body and the Risk and Assurance Committee. Details of national and performance audit reports published over the last year can be seen in [Appendix 2, \(page 40\)](#).

## Acknowledgements

**11.** We would like to thank the body and its staff, particularly those involved in preparation of the annual report and accounts, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the five-year audit appointment.

# Audit of the annual report and accounts

## Main judgements

All audit opinions stated that the annual report and accounts were free from material misstatement.

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 Risk and Assurance Committee in March 2025. Significant findings and key audit matters from the audit are outlined in [Exhibit 2, \(page 10\)](#).

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

## Audit opinions on the annual report and accounts

**12.** The annual report and accounts of Highlands and Islands Enterprise and its group were approved by the Risk and Assurance Committee and signed by the auditor on 6 November 2025. The Independent Auditor's Report is included in the body's annual report and accounts, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.



## Audit timetable

**13.** The unaudited annual report and accounts and all working papers were received on 1 August 2025 in accordance with the agreed audit timetable as set out in our 2024/25 Annual Audit Plan.

## Audit Fee

**14.** The audit fee for the 2024/25 audit was reported in the Annual Audit Plan and was set at £203,400. 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

**15.** The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected



misstatements on the financial statements or other information reported in the annual report and accounts.

**16.** Broadly, the concept of materiality is 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. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

**17.** Materiality levels for the audit of the body and its group were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual report and accounts and can be seen in [Exhibit 1](#).

## Exhibit 1

### 2024/25 Materiality levels

Materiality	Single entity	Group
<b>Materiality</b> – set at 2% of gross expenditure.	£1.55 million	£1.59 million
<b>Performance materiality</b> – set at 50% 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.	£0.77 million	£0.79 million
<b>Reporting threshold</b> – set at 5% of materiality.	£77,000	£79,000

Source: Audit Scotland

## Significant findings and key audit matters

**18.** ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged as governance, which for the body is the Risk and Assurance Committee.

**19.** 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.

**20.** 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.

**21.** The significant findings and key audit matters to report are outlined in [Exhibit 2](#).

## Exhibit 2

### Significant findings and key audit matters

Significant findings and key audit matters	Outcome
<p><b>1. Incorrect accounting treatment of factoring charges and insurance recharges</b></p> <p>Highlands and Islands Enterprise utilise the services of external property managers for their property portfolio and receive monthly client statements. Sample testing of expenditure items relating to factoring charges identified that these had not been accounted for on an accruals basis. This is not in line with the requirements of the Financial Reporting Manual (FReM).</p> <p>Further testing was undertaken which identified expenditure of £0.093 million relating to 2025/26 and paid in 2024/25 that had been incorrectly recognised as expenditure in 2024/25. This should have been recognised as a prepayment. Additionally, expenditure of £0.143 million relating to 2024/25 had been recognised in 2025/26 when it was paid. This should have been accrued in 2024/25.</p> <p>The impact of this was to increase prepayments in the Statement of Financial Position by £0.093 million and increase accruals in the Statement of Financial Position by £0.143 million, with a net impact of increasing expenditure in the Statement of Comprehensive Net Expenditure by £0.050 million.</p>	<p>Management have adjusted for this in the audited annual report and accounts.</p>

Sample testing of expenditure items relating to insurance recharges identified that the initial expenditure was correctly accounted for on an accruals basis, however the subsequent recharge (income) was recognised on a cash basis. Further analysis was undertaken which identified £0.108 million of recharges which had been recognised in 2024/25 which relate to the 2025/26 financial year.

The impact of this was to increase operating expenditure within the Statement of Comprehensive Net Expenditure by £0.108 million and increase deferred income within the Statement of Financial Position by £0.108 million.

---

## 2. Remuneration and staff report disclosures

Management have adjusted for this in the audited annual report and accounts.

The Remuneration and Staff Report was not prepared in line with the requirements of the FReM. The following issues were identified:

- The Fair Pay disclosure was calculated using the actual salary instead of the full-time equivalent salary. This had an impact on the salaries and pay ratios for the 25<sup>th</sup>, 50<sup>th</sup> and 75<sup>th</sup> percentiles.
- The salaries reported within the Remuneration Report for starters and leavers did not disclose the full-time equivalent salary.
- The salary bands reported for two employees disclosed in the Remuneration Report were incorrect.

Although the misstatements are below our reporting threshold, these are being reported due to the nature of the disclosures within the Remuneration and Staff Report.

---

## 3. Staff costs

Management have adjusted for this in the audited annual report and accounts.

The FReM requires that the Staff Report discloses an analysis of staff costs and numbers which should distinguish between:

- staff with a permanent UK employment contract
  - other staff (e.g. short-term contract staff, agency/temporary staff).
-

The Staff Report also distinguishes between contract/temporary staff costs in Other Staff costs. However, it was identified that £0.163 million of contract/temporary staff costs had been deducted from Permanent Staff costs as well as Other Staff costs when preparing this analysis. This resulted in permanent staff costs and, consequently, total staff costs being understated by £0.163 million.

This affected the Staff Report only and did not impact the Statement of Comprehensive Net Expenditure.

---

#### 4. IAS 19 pension costs

Highlands and Islands Enterprise operate two pension schemes: the Highlands and Islands Enterprise Superannuation Scheme and the Local Government Pension Scheme (LGPS).

The following points were noted from review of the pension disclosures in the unaudited accounts:

- **Interest on the effect of the pension asset ceiling** - incorrect signage had been applied when reporting this figure in the notes to the unaudited accounts. (£0.217 million) which resulted in a total Net Pension Scheme Expense of (£0.243 million). However, per the actuarial report the interest on the effect of the asset ceiling is £0.217 million resulting in a total Net Pension Scheme Expense of £0.191 million. Therefore, this was understated by £0.434 million. It was confirmed the correct signage had been applied within the Statement of Comprehensive Net Expenditure, therefore the impact of this was at note level only.
  - **Incorrect grouping of items** - Within the notes to the unaudited accounts, 'Current Service Costs' and 'Administration Costs' had been combined within the 'Movements in Year' line. 'Actuarial Gains due to demographic changes' had been reported within the 'Actuarial gains arising from changes in financial assumptions' line. These are required to be reported separately in line with the actuarial report.
- 

Management have adjusted for this in the audited annual report and accounts.

## 5. Impairment adjustment for loans

At the year-end management made an assessment of the risk and uncertainty associated with loans to ensure that the value recognised in the accounts was accurately stated to reflect expected recoverability. This is a prudent approach and is in line with the requirements of IFRS 9 *Financial Instruments*. In the period after the provision of the accounts for audit, management continued to keep this assessment of impairment under review and regularly provided updates to the audit team.

Following conclusion of the audit fieldwork, management recognised that the risk associated with a number of loans had increased. Having considered the requirements of IAS 10 *Events after the Reporting Period*, management opted to increase the impairment of its loans by £0.492 million.

The impact of this is to increase other management expenditure by £0.492 million on the Statement of Comprehensive Net Expenditure and decrease financial assets by £0.492 million in the Statement of Financial Position.

Management have adjusted for this in the audited annual report and accounts.

---

## 6. Duplication of an asset held for sale as a right of use asset

Highlands and Islands Enterprise report their right of use assets within the Property, Plant and Equipment note as well as the Leases note. One right of use asset met the conditions of IFRS 5 to be held for sale at 31 March 2025 and was correctly reclassified from Property, Plant and Equipment to Assets Held for Sale.

However, the right of use asset was not removed from the carrying value in the leases note, resulting in an overstatement of £1.617 million.

This affected the leases note only as the Statement of Financial Position correctly reported the values per the property, plant and equipment note and assets held for sale note.

---

Management have adjusted for this in the audited annual report and accounts.

## 7. Understatement of financial commitments

The Financial Commitments note has been overstated by £2.957 million as at 31 March 2025 as it had incorrectly included year-end adjustments relating to expenditure offset by future recoveries/recharges for past expenditure. The overstatement was split between Property (£1.537 million) and Grants and Loans (£1.420 million).

This impacted the disclosure note only and did not impact on the financial statements.

Management have adjusted for this in the audited annual report and accounts.

## 8. Error in fair value and impairments note (Group)

A signage issue was identified in the reporting of the movement in the Revaluation Reserve in year at note level for the Group. This was disclosed as (£0.141 million) but should have been £0.141 million, resulting in a variance of £0.282 million within the total movement disclosed.

This affected the note only and did not impact the financial statements as the correct figure was reported within the Statement of Changes in Taxpayer's Equity.

Management have adjusted for this in the audited annual report and accounts.

## 9. Classification errors within the notes to the financial statements

Several classification errors were identified at note level which did not impact the core financial statements but exceed our reporting threshold. These are as follows:

**Property, Plant and Equipment** – The £0.665 million brought forward balance for Assets Under Construction (AUC) was incorrectly included within the total impairment of AUC. In line with IAS 16, this should be reclassified within the note to Land and Buildings on completion and subject to depreciation in year. An adjustment was required to recognise reclassifications of £0.665 million from AUC to Land and Buildings held for regeneration being recognised.

In addition, this also impacted downward movements on revaluation which increased by £0.665 million and impairment which

Management have adjusted for this in the audited annual report and accounts.

Recommendation 1 – see [Appendix 1, \(page 37\)](#).

decreased by £0.665 million for both the single entity and the Group.

#### **Impairment of Assets Held for Sale -**

'Transfers to/(from) assets held for resale' in the 2024/25 financial year were reported net of £0.256 million of impairment of assets recognised as held for sale as at 31 March 2025. Therefore, within the note, the net 'transfers in' for the year were understated by £0.256 million and the impairment in year understated by £0.256 million.

**Trade and Other Receivables** – The 'Trade receivables' line within the note included £0.342 million of receivables which are reported separately as 'Owed by subsidiary undertakings'. 'Trade receivables' were overstated by £0.342 million and 'Owed by subsidiary undertakings' were understated by £0.342 million.

**Financial Assets** – Within the 'Diminution in value' section of the note, the Additions for the year was reported inclusive of the Risk Premium of £0.167 million. These are reported separately within the note. Therefore, Additions were overstated by £0.167 million and the Risk Premium was understated by £0.167 million

---

Source: Audit Scotland

---

## **Qualitative aspects of accounting practices**

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

### **Accounting policies**

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

### **Accounting estimates**

**24.** Accounting estimates are used in number of areas in the body's financial statements, including the valuation of land and buildings assets, the valuation of the pension liability and the valuation of investments. Audit

work considered the process management has in place around making accounting estimates, including the assumptions and data used in making the estimates, and the use of any management experts. Audit work concluded:

- There were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable.
- There was no evidence of management bias in making the accounting estimates.

**25.** Details of the audit work performed and the outcome of the work on accounting estimates that gave rise to significant risks of material misstatement are outlined in [Exhibit 4, \(page 18\)](#).

### Disclosures in the financial statements

**26.** The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional levels of detail provided for disclosures around areas of greater sensitivity, such as the valuation of the pension liability.

### Group audit

**27.** Highlands and Islands Enterprise is part of a group and prepares group financial statements. The group is made up of eight components, including the body which is the parent of the group. As outlined in the Annual Audit Plan, audit work was carried out on a number of the group's components for the purposes of the group audit, and this work was performed by a combination of the audit team and the components' audit teams. Group audit instructions were issued to component auditors, where required, to outline the expectations and requirements in performing the audit work for the purposes of the group audit. The audit work performed on the group's material components is summarised in [Exhibit 3](#).

## Exhibit 3

### Summary of audit work on the group's material components

Group component	Auditor and audit work required	Summary of audit work performed
Highlands and Islands Enterprise	<b>Audit Scotland</b> Full scope audit of the body's annual report and accounts.	The outcome of audit work performed is reported within the Annual Audit Report, with details of significant findings and key audit matters reported in <a href="#">Exhibit 2, (page 10)</a> .



Cairngorm Mountain (Scotland) Limited	<b>Saffery LLP</b> Yes – audit procedures outlined in item 1 of <a href="#">Exhibit 4, (page 18).</a>	The specific audit procedures were performed by the component auditor, and these were evaluated and reviewed by the audit team.  No significant issues were identified.
Wave Energy Scotland Limited	<b>Saffery LLP</b> Yes – audit procedures outlined in item 1 of <a href="#">Exhibit 4, (page 18).</a>	The specific audit procedures were performed by the component auditor, and these were evaluated and reviewed by the audit team.  No significant issues were identified.
Orkney Research and Innovation Campus LLP	<b>Saffery LLP</b> Yes – audit procedures outlined in item 1 of <a href="#">Exhibit 4, (page 18).</a>	The specific audit procedures were performed by the component auditor, and these were evaluated and reviewed by the audit team.  No significant issues were identified.

Source: Audit Scotland

## Other matters to report

**28.** Auditing standards require auditors to report a number of other matters if they are identified or encountered during an audit. There are no matters to report.

## Significant matters discussed with management

**29.** All significant matters identified during the audit and discussed with management have been reported in the Annual Audit Report.

## Audit adjustments

**30.** Audit adjustments were required to the financial statements to correct misstatements that were identified from the audit. Total adjustments to the financial statements of £0.809 million were required. The impact of this was to increase total comprehensive net expenditure for the year in the Statement of Comprehensive Net Expenditure by £0.716 million and decrease net assets in the Statement of Financial Position by £0.716 million. £0.557 million of these adjustments related to post balance sheet events which were identified by Highlands and Islands Enterprise. Other adjustments were required within the notes to the accounts with a total

value of £4.716 million. Details of all audit adjustments greater than the reporting threshold of £77,000 are outlined in [Exhibit 2, \(page 10\)](#).

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

## Whole of Government Accounts (WGA) return

**32.** The body is part of the WGA boundary and therefore prepares a return that is used by HM Treasury to prepare the WGA. The National Audit Office (NAO) is the auditor for the WGA and issues instructions outlining audit procedures auditors must follow when auditing a WGA return. The threshold for requiring audit procedures to be performed on the WGA return was set at £2 billion. The body was below this threshold and therefore only limited audit procedures will be required, before submission of an assurance statement to the NAO.

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

**33.** Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in [Exhibit 4](#).

### Exhibit 4

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

Risk of material misstatement	Planned audit response	Outcome of audit work
<p><b>Fraud caused by management override of controls</b></p> <p>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>The audit team will:</p> <ul style="list-style-type: none"> <li>• Evaluate the design and implementation of controls over journal entry processing.</li> <li>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries.</li> <li>• Test journals at the year-end and post-closing entries and focus on significant risk areas.</li> </ul>	<p>Audit work performed found:</p> <ul style="list-style-type: none"> <li>• The design and implementation of controls over journal processing were appropriate.</li> <li>• No inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting.</li> <li>• No significant issues were identified from testing of journal entries.</li> <li>• The controls in place for identifying and disclosing</li> </ul>

- Consider the need to test journal entries and other adjustments throughout the year.
  - Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.
  - Review accounting estimates for management bias, including a retrospective review of accounts estimates.
  - Evaluate any significant transactions outside the normal course of business.
  - Focused testing of accounting accruals and prepayments.
- related party relationships and transactions were adequate.
- No significant issues were identified with changes to methods and underlying assumptions used to prepare accounting estimates and there was no evidence of management bias.
  - No significant issues were identified from transactions outside the normal course of business.
  - No significant issues were identified from our testing of accounting accruals and prepayments.
- Conclusion:** no evidence of fraud caused by management override of controls.

### Implementation of new finance system

Highlands and Islands Enterprise implemented a new finance system in February 2025. There is an inherent risk associated with the implementation of any main financial system due to the potential impact on the preparation of the financial statements for the year.

Delays to the implementation of this system and the resulting proximity to the year-end increases the risk.

The audit team will:

- Obtain assurances over the implementation process, including the completeness and accuracy of data migration.
- Assess the controls in operation for the new system.

Audit work performed found:

- Access was provided to all relevant reports and supporting documentation for review of the data migration process.
- No issues identified with the completeness and accuracy of data migration.
- A control deficiency around the segregation of duties for changes to standing data were reported in our interim management letter. Additional procedures were undertaken to review all changes to the chart of accounts as part of the financial statements audit. No issues were identified.
- A control deficiency in the process for BACS payment runs was identified by Highlands and Islands Enterprise and reported in

our interim management letter which allowed payment runs to be altered between approval in the system and upload to the bank. Highlands and Islands Enterprise introduced a manual control which was implemented and conducted by the Audit and Assurance team. Additional procedures were undertaken to review the operation of this control and obtain details of any instances where variances occurred. No issues were identified.

**Conclusion:** No issues identified with the completeness and accuracy of data migration.

---

Source: Audit Scotland

---

## We obtained assurance from the work of internal audit

**34.** 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.

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

**36.** Our review concluded that the body'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 work supports our audit opinion.

**37.** 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 the body's internal audit team for their assistance in this regard.

## Prior year recommendations

**38.** The body has made good progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with the body and are outlined in [Appendix 1, \(page 34\)](#).

---

# Financial Management and Sustainability

---

## Conclusion

Highlands and Islands Enterprise operated within its revised budget in 2024/25, with an overall underspend of £2.0 million.

Clear policies and procedures are in place that ensure financial management is effective, with regular budget monitoring reports issued to the Board.

Highlands and Islands Enterprise has a medium-term financial strategy in place, which includes financial scenario planning to reflect uncertainties and to support the effective delivery of services.

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

## Financial Management

### **Detailed budget monitoring reports are provided to Senior Management and the Board on a regular basis**

**39.** Senior management and members receive regular and accurate financial information on Highlands and Islands Enterprise's performance against budget. These reports include detailed commentary on financial performance to facilitate effective scrutiny from members and officers throughout the year.

### **Highlands and Islands Enterprise operated within its revised budget in 2024/25, with an overall underspend of £2.0 million**

**40.** For the financial year 2024/25, Highlands and Islands Enterprise reported an outturn of £74.0 million against its allocation of £76.0 million, representing an underspend of £2.0 million. The financial performance against the 2024/25 budget is shown in [Exhibit 5, \(page 23\)](#).

**Exhibit 5****Performance against resource limits in 2024/25**

	Initial Budget £m	Final Budget £m	Outturn £m	Over / (under) spend £m
<b>Resource</b>	27.865	29.074	29.827	0.753
<b>Capital</b>	23.200	32.352	31.856	(0.496)
<b>Non-cash</b>	3.696	3.575	2.411	(1.164)
<b>Annually Managed Expenditure</b>	0	11.000	9.876	(1.124)
<b>Total</b>	54.761	76.001	73.970	(2.031)

Source: Highlands and Islands Enterprise 2024/25 Annual Report and Accounts

**41.** The underspend was mainly driven by the capital budgets, non-cash costs and annually managed expenditure with underspends in each of £0.5 million, £1.2 million and £1.1 million respectively offset by a small overspend in the resource budget of £0.04 million. This was mainly attributed to:

- Capital budget – the body receiving additional grant-in-aid in year with the majority of additional funding provided for delivering net zero energy opportunities and the body being dependent on the cashflow requirements of third-party projects which are out with the control of Highlands and Islands Enterprise.
- Non-cash costs – items such as depreciation being lower than the provision set by Scottish Government.
- Annually managed expenditure – lower than anticipated costs in areas such as property impairment due to market factors out with the control of Highlands and Islands Enterprise.

**Net assets were £2.2 million as at 31 March 2025**

**42.** The net position on the Statement of Financial Position moved from a £0.3 million liability in 2023/24 to a £2.2 million asset in 2024/25. There have been significant upward and downward movements in assets and liabilities on the Statement of Financial Position which contributed to this position. The most significant movements are:

- A £8.1 million decrease in the retirement benefit obligation, mainly due to changes in actuarial assumptions as a result of fluctuations in market conditions affecting yield and inflation rates.

- A £5.9 million in decrease in trade and other receivables, largely due to timing of invoices raised at the year-end.
- A £3.5 million increase in cash and cash equivalents, largely due to amounts received following the out of court settlement agreed with parties involved in the original design and construction of the Cairngorm funicular railway in the 1990s and early 2000s and guarantees in place with the previous operator.
- A £2.2 million decrease in retirement benefit asset, mainly due to the application of the net asset ceiling adjustment.

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

**43.** From our review of the design and implementation of systems of internal control at the year-end (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 controls:

- **General Ledger Reports** - Following the implementation of the new general ledger system, there were difficulties experienced during the audit in obtaining the required reports with the necessary parameters to complete our audit procedures. Action was taken by management to resolve this, however this should have been assessed ahead of the “go live” stage to prevent delays.
- **Authorisation of Journal Entries** – Following the implementation of the new general ledger system, a system control was implemented to prevent one user being able to both process and authorise a journal entry. However, although it is not the standard process, a separate function is available within the system to bypass this control. Our audit testing involved a review of these journal entries, with no issues identified. However, Highlands and Islands Enterprise should implement control procedures to monitor the use and ensure secondary review of all transactions processed within this function.
- **Assessment of Assets Held for Sale** – At year-end, any assets which may be classified as held for sale should be assessed against the conditions of IFRS 5. The assessment currently involves discussions between various teams and business groups but is not formally documented. The initial evidence provided to audit was brief and did not specifically consider the requirements of the relevant accounting standard. Assurances have been obtained to demonstrate Highlands and Islands Enterprise's assessment of non-current assets against the conditions of IFRS 5 for a sample of assets following further discussions with audit with no issues identified.



- **Impairment of Non-Current Assets** – As reported in 2023/24, the year-end assessment of 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. It is also unclear if these decisions are communicated with the Risk and Assurance Committee or the Board. Assurances have been obtained to confirm there is no indication of impairment of these assets following enquiry by audit. Current procedures could be enhanced to include formal documentation of the discussions held and the factors considered in assessing each asset category and reporting to the Risk and Assurance Committee.
- **Service auditor reports** – As reported in 2023/24, the system used by Highlands and Islands Enterprise for payroll is externally hosted by third party suppliers. Service auditor reports are not available for the system to provide assurance over the hosting arrangements.

## Recommendation 2

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

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

**44.** 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.

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

## Financial Sustainability

**Highlands and Islands Enterprise has a medium-term financial strategy in place, which includes financial scenario planning to reflect uncertainties and to support the effective delivery of services.**

**46.** The Financial Strategy for the period 2024/25 – 2028/29 was approved by the Board in June 2024. The strategy focuses on the medium-term outlook and sets out the expected financial environment over the next five years, including the anticipated financial resources that

the body will have to deliver its priorities. A longer-term plan has not yet been developed.

**47.** The medium-term financial plan has been enhanced in 2025/26 to include a range of budget scenarios using key financial assumptions, including:

- year-on-year budget funding changes (profiling current baseline and applying a range of cuts in percentage terms)
- annual staff pay award increases
- forecast savings or cost increases over various resource and capital expenditure areas.

**48.** Key action areas have been identified based on current fiscal pressures as a result of the above, which Highlands and Islands Enterprise will look to implement going forward to manage this.

**49.** This evidences that Highlands and Islands Enterprise has plans in place which consider the future financial outlook.

### 2025/26 Budget Position

**50.** Highlands and Islands Enterprise's budget for 2025/26 was approved by the Board at its meeting in February 2025.

**51.** Highlands and Islands Enterprise's opening budget for 2025/26 included expenditure of £87.1 million against income of £77.9 million resulting in an overallocation of £9.2 million. The opening budget for 2025/26 against resources is shown in [Exhibit 6](#).

### Exhibit 6

#### Opening budget for 2025/26 against resources

	Expenditure £m	Income £m	Over / (under) allocation £m
<b>Revenue</b>	31.2	31.2	-
<b>Capital</b>	55.9	46.7	9.2
<b>Total</b>	<b>87.1</b>	<b>77.9</b>	<b>9.2</b>

Source: Highlands and Islands Enterprise Opening Budget 2025/26

**52.** For 2025/26, 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.

**53.** Activity on projects will require careful monitoring, however financial monitoring arrangements at Highlands and Islands Enterprise are well established and will allow any deviations from budget to be highlighted as early as possible.

**54.** The most recent finance reporting as at the end of July 2025, outlined that overall expenditure forecast had reduced by net £1.7 million compared to the opening budget over-allocation of £9.2 million resulting in a revised forecast overspend of £7.5 million. This is split between a forecast overspend of £8.0 million for capital and a £0.5 million underspend for revenue. The most significant movements relate to an increase in funding from Scottish Government offset by an increase in capital expenditure and a transfer within revenue from discretionary to running the business costs.

---

# Vision Leadership and Governance

---

## Conclusion

Highlands and Islands Enterprise continues to have a clear vision and strategy aligned with 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 has been a key focus area for Highlands and Islands Enterprise as progress continues in relation to the development of an IT Strategy.

## Vision Leadership and Governance

### **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.** The programme of remediation works for the funicular railway continued in the 2024/25 financial year, including reinstating tension in scarf joints and the completion of further checks on the tension in beams and diaphragms and grouting works on the piers.

**57.** It was intended that the funicular be back in service ahead of the snow sports season in December 2024, however this did not occur until February 2025. At this time, it was confirmed that all safety critical issues had been remediated but further works would be required at a later date to address minor works and issues relating to the longer-term durability of the funicular. The funicular was out of operation for a period of 3 weeks in May 2025 for planned annual maintenance which also allowed the contractor to return to carry out some of these additional works.

**58.** During this time, the vast majority of costs involved with reinstating the funicular continue to be incurred and are currently being borne by external contractors. However, Highlands and Islands Enterprise also continue to

incur costs relating to project management, investigative works, design input, 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. Contractual discussions between Highlands and Islands Enterprise and third parties remain ongoing.

**59.** Draft reports on costs and losses incurred by Highlands and Islands Enterprise and the operating company, Cairngorm Mountain (Scotland) Limited from August 2023 to June 2025 attributable to the funicular being out of service have been prepared.

**60.** The leadership team of Highlands and Islands Enterprise have also considered the requirement for additional revenue budget to meet the costs of ongoing legal and expert advice to support the recovery process and capital budget to meet other professional service costs. Given uncertainties about the final out-turn position, Highlands and Islands Enterprise have sought Scottish Government approval for an authorised overspend, if required.

**61.** The Board and Risk and Assurance Committee received regular updates on progress throughout the year. Additionally, the HIE Board's Cairngorm sub-group remains in place in an advisory role to support Highlands and Islands Enterprise on Cairngorm related matters.

**62.** We will continue to review progress with the Cairngorm Funicular Railway reinstatement works in 2025/26.

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

**63.** The five-year Highlands and Islands Enterprise Strategy 2023-28 was launched 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 aim 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.

### **Highlands and Islands Enterprise's 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 continues to be 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 2024/25.

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

**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 and Risk and Assurance Committee meeting minutes are available to the public along with key publications including the most recent annual report and accounts.

**70.** We concluded that the Board and the Risk and Assurance Committee 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 2024/25. 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 2025.

**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.** Progress has been made towards development of the IT strategy in 2024/25; however it has not yet been finalised. Regular discussions and collaboration has occurred within the EIS partnership to ensure the Highlands and Islands Enterprise strategy is aligned with the overall EIS strategy which remains in progress.

**76.** Updates on the development of the Highlands and Islands Enterprise IT Strategy has been provided to the Digital Change Group at meetings throughout the year for input and discussion, allowing for further refinement of the strategy.

**77.** The Business Continuity and Disaster Recovery arrangements in place continue to be an area of focus for Highlands and Islands Enterprise, with team members undertaking additional training for the purposes of enhancing their current policies. Highlands and Islands Enterprise are undertaking a large piece of work to create, review and improve all areas of Business Continuity relating to systems. This will include appropriate testing; however, this has yet to be undertaken.

**78.** Business Continuity and Disaster Recovery Policies that are specific to Highlands and Islands Enterprise systems should be subject to regular testing to ensure these are effective in practice.

### **Recommendation 3**

Highlands and Islands Enterprise should ensure all business continuity and disaster recovery policies are up to date and subject to regular testing.

---

# Use of Resources to Improve Outcomes

---

## Conclusion

The majority of Highlands and Islands Enterprise's primary outcome measures in 2024/25 have been successfully delivered.

Highlands and Islands Enterprise's medium-term strategy covering 2023-28 includes an explicit commitment to work effectively with Scottish Government and other partners to help deliver the National Strategy for Economic Transformation objectives.

Appropriate arrangements are in place for securing Best Value.

## Use of Resources to Improve Outcomes

**79.** Highlands and Islands Enterprise continues to monitor KPIs throughout the year, with performance reported to the Board on a regular basis. The 2024/25 Operating Plan outlined primary outcome measures covering a range of areas. Outturn against the primary outcome measures was reported in the Performance Report in the annual report and accounts, with 18 of the 20 primary outcome measures being in line with or surpassing the target range.

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

**81.** There is an increasing recognition of the need for progress 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.

**82.** Highlands and Islands Enterprise's medium-term strategy covering 2023-28 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.



**83.** The 2024-25 Operating Plan incorporated the strategic ambitions into a framework that demonstrates a clear link between the use of resources and the delivery of Highlands and Islands Enterprise's strategic priorities.

**84.** The audit work performed on the arrangements the body has in place around its use of resources found that these were effective and appropriate.

### **Duty of Best Value**

**85.** The Scottish Public Finance Manual (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Best Value in public services: guidance for Accountable Officers is issued by Scottish Ministers and sets out their duty to ensure that arrangements are in place to secure Best Value in public services.

**86.** Consideration of the arrangements in place to secure Best Value has been carried out alongside the wider scope audit.

**87.** A Financial Savings and Efficiency group has been established by Highlands and Islands Enterprise which has the overall purpose "*to achieve financial and strategic best value for the organisation, aligning decisions closely with HIE's strategic priorities.*"

**88.** Within the annual report and accounts, it was reported that Highlands and Islands Enterprise continued to implement its Best Value plan realising significant savings to enable it to meet running the business costs alongside core delivery of business and community support and strategic projects. These savings totalled over £2.3 million across various themes, including Training and Development, Workforce Planning and Travel amongst others.

**89.** 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.

### **Conclusions on Fairness and Equality arrangements**

**90.** As reported in the Annual Audit Plan, specific work covering the 'fairness and equality' Best Value characteristic was carried out as part of the 2024/25 audit. Our audit work found evidence of appropriate arrangements in place to demonstrate fairness and equality, both strategically and operationally.

**91.** The biennial Equality Mainstreaming Report which was published in 2025 demonstrated that fairness and equality is embedded across Highlands and Islands Enterprise's responsibilities both as an employer and as a service provider.

# Appendix 1 - Action plan 2024/25

## 2024/25 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
<p><b>1. Review of unaudited annual report and accounts prior to the providing to external audit</b></p> <p>Our 2024/25 audit of the financial statements identified a number of classification misstatements.</p> <p><b>Risk</b> – There is a risk that the unaudited annual report and accounts are not complete and accurate.</p>	<p>A review of the unaudited annual report and accounts should be undertaken by management to ensure that they are complete and accurate prior to providing to external audit.</p>	<p><b>Accepted</b></p> <p>Action - Review process will be updated.</p> <p>Responsible officer – Head of Financial Services</p> <p>Agreed date – 31 March 2026</p>
<p><b>2. 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>- The journal entry listing provided at the outset of the audit should include all required fields and parameters for the purposes of our testing. This includes journals processed through the workflow (system control for secondary approval) and those that are non-workflow (no system control).</li> <li>- Implement control procedures to monitor the use of the non-workflow function and ensure secondary review of all transactions processed through this.</li> <li>- Formalising procedures for assessing assets held for</li> </ul>	<p><b>Accepted</b></p> <p>Action – Improvement plan will be developed and implemented.</p> <p>Responsible officer – Head of Financial Services</p> <p>Agreed date – 31 March 2026</p>

sale against the requits of IFRS 5.

- Formalising procedures for assessing the impairment of non-current assets.

- Obtaining service auditor reports for systems which are externally hosted.

### 3. Business continuity and disaster recovery

Business continuity and disaster recovery plans in place for Highlands and Islands Enterprise systems have not been subject to regular testing.

**Risk** – There is a risk that business continuity and disaster recovery plans are not robust or fit for purpose leading to a loss of service.

Highlands and Islands Enterprise should ensure all business continuity and disaster recovery policies are up to date and subject to regular testing.

### Accepted

Action – Relevant policies will be reviewed and testing plans put in place.

Responsible officer – Director of Corporate Services

Agreed date – 31 March 2026

## Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
<p><b>b/f 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><b>Recommendation –</b></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</p>	<p><b>Implemented</b></p>

information to ensure the costs recorded agree.

**Management Response –**

We will carry out an additional reconciliation to ensure the payroll costs are correctly stated.

**Responsible Officer –** Head of Financial Services

**Agreed date –** 31 March 2025

---

**b/f 2 - Related Parties**

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.

**Risk –** There is a risk that the related parties disclosure is not complete.

**Recommendation –**

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.

**Management Response –**

Process will be put in place for the 24/25 accounts to ensure completeness of disclosure.

**Responsible Officer –** Head of Financial Services

**Agreed date –** 31 March 2025

**Implemented**

---

**b/f 3 – Internal Controls**

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.

**Risk –** there is a risk that internal controls do not operate effectively.

**Recommendation –**

Highlands and Islands Enterprise should implement improvements to address the internal control weaknesses identified. This includes but is not limited to:

- Ensuring any review of the FAR is evidenced.
- Formalising procedures for assessing the impairment of non-current assets.
- Regularly reviewing journal entries processed to identify

**Superseded – see Action Plan Recommendation 3**

---

any instances of self-approval.

- Enhancing the review process in place and evidence maintained for the approval of employee expenses.
- Obtaining service auditor reports for systems which are externally hosted.

**Management Response –**

Processes will be put in place to address and document the issues identified.

**Responsible Officer –** Head of Financial Services

**Agreed date –** 31 March 2025

**b/f 4 - Capital Accounting 2022/23 AAR**

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.

**Risk –** there is a risk that the annual report and accounts do not comply with accounting standards and accounting policies. Significant audit input is required to ensure the accounts are not materially misstated resulting in additional audit fees.

**Recommendation –**

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 been prepared, whilst reducing the risk of manual error.

**Management Response –**

Noting the improvements already made to the working papers, we will further focus on reducing areas of potential error.

**Responsible Officer –** Head of Financial Services

**Agreed date –** 30 June 2025

**Implemented –** noting the improvements that have already been made, we consider this matter to be implemented.

We note that working papers could be further enhanced to reduce the level of manual input, however we are aware of the intention to implement the fixed assets module within the new ERP system in the future which will address this point.

**b/f 5 – Non-compliance with the FReM 2022/23 AAR**

Two instances of non-compliance with the FReM

**Recommendation –**

Management should complete the disclosure checklists prepared by the National

**Implemented**

were identified with the Performance Report.

**Risk** – the Performance Report does not fully comply with the FReM.

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.

**Management Response –**

We will ensure the relevant disclosure checklists are complete and provided at the start of the audit.

**Responsible Officer** – Head of Financial Services

**Agreed date** – 30 June 2025

---

**b/f 6 – Climate Change Strategy**

We noted that Highlands and Islands Enterprise do not have a formal climate change strategy in place or up-to-date baselines for its carbon footprint.

**Risk** – there is a risk that Highlands and Islands Enterprise are not able to demonstrate its plans and actions to achieve climate related requirements and targets.

**Recommendation –**

Highlands and Islands Enterprise should work to prepare a climate change strategy and finalise up-to-date baselines for its carbon footprint.

**Management Response –**

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.

**Responsible Officer –**

Director of Strategy and Regional Economy (through HIE's Net Zero Steering Group)

**Agreed date** – 31 March 2025

---

**Implemented**

**b/f 7 – Financial Capacity**

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.

**Risk** – the annual report and accounts submitted for audit are materially misstated or require significant adjustment.

**Recommendation –**

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.

**Management Response –**

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.

**Responsible Officer –**

Director of Corporate Services

**Agreed date** – 30 June 2025

**Implemented**

# Appendix 2 – National reports

Supporting national and performance audit reports

Report name	Date published
<a href="#">Local government budgets 2024/25</a>	15 May 2024
<a href="#">Scotland's colleges 2024</a>	19 September 2024
<a href="#">Integration Joint Boards: Finance and performance 2024</a>	25 July 2024
<a href="#">The National Fraud Initiative in Scotland 2024</a>	15 August 2024
<a href="#">Transformation in councils</a>	1 October 2024
<a href="#">Alcohol and drug services</a>	31 October 2024
<a href="#">Fiscal sustainability and reform in Scotland</a>	21 November 2024
<a href="#">Public service reform in Scotland: how do we turn rhetoric into reality?</a>	26 November 2024
<a href="#">NHS in Scotland 2024: Finance and performance</a>	3 December 2024
<a href="#">Auditing climate change</a>	7 January 2025
<a href="#">Local government in Scotland: Financial bulletin 2023/24</a>	28 January 2025
<a href="#">Transparency, transformation and the sustainability of council services</a>	28 January 2025
<a href="#">Sustainable transport</a>	30 January 2025
<a href="#">A review of Housing Benefit overpayments 2018/19 to 2021/22: A thematic study</a>	20 February 2025
<a href="#">Additional support for learning</a>	27 February 2025
<a href="#">Integration Joint Boards: Finance bulletin 2023/24</a>	6 March 2025
<a href="#">Integration Joint Boards finances continue to be precarious</a>	6 March 2025
<a href="#">General practise: Progress since the 2018 General Medical Services contract</a>	27 March 2025
<a href="#">Council Tax rises in Scotland</a>	28 March 2025



# Highlands and Islands Enterprise

## 2024/25 Annual Audit Report



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