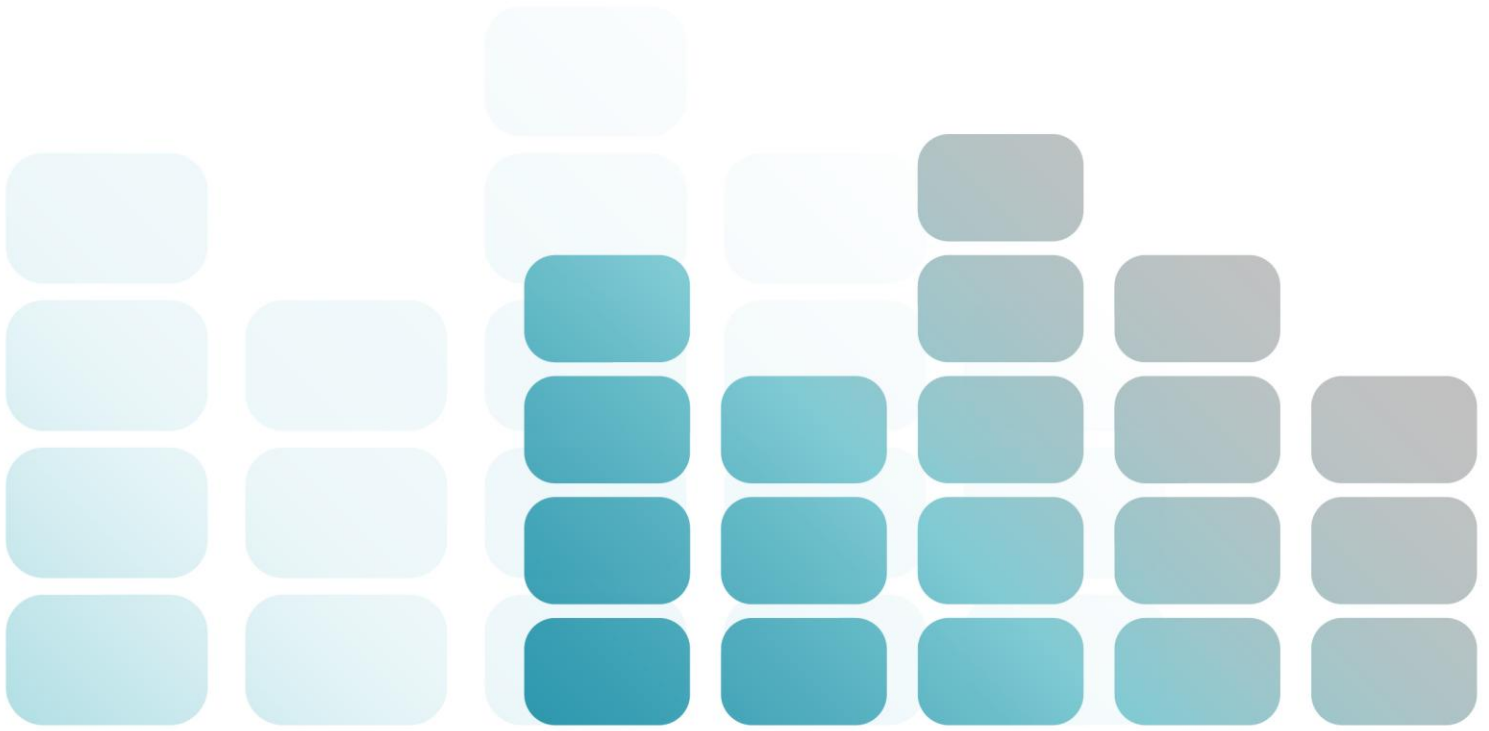


# The Highland Council

Annual Audit Plan 2025/26



Prepared for The Highland Council  
January 2026

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# Introduction

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## Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2025/26 audit of The Highland Council's annual accounts. It outlines the audit work planned to meet the audit requirements set out in [auditing standards](#) and the [Code of Audit Practice](#), including supplementary guidance.

## Appointed auditor and independence

2. Claire Gardiner, of Audit Scotland, has been appointed by the Accounts Commission as external auditor of The Highland Council and its group, hereafter referred to as 'the council', for the period from 2022/23 until 2026/27. The 2025/26 financial year is the fourth year of our five-year audit appointment.

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

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

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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 (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.
- An opinion on statutory other information published with the financial statements in the annual accounts, namely the Management Commentary and the Annual Governance Statement.
- An opinion on the audited part of the Remuneration Report.
- Conclusions on the council'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 council's arrangements for securing Best Value.
- Providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return and the Whole of Government Accounts return.
- A review of the council's arrangements for preparing and publishing statutory performance information.
- Provision of an Annual Audit Report setting out significant matters identified from the audit of the annual accounts and the wider scope areas specified in the Code of Audit Practice.

## Responsibilities

**6.** The Code of Audit Practice sets out the respective responsibilities of the council 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, and concluding on the council's arrangements in place for the wider scope areas and to secure Best Value.

## **The council's responsibilities**

**8.** The council 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 annual accounts, comprising financial statements that give a true and fair view and other 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.

# Audit of the annual accounts

## Introduction

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

## Materiality

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

11. The materiality levels determined for the audit of the council and its group are outlined in [Exhibit 1](#).

## Exhibit 1

### 2025/26 Materiality levels for the council and its group

Materiality	The council	Group
<b>Planning materiality</b> – based on an assessment of the needs of users of the financial statements and the nature of the council's operations. The benchmark used to determine materiality is gross expenditure based on the audited 2024/25 financial statements. Materiality has been set at 2% of the benchmark.	£21.5 million	£22.0 million
<b>Performance materiality</b> – this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 75% of planning materiality.	£15.0 million	£15.4 million

Materiality	The council	Group
<b>Reporting threshold</b> – all misstatements greater than the reporting threshold will be reported.	£1.0 million	£1.0 million

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

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

**13.** Based on the risk assessment process, significant risks of material misstatement to the financial statements have been identified and are summarised in [Exhibit 2](#). These are the risks which have the greatest impact on the planned audit approach, and include the planned audit procedures to be undertaken.

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

## Exhibit 2

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

Risk of material misstatement	Planned audit response
<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 entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> </ul>

Risk of material misstatement	Planned audit response
<p><b>Valuation of property, plant and equipment</b></p> <p>The council held £3.1 billion of property, plant, and equipment (PPE) at 31 March 2025, of which £1.6 billion was land and building assets.</p> <p>The council is required to value land and building assets at existing use value where an active market exists for these assets. Where there is no active market, these assets are valued on a depreciated cost replacement (DRC) basis. As a result, there is a significant degree of subjectivity in these valuations which are based on specialist assumptions, and changes in the assumptions can result in material changes to valuations.</p> <p>Also new for 2025/26, CIPFA/LASAAC has updated the Code of Practice to reflect HM Treasury's reforms to public-sector asset valuations. Under the revised approach, local authorities will now move to quinquennial (five-yearly) full valuations, with annual indexation applied in the intervening years to ensure asset values remain materially accurate. There is an increased risk of material misstatement due to greater reliance on management judgement and estimation, particularly in selecting appropriate indices and determining when additional valuations are necessary in between formal valuations.</p>	<ul style="list-style-type: none"> <li>• Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.</li> <li>• Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.</li> </ul> <p>The audit team will:</p> <ul style="list-style-type: none"> <li>• Evaluate the design and implementation of controls over the valuation process.</li> <li>• Review the information provided to the valuer and assess this for completeness and accuracy.</li> <li>• Evaluate the competence, capabilities, and objectivity of the valuer.</li> <li>• Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred.</li> <li>• Review the appropriateness of the key data and assumptions used in the 2025/26 valuation process, and challenge these where required.</li> <li>• Review the indices applied by management to assets not subject to valuation in 2025/26 and assess if these are reasonable and have been correctly applied.</li> </ul>

Source: Audit Scotland

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

## Key audit matters

**16.** The Code of Audit Practice requires public sector auditors to communicate key audit matters. Key audit matters are those 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.

**17.** 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.

**18.** In addition to the significant risks of material misstatement in [Exhibit 2](#) the following key audit matters have been identified as part of our planning process and will be reported on in our Annual Audit Report.

- **Pension valuation:** The pension valuation requires the use of an actuarial methodology based on a range of assumptions including financial and demographic assumptions. Small movements in these can result in material changes to valuations as was the case in the last three financial years. We will assess the scope, independence and competence of the professionals engaged in providing estimates for pensions and review appropriateness of actuarial assumptions and results including comparison with other councils. We will establish officer's arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by the council.

**19.** The matters determined to be key audit matters will be communicated in the Annual Audit Report.

## Group audit

**20.** The council is part of a group and prepares group financial statements. The group is made up of six components, including the council which is the parent of the group. Risk assessment procedures have been performed to identify if there are any risks of material misstatement to the group financial statements, or any components where audit procedures are required for the purposes of the group audit. The outcome of the risk assessment procedures on the group audit are outlined in [Exhibit 3](#).

**Exhibit 3**

## Outcome of risk assessment procedures on the group audit

Group component	Accounting treatment	Risk of material misstatement	Audit procedures required	Auditor
The Highland Council (the parent)	Consolidated on a line-by-line basis	Yes – <a href="#">Exhibit 2</a>	Yes – full scope audit	Audit Scotland
High Life Highland (100% subsidiary)	Consolidated on a line-by-line basis	No, not material to the group financial statements	Group level analytical procedures only	Saffery LLP
D&E Coaches (100% subsidiary)	Consolidated on a line-by-line basis	No, not material to the group financial statements	Group level analytical procedures only	Leiper & Summers
Inverness Common Good Fund (100% subsidiary)	Consolidated on a line-by-line basis	No, but is material to group financial statements	Yes – part of the parent body	Audit Scotland
Highland and Western Isles Valuation Joint Board (associate)	Accounted for on equity basis	No, not material to the group financial statements	Group level analytical procedures only	Audit Scotland
HITRANS (associate)	Accounted for on equity basis	No, not material to the group financial statements	Group level analytical procedures only	Audit Scotland

Source: Audit Scotland

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# Wider scope audit

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## Introduction

**21.** Reflecting the fact that public money is involved, the Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit set out by the Code of Audit Practice broadens the audit of the annual accounts to include consideration of additional aspects or risks in four wider scope areas, which are summarised below:

- **Financial Management** – this means having sound budgetary processes. Factors that can impact on the council being able to secure sound financial management include the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial Sustainability** – this means looking forward over the medium and longer term in planning the services to be delivered and how they will be delivered effectively. This is assessed by considering the council's medium to longer-term planning for service delivery.
- **Vision, Leadership and Governance** – this means having a clear vision and strategy, with set priorities within the vision and strategy. This is assessed by considering the clarity of plans in place to deliver the vision and strategy and the effectiveness of the governance arrangements to support delivery.
- **Use of Resources to Improve Outcomes** – this means using resources to meet stated outcomes and improvement objectives through effective planning and working with partners and communities. This is assessed by considering the council's arrangements for ensuring resources are deployed to improve strategic outcomes, meet the needs of service users, and deliver continuous improvement.

**22.** Our planning work has not identified any significant risks in the wider scope areas.

**23.** A conclusion on the effectiveness and appropriateness of arrangements the council has in place for each of the wider scope areas will be reported in the Annual Audit Report.

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# Best Value audit

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## Introduction

**24.** Under the Code of Audit Practice, the audit of Best Value in councils is fully integrated within the annual audit. As part of the annual audit, auditors are required to take a risk-based approach to assessing and reporting on whether the council has made proper arrangements for securing Best Value, including follow up of findings previously reported in relation to Best Value.

**25.** The Accounts Commission also reports nationally on thematic aspects of councils' approaches to, and performance in, meeting their Best Value duties. As part of the annual audit, thematic reviews, as directed by the Accounts Commission, are conducted on the council. The thematic review for 2025/26 is on the subject of asset management and involves considering how the council is managing its assets to ensure high quality services whilst also responding to the challenges around financial sustainability and climate change. Conclusions and judgements on the thematic review will be reported in a separate Management Report and summarised in the Annual Audit Report, where required.

**26.** We have not identified any significant Best Value risks.

## Statutory Performance Information / LGBF

**27.** Auditors have a statutory duty to satisfy themselves that councils have made proper arrangements for preparing and publishing statutory performance information in accordance with the [Statutory Performance Information Direction 2024](#) (the Direction) issued by the Accounts Commission. The outcome of this will be reported in the Annual Audit Report, which will include:

- A conclusion on the council's arrangements for preparing and publishing the statutory performance information.
- Any instances where the arrangements or reporting are not in accordance with the Direction.
- Areas where the arrangements require to be improved.

**28.** In addition, the Accounts Commission requires auditors to include a summary of Local Government Benchmarking Framework (LGBF) indicators that the council has reported in the Annual Audit Report.

**29.** Our planning work has not identified any significant Best Value risks.

## **Fairness and equalities**

**30.** Appointed auditors are expected to consider equalities across all relevant audited bodies and to report on this at least once within each five-year appointment cycle. We have agreed with officers that we will carry this work out in 2025/26. We will assess and report on the fairness and equalities arrangements in place at the council in our Annual Audit Report.

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# Reporting arrangements, timetable and audit fee

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## Audit outputs

**31.** The outputs from the 2025/26 audit include:

- This Annual Audit Plan.
- An Independent Auditor's Report to the council and the Accounts Commission setting out opinions on the annual accounts.
- A Best Value Thematic Report (BV4) Asset Management and how well the council is managing its assets to achieve corporate priorities, the changing needs of its population and net zero targets.
- An Annual Audit Report to the council and the Accounts Commission setting out significant matters identified from the audit of the annual accounts, conclusions from the wider scope and Best Value audit, recommendations, where required, and any good practice identified.

**32.** The matters to be reported in the outputs will be discussed with the council for factual accuracy before they are issued. All outputs from the audit will be published on [Audit Scotland's website](#), apart from the Independent Auditor's Report, which is included in the audited annual accounts.

**33.** Target dates for the audit outputs are set by the Accounts Commission. In setting the target dates for the audit outputs, consideration is given to the statutory date for approving the annual accounts, which is 30 September 2026 for local government bodies.

**34.** The audit team will be unable to achieve the target date of 30 September 2026 for issuing the 2025/26 Independent Auditor's Report and Annual Audit Report. This is due to prioritising the quality of our audit work over meeting target dates, as required by the Accounts Commission, and consistent with messaging from the Financial Reporting Council which has made clear that audit quality takes precedence.

**35.** The audit team are working towards completion of the audit by the later date of 11 November 2026. We are committed to delivering the 2026/27 audit by 30 September 2027 to support a smooth handover to the incoming auditor. We will work closely with officers to ensure this deadline

can be achieved, including arranging committee dates that align with the agreed target.

## Audit timetable

**36.** Achieving the timetable for production of the annual accounts, supported by complete and accurate working papers, is critical to delivery of the audit to agreed target dates. [Exhibit 4](#) includes a timetable for the audit, which has been agreed with management. Agreed target dates will be kept under review as the audit progresses, and any changes required, and their potential impact, will be discussed with officers and reported to those charged with governance, where required.

### Exhibit 4

#### 2025/26 audit timetable

Audit activity	The council target date	Audit team target date	Audit Committee date
Issue of Annual Audit Plan	N/A	22 January 2026	4 February 2026
<b>Annual Accounts:</b>			
Consideration of unaudited annual accounts by those charged with governance	30 June 2026	N/A	25 June 2026 (to full council)
Submission of unaudited annual accounts and all working papers to audit team	1 July 2026	N/A	N/A
Latest date for audit clearance meeting with S.95 Officer	1 October 2026	1 October 2026	N/A
Agreement of audited and unsigned annual accounts	8 October 2026	8 October 2026	N/A
Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report	N/A	28 October 2026	11 November 2026
Approval by those charged with governance and signing of audited annual accounts	11 November 2026	11 November 2026	11 November 2026
Signing of Independent Auditor's Report and issue of Annual Audit Report			

Audit activity	The council target date	Audit team target date	Audit Committee date
<b>Best Value Thematic Review (BV4): Asset Management</b>			
Issue of Best Value thematic report	N/A	5 August 2026	19 August 2026
<b>Grant Claims and Whole of Government Accounts</b>			
Certification of Non-Domestic Rates Return	31 December 2026	31 December 2026	N/A
Certification of Housing Benefit Subsidy Claim	31 December 2026	31 December 2026	N/A
Certification of Whole of Government Accounts	31 December 2026	31 December 2026	N/A

Source: Audit Scotland

## Audit fee

**37.** The council's audit fee is determined in line with Audit Scotland's fee setting arrangements. The proposed audit fee for the 2025/26 audit is £556,290 (2024/25: £533,160).

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

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# Other matters

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## Internal audit

**39.** The council is responsible for establishing an internal audit function as part of an effective system of internal control. As part of the audit, the audit team will obtain an understanding of internal audit, including its nature, responsibilities, and activities.

**40.** While internal audit and external audit have differing roles and responsibilities, external auditors may seek to rely on the work of internal audit where it is considered appropriate. A review of internal audit's 2025/26 audit plan was carried out to identify if there were any areas where the audit team could rely on its work. The audit team concluded it will not rely on internal audit's work. However, the audit team will review internal audit's reports and assess if there is any impact on the audit.

## Audit quality

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

**42.** The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2025/26 audits are:

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

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

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

**45.** Audit Scotland may periodically seek the views of the council on the quality of audit services provided. The audit team would also welcome feedback at any time.

# The Highland Council Annual Audit Plan 2025/26



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