

External Audit Report for Highland Council

Financial year ended 31 March 2021

Annual External Audit Report to Members and the
Controller of Audit

17 December 2021



Contents



Your key Grant Thornton team members are:

Joanne Brown

Audit Partner

T 0141 223 0848

E joanne.e.brown@uk.gt.com

John Boyd

Audit Director

T 0141 223 0899

E john.p.boyd@uk.gt.com

Claire Connor

Senior Manager

T 0141 223 0814

E claire.e.connor@uk.gt.com

Section	Page
Executive Summary	3
Introduction	7
Audit of the annual report and accounts	8
Wider scope audit	27
Best value assurance report follow up	38
Appendices	
1. Audit adjustments	45
2. Action plan and recommendations	50
3. Follow up of 2019/20 recommendations	55
4. Follow up of outstanding 2018/19 recommendations	60
4. Audit fees and independence	62
5. Communication of audit matters	63

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our external audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect Highland Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2016). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive Summary

This table summarises the key findings and other matters arising from the external audit of Highland Council ('the Council') and the preparation of the Group and Council's financial statements for the year ended 31 March 2021.

Financial Statements Audit summary

Under International Standards of Audit (UK) (ISAs) and Audit Scotland's Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- The Group and Council financial statements give a true and fair view in accordance with applicable law and CIPFA Code of Practice on Local Authority Accounting 2020/21 ('the 2020/21 Code') of the state of the Council and its Group as at 31 March 2021 and of the income and expenditure of the Council and its Group;
- the Group and Council's financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, as interpreted and adapted by the 2020/21 Code;
- the Group and Council's financial statements have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) regulations 2014, and the Local Government in Scotland Act 2003.
- the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

We are required to report whether the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local government in Scotland Act 2003. We are also required to report on whether the information given in the Annual Governance Statement is consistent with the financial statements and prepared in accordance with the Delivering Good Governance in Local government: Framework (2016).

Our audit opinion (audit report) is unmodified

The quality of unaudited accounts were good, and these were made available for inspection within the timeframe required. Our audit was carried out between July and November fully remotely for the second year. Officers and the Audit Team have worked well together to conclude the audit. Due to external audit resourcing, with certain audits taking longer than planned, there was a delay to the Council audit. As a result audit work ran into October and November. This was previously reported to the September Audit and Scrutiny Committee.

This report concludes our audit of 2020/21. We summarise the work undertaken over significant audit risks, and wider scope risks as set out in our Audit Plan reported to the Audit, Risk and Scrutiny Committee in May 2021.

Our audit covers the Council and the group financial statements (Subsidiaries: Highlife Life Highland; Inverness Common Good Fund; Nairn Common Good and Joint Ventures: HITRANS and HWVJB).

We conclude that the Remuneration Report, subject to audit, has been prepared in accordance with requirements and is materially correct.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of the Council and the financial statements we have audited.

Wider scope audit

Under the Audit Scotland Code of Audit Practice ('the Code'), the scope of public audit extends beyond the audit of the financial statements. The Code of Audit Practice requires auditors to consider the Council's arrangements in respect of the wider dimensions of public audit covering: financial management; financial sustainability; governance and transparency; and, value for money.

In our External Audit Plan for the year ended 31 March 2021 we documented our assessment of wider scope risks and planned audit work. Through our audit procedures we have not identified any further wider scope risks. In accordance with the Code, we outline the work undertaken in response to the risks and conclude on the effectiveness and appropriateness of the arrangements in place based on the work carried out.

Financial management

The Council continued to demonstrate sound financial management during a challenging financial year.

The Council's reserves position has been significantly improved as a result of the additional Covid-19 funding that was not specifically used to meet the additional costs incurred by services as well as the Council's underlying financial performance, including the delivery of £13 million of savings. In total, excluding business grants, the council received £57.5 million of Covid-19 funding. Of this, £11.7 million has been carried forward to 2021/22, earmarked for specific purposes. £21 million has been allocated to services budgets during the year to offset cost / lost income pressures. This resulted in a residual unapplied budget of £24.8 million which has contributed to the net increase in unearmarked reserves which are being used to support recovery in 2021/22.

While the Council's underlying reserves position has strengthened, the Council has recognised an increased level of financial risk and uncertainty in the coming years through a combination of: uncertainty around future funding settlements; Covid-19 impacts; as well as the potential longer term impact of EU withdrawal. We consider the Council's approach to increasing unearmarked reserves from 3% to 4% of annually budgeted expenditure to be prudent given the uncertainty faced.

Wider scope audit

Financial sustainability

The Council continued to report good financial performance during 2020/21, however Officers recognise the Council face greater financial challenges over the medium term.

The Council faces a period of significant uncertainty reflected in a potential budget gap of between £13.9 and £120.4 million over the next five years. Covid-19 funding and financial performance during 2020/21 has enabled the Council to increase unearmarked reserves to 4% of budgeted expenditure, providing greater financial flexibility to manage unforeseen costs.

Going forward Officers have agreed to take quarterly medium term financial plan updates to the Council, this should enable continued focus and scrutiny of the Council's financial plans.

Governance and transparency

Governance and transparency arrangements were effective during the year. The interim governance arrangements established by the Council reflected the critical situation and immediate challenges faced. These were not inconsistent with other public bodies. The Council also re-established governance structures in a timely manner and the establishment of the Recovery Board has allowed strategic oversight of the Council's response to the pandemic.

The Council has recognised the importance of ensuring ongoing recovery activity is aligned to the Council's wider improvement and transformation activity and the role of the Recovery, Improvement and Transformation Board, with oversight of full council, is critical to that.

Wider scope audit (continued)

Value for money and delivering Best Value

The Council has made good progress in implementing the BVAR Improvement plan actions in response to the recommendation raised in the BVAR report.

While 2020/21 represented a year of unprecedented challenge for the Council, and other public bodies, in responding and recovering from Covid-19, the Council has demonstrated good progress in addressing the recommendations raised in the BVAR report. However, further work is required to fully deliver on these. In the coming years the Council faces considerable challenges and uncertainty, both operationally and financially, as it looks to work with its partners to continue to improve on its key strategic outcomes, focusing on the priorities of the region.

Value for money: Lead Agency Model

During 2020/21 the Lead Agency Partnership Agreement was subject to significant discussion between parties as well as wider consultation. There were delays during the year in finalising the Lead Agency Model Partnership agreement, reflecting changes across senior personnel at both partners as well as some of the complex elements of the agreement, particularly around finance. The revised scheme is now complete subject to final sign off and submission to the Scottish Government.

While it is too early to determine the operational effectiveness of the new arrangement, discussion with Officers indicate that partnership working arrangements are effective. This has been further evidenced through the proposed development of a shared strategy. To ensure that the governance and management arrangements in place over the partnership are appropriate and operate effectively, the Council, working with NHS Highland, should ensure that there is evaluation of the effectiveness of the arrangements as they embed.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff amidst the pressure they were under during these unprecedented times.

Introduction

Scope of our audit work

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2021 at Highland Council. The scope of our audit was set out in our External Audit Plan which was shared with the Audit and Scrutiny Committee in April 2021.

The main elements of our audit work in 2020/21 have been:

- An audit of the Council and Group's annual report and accounts for the financial year ended 31 March 2021;
- Consideration of the wider dimensions that frame the scope of public audit as set out in Audit Scotland's Code of Audit Practice 2016 ('the Code') covering: financial management; financial sustainability; governance and transparency and value for money;
- Certification of Housing Benefits subsidiary claim, Education Maintenance Allowance and Non-Domestic Rates Certification;
- Monitoring the Council's participation in the National Fraud Initiative (NFI); and
- Any other work requested by Audit Scotland.

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Code.

This report is addressed to the Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Responsibilities

The Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The Council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

Our responsibilities as independent auditors appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the Code and supplementary guidance, and International Standards on Auditing in the UK.

The recommendations or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Adding value through our audit work

We aim to add value to the Council throughout our audit work. We do this through using our wider public sector knowledge and expertise to provide constructive, forward looking recommendations where we identify areas for improvement and encourage good practice around financial management and sustainability, risk and performance. In so doing, we aim to help the Council promote improved standards of governance, better management and decision making, and more effective use of resources. Throughout the year we have continued to have discussions with Council Officers on areas which may impact on the financial statements, in particular the planned valuation changes. In being proactive we have sought, alongside Officers, to be forward looking in our approach and be flexible where required. We will act on lessons learned in this years audit, within the 2021/22 audit, our last of the six year appointment.

Audit of the annual report and accounts

Key messages and judgements

We plan have issued an **unmodified** audit opinion on the annual report and accounts.

We identified 3 adjusted misstatement to the financial statements. In addition there were 8 adjustments, not made, which we do not consider to be material to the user of the accounts and agree with Officers decisions to not amend.

In addition, any areas we have identified as having a higher priority and/or potential risk to the Council we have captured in this report.

Where we have identified more minor matters these have been reported to officers via a management letter.

Our audit opinion

For the financial year ended 31 March 2021 we have issued an **unmodified opinion** – on the annual report and accounts. As reported in the independent auditor’s report:

- The Group and Council financial statements give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of the Council and its Group as at 31 March 2021 and of the income and expenditure of the Council and its Group for the year then ended;
- the Group and Council’s financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, as interpreted and adapted by the CIPFA Code of Practice on Local Authority Accounting 2020/21 (‘the 2020/21 Code’);
- the Group and Council’s financial statements have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) regulations 2014, and the Local Government in Scotland Act 2003; and
- the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

We are required to report whether the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003.

We are also required to report on whether the information given in the Annual Governance Statement is consistent with the financial statements and prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

We have no significant or material matters to report to you in respect of the Management commentary and the Annual Governance Statement.

The audit process

The Council published the unaudited accounts for public inspection as required. The quality of the unaudited financial statements was good. Officers were clear the unaudited financial statements did not reflect the valuation of Council Dwellings due to the late receipt of the external valuation report. These adjustments have been posted by Officers in the final annual report and accounts. Our external audit work commenced in July, as set out in the plan. However, due to Covid and audits taking longer to complete remotely, a number of audits in our wider portfolio did not conclude as expected. This has resulted in the Council audit running into October and early November. This was due to external audit resourcing and not the Council. Both teams have worked well, in a difficult environment, to be able to conclude the audit. Lessons learned will be discussed with Officers and improvements made in the 2021/22 audit, which will be our last year as your external auditor under the current appointment round.

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Our audit approach was set out in our audit plan communicated to the Audit and Scrutiny Committee in March 2021. We reviewed our planning assessment of materiality based upon your 2020/21 draft financial statements and concluded that materiality should remain at £9.8 million for Group (£9.5 million for Council only), representing 1% of Group gross expenditure (and 1% of Council only gross expenditure). Performance materiality was set at £5.9 million for the Group (Council only: £5.7 million), representing 60% of our calculated materiality.

We report to Officers (Management) any difference identified over £250,000 (trivial capped at £250,000 by Audit Scotland).

We applied a lower materiality threshold for disclosures within the Remuneration Report to ensure that remuneration has been disclosed within the appropriate bandings (being £5,000).

Internal control environment

In accordance with ISA requirements we have developed an understanding of the Council's control environment. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is substantive in nature. In accordance with ISAs, over those areas of significant risk of material misstatement we consider the design of controls in place. However, we do not place reliance on the design of controls when undertaking our substantive testing. We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan.

Responding to significant financial statement risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. This section provides commentary on the significant audit risks communicated in the External Audit Plan.

Risks identified in our Audit Plan

Commentary

Management override of controls

Our risk focuses on the areas of the financial statements where there is potential for management (Senior Officers) to use their judgement to influence the financial statements alongside the potential to override Highland Council's internal controls, related to individual transactions.

Our work focuses on estimates and judgements as set out within the financial statements, including accounting policies. In addition, we specifically consider cut-off (of expenditure and income journals) and the use of manual journals during the year and in creating the financial statements where controls may be overridden by Senior Officers.

In response to this significant risk, our audit response was as follows:

- We considered the design of controls in place over key accounting estimates and judgements through performance of walkthrough procedures.
- We reviewed accounting estimates for management (Senior Officer) bias / indication of fraud that could result in material misstatement. This included review of estimates as at 31 March 2021 and retrospective review of those estimates as at 31 March 2020.
- Journals testing including:
 - Assessment of the design of controls in place over journal entries, including journal preparation, authorisation and processing onto the financial ledger;
 - Risk assessment of the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We tested these journals to ensure they were appropriate and suitably recorded in the financial ledger;
 - Target testing of transactions and journals posted around the financial year end, reviewing to understand the rationale for these entries.

Conclusion

We did not identify any evidence of management override of controls through our testing of journal transactions, or any instances of material error. We did not identify any indication of fraud and/or inappropriate management bias in accounting estimates that could result in a material misstatement.

Risks identified in our Audit Plan

Risk of fraud in expenditure recognition

Highland Council's expenditure includes both payroll and non-payroll costs. We consider payroll costs to be well forecast and are able to agree these costs to underlying payroll systems. As such we believe there is less opportunity for a material misstatement as the result of fraud to occur in this area.

Highland Council's non-pay expenditure includes finance costs which primarily relate to interest payments and finance charges which are deemed to be well forecast and relatively consistent year on year. There is limited opportunity for manipulation of this expenditure and as such there is no perceived risk of material misstatement due to fraud in relation to this expenditure.

We therefore focus our risk on expenditure excluding payroll and finance costs. Our testing includes a specific focus on year end cut-off arrangements, including consideration of the existence and completeness of expenditure accruals, where it may be advantageous for management to show a more favourable financial position in the context of reporting and the need to achieve financial in-year forecasts.

Commentary

In response to this significant risk, our audit response was as follows:

- Walkthroughs of the controls and procedures over other expenditure streams, being those non-payroll or finance cost related;
- Substantive testing of expenditure throughout the year to confirm its occurrence, accuracy and completeness of recording;
- Focused substantive testing of Other Expenditure recognised pre and post year end to identify if there is any potential overstatement or understatement to address the risk of cut-off;
- Review of accruals and provisions, where material, around the year end to consider if there is any indication of overstatement or understatement of balances held at year end through consideration of accounting estimates; and
- Unrecorded liability testing to confirm the completeness of year end liabilities as well as the completeness of expenditure recognised during the year.

Conclusion

Through our audit procedures performed we did not identify any exceptions in our year end cut-off testing of expenditure. We did not identify any exceptions in the completeness and accuracy of accruals or payables balances at year end.

Risks identified in our Audit Plan

Commentary

Valuation of property, plant and equipment (land and buildings)

The Council values its land, buildings and dwellings on a rolling five-year basis by the Council's internal valuer. This valuation represents a significant estimate by management (Senior Officers) in the financial statements due to the size of the numbers involved (land, buildings and dwellings held at 31 March 2020 were £2.2 billion) and the sensitivity of this estimate to changes in key assumptions.

Given the value of PPE held by Highland Council and the level of complexity and judgement in the estimation valuations, there is an inherent risk of material misstatement in the valuation of land, buildings and dwellings. The risk is less prevalent in the Council's remaining classes of assets (vehicles, plant and equipment, infrastructure assets, community assets and surplus assets) as these are generally held at depreciated historic costs, as a proxy of fair value and therefore less likely to be misstated. The District Valuer undertakes a rolling programme of valuations across the assets base, valuing land and buildings at a minimum of once every five years.

Our testing in relation to this identified risk will include review of revaluations made during the year, confirming valuations have been input correctly into the asset register, obtaining an understanding of the underlying data provided to the valuer to undertake the valuation and testing of this underlying data to ensure it is complete and accurate. We will discuss with Highland Council's valuer the basis on which the valuation was carried out and challenge the information and assumptions used in the valuation process. We will engage our own valuations expert to assess the instructions issued by Highland Council to their valuer, the final valuer's report and the assumptions used that underpin the valuation.

In response to this significant risk, our audit response was as follows:

- Walkthroughs of the controls and procedures over the valuation of land and buildings (including Council Dwellings);
- Consideration of the arrangements in place at the Council for ensuring the carrying value of land, buildings and council dwellings remains appropriate and in accordance with IAS 16;
- Evaluation of the competence, capability and objectivity of the Council's professional valuers who represent management's (senior officer's) experts under ISA 500;
- Testing the accounting entries processed by Senior Officers in relation to the valuation to ensure these were in accordance with the 2021 code;
- Testing the data and assumptions applied by Senior Officers (and their experts) in producing the valuation estimate;
- Review of the suitability of indices applied in the valuation of land, buildings, council dwellings, including challenging the reasonableness of the rates applied;
- Challenged Senior Officer's assessment of potential impairment of PPE including consideration of any indicators of impairment of PPE not recognised by the Council; and
- Using our auditor's valuation expert in order to challenge Senior Officer's expert as well as Officers around the valuation instructions issued and approach adopted by the Council in valuing land, buildings and council dwellings as at 31 March 2021.

Conclusion

In the prior year the Royal Institute of Chartered Surveyors (RICS) issued a valuation practice note regarding material uncertainties in valuations as a result of impacts to the market caused by Covid-19. Due to the impact of Covid-19 on markets at that time, the Council's valuer reported their valuation advice on the basis of 'material valuation uncertainty' and an emphasis of matter paragraph was included within the independent audit report to highlight the matter to the reader of the accounts.

Risks identified in our Audit Plan

Commentary

Valuation of property, plant and equipment (land and buildings) (continued)

The Council's valuers have confirmed that as at 31 March 2021, while it is considered that there is a degree of market uncertainty, and thus valuation uncertainty, it is also considered that the uncertainty is not material. Accordingly the 2020/21 valuation of the Council's land and buildings is not reported as being subject to "material valuation uncertainty" as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

Our auditor's expert has also confirmed that this commentary, in relation to the asset types within the portfolio, is in line with the wider view across the profession at 31 March 2021 and therefore is in line with their expectations. We have concluded that the view taken by the appointed valuers is appropriate.

We identified a number of opportunities to enhance the Council's revaluation process during our audit procedures. We identified an asset in the current year that had not been revalued for a period of more than 5 years and therefore did not comply with the Council's accounting policy. We noted during our audit of the Common Good's Investment Property that while the valuer documents valuation assumptions on the revaluation database, there is no formal revaluation report provided to Senior Officers to enable effective scrutiny and challenge of the valuation assumptions adopted.

We also identified a number of areas where the Council could improve and enhance its review and scrutiny of valuation data and assumptions used in the valuation of other land and buildings, provided by valuers to Senior Officers, for example:

- In some instances we noted that the valuer did not personally inspect certain buildings, instead relying on the advice/observations of teams working within those buildings as to the condition of the buildings as at 31 March 2021;
- Two "system glitches" were noted whereby for two assets the valuation as per the valuation report differed from the valuation recorded in the valuation system (differences were however immaterial);

Risks identified in our Audit Plan

Commentary

Valuation of property, plant and equipment (land and buildings) (continued)

- A difference was noted between the area used for a sampled building in the valuation report and the area as per the underlying supporting documentation, and this difference could not be explained and substantiated;
- It was noted that a building with a nil net book value had been demolished during the year, however Senior Officers were not aware of this matter at year end.

Given the significance of the carrying value of property, plant and equipment and the level of estimation and judgement around the valuation, it is essential that Officers ensure they have clear processes in place for the effective review, scrutiny and challenge of the Council's valuation. Action points are detailed in Appendix 2 in relation to these matters.

However, based on our testing we conclude that PPE has been valued in accordance with IAS 16 and the 2020/21 Code and that PPE valuations have not been materially misstated in the annual accounts.

Risks identified in our Audit Plan

Commentary

Defined benefit pension scheme (valuation)

The Council participates in the Highland Council Pension Fund, a local government pension scheme. The scheme is a defined benefit pension scheme and in accordance with IAS 19: Pensions, Highland Council is required to recognise its share of the scheme assets and liabilities on the statement of financial position. As at 31 March 2020 the Council had pension fund liabilities of £230.2 million.

Hymans Robertson UK LLP provide an annual IAS 19 actuarial valuation of Highland Council's net liabilities in the pension scheme. There are a number of assumptions contained within the valuation, including: discount rate; future return on scheme assets; mortality rates; and, future salary projections. Given the material value of the scheme liabilities and the level of estimation in the valuation, there is an inherent risk that the defined benefit pension scheme could be materially misstated within the financial statements. We will consider the suitability and reasonableness of the underlying assumptions adopted by the actuary and suitability of these for the Council.

In response to this significant risk, our audit response was as follows:

- From year end planning review our risk focused predominantly around the key assumptions used in the actuarial valuation, where there was an increased risk of material misstatement;
- We performed walkthroughs of the controls and procedures over the valuation of defined benefit pension liabilities, including Officers oversight of the valuation;
- We considered the work of the actuary (Hymans Robertson UK LLP), including the assumptions applied, using the work performed by PricewaterhouseCoopers (PwC) (commissioned on behalf of Audit Scotland to review actuarial assumptions proposed by LGPS actuaries), as well as local audit assessment;
- As auditors of the Pension Fund we obtained assurances over assets held and membership data, and employer and employee contributions in the year;
- We performed substantive analytical procedures in the year over the pension fund movements, investigating any deviations from audit expectation;
- We reviewed the accounting entries and disclosures made within the Council's financial statements in relation to IAS 19; and
- We evaluated the competence, capability and objectivity of the work performed by management's expert and the work performed by auditor's expert under ISA 500 (UK) and ISA 620 (UK).

Conclusion

Through our audit procedures performed we identified differences between the estimates used by the actuary in arriving at the IAS 19 valuation and the underlying records held by Highland Council Pension Fund. Specifically we found that Highland Council's share of benefits paid estimated by the actuary were overstated which resulted in an understatement of the pension liability by £267,000 (see Appendix 1). Management subsequently obtained an updated actuarial report and this reflected the actual benefits paid in year and has been appropriately reflected in the updated accounts. We also found that the Council's share of the pension scheme assets was understated. The IAS 19 report included forecast investment information for one fund manager, rather than **actual** investment values as 31 March 2021 and the overall IAS 19 valuation for the scheme was therefore understated. Highland Council's share of this is estimated at £6.077 million. This has been included as an unadjusted difference in our report (see Appendix 1). No other issues were noted as a result of our detailed testing.

Detecting Irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Council and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the 2020/21 Code.
- We enquired of Senior Officers and the Audit and Scrutiny Committee, concerning the Council's policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of Senior Officers and the Audit and Scrutiny Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Council's financial statements to material misstatement, including how fraud might occur, by evaluating management's (Senior Officer's) incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries that altered the Council's financial performance for the year and potential management (Senior Officer) bias in determining accounting estimates. Our audit procedures involved are documented within our response to the significant risk of management override of controls.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in expenditure recognition and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - The Council's operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement; and
 - The Council's control environment, including the policies and procedures implemented to ensure compliance with the requirements of the financial reporting framework.

Significant estimates and judgements

The Council's financial statements include the following significant accounting estimates and judgement impacting on the annual accounts:

Significant judgement or estimate	Summary of officer's approach	Audit Comments	Assessment
Arrears	<p>At 31 March 2021 the Council had a balance of sundry debtors of £11.469 million. A review of balances suggested that an allowance for impairment of £3.061m was appropriate. However, in the current economic climate the Council confirm in the annual accounts that it is not certain that such an allowance would be sufficient.</p> <p>Furthermore the Council has an allowance for impairment of Council Tax debt (£29.584 million) and Non-Domestic Rates (£4.723 million)</p>	Through our audit testing performed we are satisfied that the allowance for impairment for sundry debt, Council Tax debt and Non-Domestic Rates debt are reasonable and free from material misstatement.	<p>●</p> <p>[light purple]</p>
Public sector funding	The Council has disclosed a critical judgement in relation to the high degree of uncertainty about future levels of funding for local government. It notes however that the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.	We have considered going concern, under FRC practice Note 10 and concluded the Council is a going concern.	<p>●</p> <p>[light purple]</p>

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however officer's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however officer's estimation process contains assumptions we consider cautious
- **Light Purple** We consider officer's process is appropriate and key assumptions are neither optimistic or cautious

Significant judgement or estimate	Summary of officer's approach	Audit Comments	Assessment
Scottish Government Covid-19 Business Grants	During 2020/21 Highland Council issued COVID-19 related grants and payments on behalf of the Scottish Government to the value of £136.373 million.	We obtained a schedule of COVID-19 grants and payment from the Council and reviewed the way in which grants were accounted for by the Council (either as a principal or an agent and compared this treatment with LASAAC issued guidance) in order to gain assurance over the completeness and accuracy of grants within the annual accounts. We have not identified any issues in respect of the accounting treatment and recognition in relation to these grants.	● [light purple]
Fair value measurements	The Council uses the discounted cash flow (DCF) model to measure the fair value of some of its investment properties and financial assets. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates – adjusted for regional factors (for both investment properties and some financial assets). Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for investment properties and financial assets.	We have considered unobservable inputs as part of our audit work in relation to investment properties and other material financial assets. No material misstatements were identified during our audit work.	● [light purple]

Significant judgement or estimate	Summary of officer's approach	Audit Comments	Assessment
Property Plant and Equipment (£2.634 billion)	<p>As at 31 March 2021, the Council held PPE of £2.634 billion.</p> <p>Officers have disclosed that assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.</p>	<p>We have tested the depreciation charged during 2020/21 and we have reviewed the appropriateness of the useful estimated lives used by the Council during the year.</p> <p>We have challenged Officer's assessment of the potential impairment of PPE including consideration of any indicators of impairment of PPE not recognised by the Council.</p> <p>We are satisfied that the useful estimated lives used by the Council are reasonable.</p>	<p style="text-align: center;">●</p> <p style="text-align: center;">[light purple]</p>

Significant judgement or estimate

Summary of officer's approach

Audit Comments

Assessment

Property Plant and Equipment (Council Dwellings and Other Land and Buildings - £1.983 billion) / Asset Valuations (including the Covid-19 impact on valuation)

As at 31 March 2021, the Council held PPE of £2.634 billion including Council Dwellings and Other Land and Buildings of £1.983 billion. The Council employed professional valuers, District Valuer (DV) to value Council dwellings this year, for the first time, and the in-house valuer valued all other land and building assets, to provide an independent valuation of land and buildings on a rolling programme of valuations, valuing land and buildings at a minimum of once every five years.

Officers have disclosed that the estimates, assumptions and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial statements within the next financial year include property valuations. They have also confirmed and disclosed that they rely on the valuation information provided by their external valuer.

We have tested the accounting entries processed by Officers in relation to the valuation to ensure these were in accordance with the 2020/21 Code.

We have tested the data and assumptions applied by Senior Officers (and their experts) in producing the valuation estimate.

We have evaluated the competence, capability and objectivity of the Council's professional valuers.

We have used our auditor's valuation expert in order to challenge the Council's expert advice as well as the Council's Senior Officers around the valuation instructions issued to their external and internal valuer and the approach adopted in valuing Council Dwellings and Other Land and Buildings as at 31 March 2021.

We have challenged Officer's assessment of potential impairment of PPE including consideration of any indicators of impairment of PPE not recognised by the Council.

While we have not identified any significant issues with Senior Officer's estimates, there are opportunities to enhance and improve the valuation process. See Action Points at Appendix 2.

●
[light purple]

Significant judgement or estimate

Summary of officer's approach

Audit Comments

Assessment

IAS 19 Pension obligations (£336.470 million)

The Council has provided for estimated liability relating to the Council and Group's share of the net liability in the Highland Council Pension Fund. The Council engage Hymans Robertson UK LLP to provide an annual IAS 19 actuarial valuation of the Authority's net liabilities in the pension scheme. There are several assumptions contained within the valuation, including: discount rate; future return on scheme assets; mortality rates; and future salary projections. These key assumptions are discussed with the actuary to inform the report. These are predominantly informed by the actuaries recommended assumptions and subject to review from Officers from the Council. As administering authority for the Pension Fund, the Council also submit data to the actuary to inform both the triennial valuation (as at 31 March 2020) and the annual IAS 19 valuation.

As noted on page 13, using the work of PwC we reviewed the key assumptions underpinning the actuarial valuation.

While we identified some immaterial errors in the data used in the actuarial valuation (page 13) we are satisfied that these were not indicative of Senior Officer (management) bias.

We are satisfied that the assumptions adopted were appropriate for the Council and considered reasonable i.e. within our acceptable tolerances and that Senior Officers have disclosed the key sensitivities surrounding these assumptions and data in the draft financial statements.

●
[light purple]

Significant estimates and judgements (continued)

As set out in our Audit Plan, to ensure compliance with ISA 540 revised we also requested further information from Officers in relation to the following material estimates (which have not been considered significant by Officers as described above):

- Valuation of investment property (Common Good) Depreciation;
- Valuation of heritage assets;
- Holiday pay accrual and non-pay expenditure accruals;
- Accrued income; and
- PPP/PFI.

We are satisfied that these estimates have been calculated appropriately and that year end estimated balances have not been materially misstated. We are also satisfied that these do not represent areas of significant estimation uncertainty or critical judgement and therefore it is appropriate not to be included in Note 7 of the Council only accounts and Note 2 of the Group accounts.

Other key elements of the financial statements

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of focus either in accordance with the Audit Scotland Code of Audit Practice or ISAs or due to their complexity or importance to the user of the accounts.

Issue	Commentary
Matters in relation to fraud and irregularity	It is the Council's responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from senior officers regarding managements (senior officers) assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquires of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. This included group accounting polices.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Other information	We are also required to report whether the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local government in Scotland Act 2003. We are satisfied that the information provided in the Management Commentary is consistent with the financial statements and prepared in accordance with applicable legislation.
Remuneration report	We are required to report to you on whether the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014. We have audited the elements of the Remuneration Report and are satisfied that these have been properly prepared in accordance with applicable legislation.

Issue	Commentary
Governance statement	We are required to report on whether the information given in the Annual Governance Statement is consistent with the financial statements and prepared in accordance with the Delivering Good Governance in Local government: Framework (2016). We have no matters to report in respect of the Annual Governance Statement.
Matters on which we report by exception	We are required by the Accounts Commission to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit or there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.
Written representations	A letter of representation has been received from the Council, including specific representations in respect of the Group. Specific representations have been requested from senior officers in respect of the significant assumptions used in making accounting estimates for property, plant and equipment valuations, provisions and accruals.
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered management’s (senior officer’s) assessment of the appropriateness of the going concern basis of accounting and conclude that:</p> <ul style="list-style-type: none"> • a material uncertainty related to going concern has not been identified • management’s (senior officer’s) use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Issue	Commentary
National Fraud Initiative	<p>The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. Participating bodies, including the Council, received matches for investigation in January 2021.</p> <p>As part of our audit work in the current year we considered the progress made by the Council in investigating matches. Due to the impact of Covid-19 the Council's progress has been delayed in implementing the investigation of matches. The Council has prioritised higher risk matches and continue to investigate outstanding matches.</p>
Grants and WGA return	<p>In accordance with Audit Scotland planning guidance, as appointed auditors we undertake grant certification work on behalf of the Council. For 2020/21 we are required to provide the following certifications:</p> <ul style="list-style-type: none"> • Education Maintenance Allowance 2020/21 [concluded in October 2021] • National Non-Domestic Rates Income Return (NDR) 2020/21 [submitted in October 2021]; and • Housing Benefit certification [work planned for December 2021] <p>In addition to the grants noted above we are required to also conclude on Whole of Government Accounts (WGA). We will conclude this once we have concluded our audit and the NAO guidance and procedures are available.</p>

Wider scope audit

This section of our report sets out our findings and conclusion on our audit work on the wider scope audit dimensions. We take a risk based audit approach to wider scope. Within our audit plan we identified 3 significant wider scope risks and these are concluded in this section of our report. In addition, we follow up on the Council's progress against its Best Value Assurance Improvement Plan, implanted in response to the BVAR report in 2019. As part of our audit work we have not identified any further wider scope audit risks.

Wider scope dimension	Plan risk	Wider scope audit response and findings	External Audit conclusion																		
<p>Financial Management</p> <p>Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively</p>	<p>No significant wider scope risks identified</p>	<p>Through our cumulative audit knowledge and planning risk assessment we did not identify any significant audit risks in relation to the Council's financial management arrangements.</p> <p>Financial performance and the impact of Covid-19</p> <p>The Council reported total comprehensive expenditure for the year of £31.782 million. Whilst the Council reported a deficit for the year, this reflects the impact of accounting adjustments (particularly pensions accounting entries) and a more informative indication of the Council's financial performance for the year is reflected in the movement in General Fund Balances.</p> <p>The Council's total General Fund Balances as at 31 March 2021 were £96.696 million (2019/20: £35.706 million), predominantly reflecting the increase in reserve balances as a result of unspent Covid-19 funding. Of this, £43.4 million was unearmarked representing an increase from the prior year (£15.5 million) of £27.9 million.</p> <p>The Council, increased unearmarked general reserves by £27.9 million. A significant proportion of this funding has been allocated to Covid-19 recovery activity during 2021/22. This outturn performance was primarily due to additional Covid-19 funding in the year as well as delivering budgeted savings of approximately £13 million in the year to meet budget pressures. This resulted in a significant improvement in the Council's underlying financial position.</p>	<p>Through the audit procedures performed we have not identified any significant risks in relation to the Council's financial management arrangements.</p>																		
		<table border="1"> <thead> <tr> <th>Performance in year</th> <th>£m</th> </tr> </thead> <tbody> <tr> <td>Service overspend (estimated through the impact of Covid-19 and Brexit as well as other factors)</td> <td>(4.4)</td> </tr> <tr> <td>Council tax income below budget as collection rates impacted through covid-19</td> <td>(0.8)</td> </tr> <tr> <td>Covid-19 funding offsetting 2020/21 Service Overspends and Supporting Recovery spend in 2021/22</td> <td>24.8</td> </tr> <tr> <td>Roads investment – unallocated budget</td> <td>1.2</td> </tr> <tr> <td>Contribution to reserves – Affordable housing contribution 2nd homes exceeding budget</td> <td>(0.6)</td> </tr> <tr> <td>Net budget underspend</td> <td>20.2</td> </tr> <tr> <td>Planned increase in reserve through budget and centralisation of year end DSM balances</td> <td>7.7</td> </tr> <tr> <td>Net increase in non-earmarked reserves</td> <td>27.9</td> </tr> </tbody> </table>	Performance in year	£m	Service overspend (estimated through the impact of Covid-19 and Brexit as well as other factors)	(4.4)	Council tax income below budget as collection rates impacted through covid-19	(0.8)	Covid-19 funding offsetting 2020/21 Service Overspends and Supporting Recovery spend in 2021/22	24.8	Roads investment – unallocated budget	1.2	Contribution to reserves – Affordable housing contribution 2 nd homes exceeding budget	(0.6)	Net budget underspend	20.2	Planned increase in reserve through budget and centralisation of year end DSM balances	7.7	Net increase in non-earmarked reserves	27.9	
Performance in year	£m																				
Service overspend (estimated through the impact of Covid-19 and Brexit as well as other factors)	(4.4)																				
Council tax income below budget as collection rates impacted through covid-19	(0.8)																				
Covid-19 funding offsetting 2020/21 Service Overspends and Supporting Recovery spend in 2021/22	24.8																				
Roads investment – unallocated budget	1.2																				
Contribution to reserves – Affordable housing contribution 2 nd homes exceeding budget	(0.6)																				
Net budget underspend	20.2																				
Planned increase in reserve through budget and centralisation of year end DSM balances	7.7																				
Net increase in non-earmarked reserves	27.9																				

Wider scope dimension**Plan risk****Wider scope audit response and findings****External Audit conclusion****Financial Management (continued)**

The Council's reserves strategy was updated during the year to reflect the increased uncertainty facing the Council.

The Council's reserves position has been significantly improved as a result of the additional Covid-19 funding that was not specifically used to meet the additional costs incurred by services in 2020/21. In total, excluding business grants, the council received £57.5 million of Covid-19 funding. Of this, £11.7 million has been carried forward to 2021/22, earmarked for specific purposes. £21 million has been allocated to services budgets during 2020/21 to offset specific cost / lost income pressures. This resulted in a residual unapplied budget of £24.8 million which offsets 2020/21 service overspends, contributed to the net increase in unearmarked reserves, which are being used to support recovery in 2021/22.

While the Council's underlying reserves position has strengthened, the Council has acknowledged the increasing risk and uncertainty it faces, particularly in relation to Covid-19 recovery activity where the level of future revenue available is not envisaged to meet the medium to longer term financial impact on the Council. Consequently, the Council has revised its reserve policy to increase the minimum unearmarked General reserve balance to 4% of budgeted expenditure. This reflects the greater risk and uncertainty.

Application of Covid-19 Funding	£m
Total Covid-19 funding received (excluding agency)	57.5
Less: earmarked for specific grants / 21/22 earmarked)	(11.7)
Net Covid-19 funding applied	45.8
Allocated directly to services to meet Covid-19 cost pressures	(21)
Covid-19 funding offsetting 2020/21 Service Overspends and Supporting Recovery spend in 2021/22	24.8

The Council has recognised an increased level of financial risk and uncertainty in the coming years through a combination of: uncertainty around future funding settlements; Covid-19 impacts; as well as the potential longer term impact of EU withdrawal. We consider the Council's approach to increasing unearmarked reserves from 3% to 4% of annually budgeted expenditure to be prudent given the uncertainty faced.

Capital expenditure

During 2020/21 the Council reported capital expenditure of £76.6 million. This reflected an underspend of £9.2 million from the capital plan. The primary driver for the underspend was project slippage as a result of the Covid-19 impact on construction and development work. The Council recognises the strategic importance of the Capital plan and has revisited to reflect the continued focus on Council priorities. Key areas of investment in the year were £28 million in schools as well as £11.4 million in roads and bridges. The Council also incurred £48.8 million in housing stock.

Wider scope dimension	Plan risk	Wider scope audit response and findings	External Audit conclusion
Financial Management (continued)		<p>Financial management arrangements continued to be enhanced however there is an opportunity for the Council to look at its current financial ledger to explore opportunities for streamlining information</p> <p>During 2020/21 the Council continued to develop its financial and operational planning arrangements. This has included integrating financial and non-financial reporting with performance reports to Committees. While these reports are in their relative infancy they should support greater consideration of wider service performance aligning service operational performance with financial planning.</p> <p>To support services the Council continues to invest in both its finance and performance teams. This should support services in developing services plans and utilising performance information, including financial information to promote continuous scrutiny, improvement and challenge.</p> <p>Officers are exploring options of utilising Power –BI a data analysis tool to support budget holder with more effective real time monitoring of the Council’s financial performance.</p>	<p>Through the audit procedures performed we have not identified any significant risks in relation to the Council’s financial management arrangements.</p>

Wider scope dimension**Plan risk****Wider scope audit response and findings****External Audit conclusion****Financial sustainability**

Financial sustainability looks forward to the medium and longer term to consider whether the Council is planning effectively to continue to deliver its services or the way in which they should be delivered.

Significant risk identified:

Consideration of the medium to long term financial sustainability of Highland Council. We will consider how Covid-19 has impacted on Highland Council's financial strategy and understand particular areas of cost pressures identified during the year. We will review the extent to which savings delivered during 2020/21 represent sustainable recurring savings and consider the levels of reserves used by Highland Council during the year.

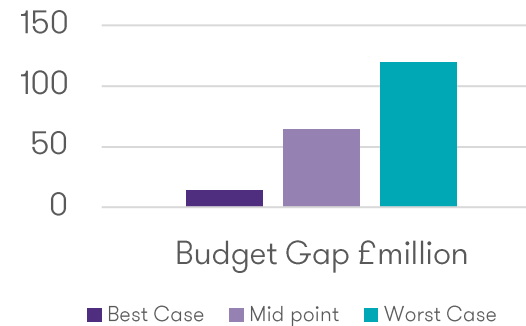
Response to significant risk:

The Council's financial projections highlight a period of significant uncertainty for the Council projecting potential budget gap of between £13.9 and £120.4 million. In addition, the longer term financial impact of Covid-19 on the Council increases the uncertainty surrounding financial projections. Therefore it is important that the Council ensure they continue to monitor financial forecasts, ensuring financial plans continue to reflect best available information to support effective use of resources in a financially sustainable way.

In March 2021 the Council approved a balanced revenue budget for 2021/22 with agreement on a number of items for the period extending to 2023/24. That medium term financial planning work, which included an estimated residual budget gap of £20.3m over 2022/23 and 2023/24. The Council takes a strategic approach to financial planning recognising the importance of having longer term view to ensure financial sustainability. Recognising the uncertainty surrounding future finances, the Council have undertaken scenario analysis. This focuses on the impact of pay increase (range 1-3%), Core Funding changes (0—3%) and Council Tax increases (between 3-6%) as well as general budgetary pressures of £5 million.

Over the next five years the Council have estimated a potential budget gap of £13.9 million - £120.4 million, highlighting the uncertainty surrounding the Council's financial position. This is after deducting £6.6 million of savings already agreed.

Officers recognise that the uncertainty creates developing financial planning a challenge. The Council is developing financial plans around a "best estimate" (central) budget gap is £64.9 million. However it is recognised there is considerable risk and uncertainty surrounding these projections.



The Council faces a period of significant uncertainty reflected in a potential budget gap of between £13.9 and £120.4 million. Covid-19 funding and financial performance during 2020/21 has enabled the Council to increase in unearmarked reserves to 4% of budgeted expenditure, providing greater financial flexibility to manage unforeseen costs. Going forward Officers have agreed to take quarterly medium term financial plan updates to the Council.

Wider scope dimension	Plan risk	Wider scope audit response and findings	External Audit conclusion
Financial sustainability (Continued)	<p>We will focus on in-year financial performance as well as the impact on the Council's medium term financial framework, in particular the 3 year budget outlook. Lastly we will understand the additional monies received by the Council relating to the Covid-19 pandemic and how they have been utilised in year. In particular we will focus on where local decisions have been made. We will seek to understand future plans, on recovery and re-mobilisation beyond the pandemic, and options to ensure future financial stability.</p>	<p>Strategic investments Alongside underlying budgetary pressures facing the Council, Officers need to ensure that longer term strategic investments, including capital projects, have a focus on the longer term capital and revenue implications on the Council. Two significant investments include: strategic investments in schools across the region including £60 million investment across 5 schools and exploring the opportunity for the development of a Green Energy Hub to meet the Council's legal requirements to move away from existing levels of landfill waste management.</p> <p>Strategic planning processes appear prudent with a clear focus on ensuring both short and longer term viability of investment proposals. This has included considering the medium term impact of Covid-19 and other economic factors may have on underlying construction costs. However, as the Council looks at implementing new ways of working, including greater home-working, it will be important that there is a clear understanding of the Council estate and how to maximise the use of the assets. This may include rationalising the estate or redesigning workplaces to support hybrid working. We will consider the progress made by the Council in considering the planned use of the estate during 2021/22.</p>	<p>We did not identify any significant issues with regards the Council's financial sustainability arrangements. Officers recognise the importance of continuous review of planned capital spend to ensure that capital projects remain financially viable while also reflecting the strategic needs of the Council.</p>

Wider scope dimension	Plan risk	Wider scope audit response and findings	External Audit conclusion
<p>Governance and transparency</p> <p>Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>Significant risk identified:</p> <p>We will, as set out in the planning guidance, consider how Highland Council has maintained good governance throughout the year, focused on any new governance arrangements introduced, the openness and transparency of decision making and how governance has evolved during the Covid-19 pandemic. This was considered in 2019/20 and for this year we will focus on governance changes, in light of the 2nd wave and the planned governance on recovery and future plans beyond Covid.</p>	<p>Response to significant risk:</p> <p>The Council established a Recovery, Improvement and Transformation Board to oversee the Council's Covid-19 recovery activity as well as aligning with wider improvement and transformation activity.</p> <p>In the immediate response to Covid-19, the Chief Executive established an officer gold COVID-19 group which included the Executive Chief Officers (ECOs) and other key staff. This group focused on agreeing strategic priorities as the pandemic evolved. A member gold COVID-19 group was also established consisting of the Chief Executive, the Convener, the leaders of the administration groups and the official opposition group, the Budget Leader and the ECO for Performance and Governance. Decisions in this early period, when committees were suspended, were taken under emergency powers. A formal report, setting out all of the decisions taken under emergency governance arrangements was approved at Full Council in June, including homologation of decisions made in the period. This included the resumption of Council policies and services to their pre-COVID-19 arrangements and return to the normal governance arrangements.</p> <p>The Recovery Board has evolved into the Recovery, Improvement and Transformation Board to co-ordinate all elements of Council recovery, improvement and redesign joining up the Council's Covid-19 response with transformation activity and financial planning. In addition, fortnightly member briefings have been established to ensure members are kept up to date on all developments, including those during the second national lockdown, at the Council.</p>	<p>Governance and transparency arrangements were effective during the year. The interim governance arrangements established by the Council reflected the critical situation and immediate challenges faced. These were not inconsistent with other public bodies. The Council also re-established governance structures in a timely manner and the establishment of the Recovery Board has allowed strategic oversight of the Council's response to the pandemic.</p> <p>The Council has recognised the importance of ensuring ongoing recovery activity is aligned to the Council's wider improvement and transformation activity and the role of the Recovery, Improvement and Transformation Board, with oversight of full Council.</p>

Wider scope dimension	Plan risk	Wider scope audit response and findings	External Audit conclusion
Governance and transparency (continued)	<p>Significant risk identified (continued): We will also review Officer and Member engagement and participation throughout the governance process and the general behaviours exhibited and consider the ways in which these behaviours ensure openness and transparency across the Council.</p>	<p>Response to significant risk (continued):</p> <p>The interim governance arrangements established by the Council reflected the critical situation and immediate challenges faced. These were not inconsistent with other public bodies. The Council also re-established governance structures in a timely manner and the establishment of the Recovery Board has allowed strategic oversight of the Council's response to the pandemic.</p> <p>The large (74 members) and political make-up of the council (Independent group alongside other parties and non-aligned members) can at times, present a challenge to effective decision-making, in particular balancing Council-wide decisions aligned to Council priorities alongside the needs of the local communities that elected members represent. Officers continue to look to support members, through training, development and communications to continue to improve governance arrangements.</p> <p>The Council is embedding the Governance arrangements established in 2019/20 following a self-assessment review. This included moving from four strategic committees to six with a focus on establishing an effective committee structure regardless of the operational structure of the Council. As Covid-19 resulted in significant disruption to normal committee business, the Council plans to undertake a self-assessment of the effectiveness of Committee business to further enhance governance arrangements.</p> <p>As part of the Council's BVAR Improvement Plan the Council has established a member training and development programme for new Members in 2022. In addition, through member briefings, training events and workshops, Officers have sought to support Members understanding of specific issues or proposals. This work continues to enable greater focus on Council business.</p>	<p>The Council continues to develop and enhance member training and development to support effective scrutiny and governance.</p>

Wider scope dimension	Audit Plan risk	Wider scope audit response and findings	External Audit conclusion
<p>Value for money</p> <p>Value for money is concerned with using resources effectively and continually improving services.</p>	<p>Significant risk identified:</p> <p>Highland Council is the lead agency for Children’s Services and NHS Highland is the lead agent for the delivery of adult services across Health and Social Care. The arrangements are managed through the Highland Health and Social Care Partnership (HHSCP). Both Highland Council and NHS Highland have previously highlighted the unsustainable financial position of the current financial arrangements in place in relation to the delivery of Adult Social Care services. The Integration Scheme and Partnership Agreement was due for renewal at the end of June 2020 with agreement to be reached as to how the financial gap would be funded and an appropriate level of funding to be agreed for Adult Social Care going forward. We will review the agreements made in relation to this matter as well as the impact on the 2020/21 financial position and the planned future impact upon Highland Council.</p>	<p>Response to significant risk:</p> <p>During 2020/21 the Lead Agency Partnership Agreement was subject to significant discussion between parties as well as wider consultation.</p> <p>There were delays during the year in finalising the Lead Agency Model Partnership agreement, reflecting both logistical challenges in changes across senior personnel at both partners as well as some of the complex elements of the agreement, particularly around finance. The revised scheme is now complete subject to final sign off and submission to the Scottish Government.</p> <p>The Partnership will include a Joint Officer Group which should ensure appropriate leadership and discussion between the partners to facilitate timely resolution where challenges are faced. In addition, the Council a Project Board has been established, funded with support of the council’s transformation funds, to support integration.</p> <p>The agreement will look to enhance partnership working and includes the establishment of the Joint Officer Group, consisting senior management from the Health Board along with Executive Chief Officer – Health and Social Care and Executive Chief Officer – Resources and Finance. The revised arrangements aims at establishing more effective protocols in escalating and managing financial and operational pressures.</p>	<p>While it is too early to determine the operational effectiveness of the new arrangement, discussion with Officers indicate that partnership working arrangements are effective. This has been further evidenced through the proposed development of a shared strategy, Future Highlands, between the Council and its strategic partners, including NHS Highland. To ensure that the governance and management arrangements in place over the partnership are appropriate and operate effectively, the Council, working with NHS Highland, should ensure that there is evaluation of the effectiveness of the arrangements as they embed.</p> <p>We will follow up the Council’s progress in this area as part of our 2021/22 wider scope work.</p>

Wider scope dimension	Audit plan risk	Wider scope audit response and findings	External Audit conclusion
Value for money (continued)		<p>The Council recognises the importance of working strategically with its key partner. The proposed development of the Future Highlands strategy reflects an ambitious collaboration between the partners to look to deliver significant benefits for the partners and the wider region.</p> <p>The Council, in collaboration with its 5 strategic partners (NHS Highland, Police Scotland, Highlife Highland, Scottish Fire and Rescue Service and Highlands and Islands Enterprise has proposed the development of a “Future Highlands” strategy to articulate a collaborative approach to progressing 5 Strategic Partnership Priorities. This is aimed at delivering a consistent and joined up approach to deliver key outcomes for the region. The 5 priorities are:</p> <ul style="list-style-type: none"> • green energy; • social care reform; • people; • place; and, • shared investment opportunities. <p>The priorities are derived from existing previously approved Council approaches contained in the Council Programme, the Budget Strategy and the Indicative Regional Spatial Strategy for Highland. Officers envisage that the Strategic Partnership will encourage wider joined up working in delivering the best outcomes for the partners and the region. The partners will look to leverage the strength of the partnership to look additional investment in the delivery of the strategy.</p>	<p>The Council continues to develop its relationship with key partners in the region. While still in its infancy, the Future Highlands Strategy demonstrates a commitment from the Council to work collaboratively with its partners to maximise the benefits to the partners and the wider region.</p>

Wider scope dimension**Value for money (continued)****Audit plan risk****Significant risk identified:**

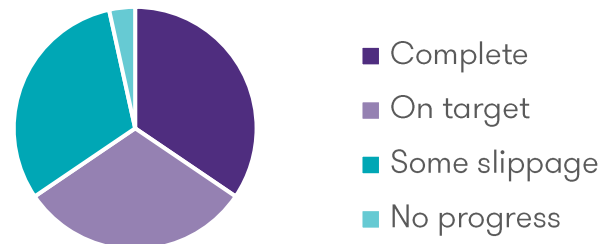
A Best Value review was undertaken by Audit Scotland and Grant Thornton during 2019 and the Best Value Assurance Report (BVAR) was issued in January 2020. The review found that the Council's pace of change had been inconsistent and slower in areas such as improving performance management and ensuring longer term financial sustainability. There was however recognition that the pace of change had significantly increased with the appointment of the Chief Executive in September 2018. The BVAR highlighted the persistent challenge faced by the Council in demonstrating that it is financially sustainable, as well as its ability to build its level of reserves to meet unplanned costs. The BVAR also reflected on the management restructure and the need for a period of stability to deliver the Council's change and improvement strategy.

A BVAR Improvement Plan was approved in March 2020 and we have followed up on the Council's progress as part of our 2020/21 audit.

Wider scope audit response and findings**Response to significant risk:**

While 2020/21 represented a year of unprecedented challenge for the Council, and other public bodies, in responding and recovering from Covid-19, the Council has demonstrated good progress in addressing the recommendations raised in the BVAR report.

We have considered the progress made by the Council in implementing the 7 recommendations raised in the Accounts Commissions BVAR report. Of the 7 recommendation 3 are complete / on target with 4 delayed, primarily due to the impact of Covid-19. One action was reported as making no progress in relation to Executive Chief Officer's external learning visits to learn best practice but this was due to onsite visits being curtailed during Covid-19. None of the actions in addressing the recommendations were significantly delayed or not reporting progress.



The Council's BVAR Improvement Plan contained 27 improvement actions covering the 7 recommendations. Of these 69% (18) were complete and on-target.

External Audit conclusion

While 2020/21 represented a year of unprecedented challenge for the Council, and other public bodies, in responding and recovering from Covid-19, the Council has demonstrated good progress in addressing the recommendations raised in the BVAR report. However, further work is required to fully deliver on these. In the coming years the Council faces considerable challenges and uncertainty, both operationally and financially, as it looks to work with its partners to continue to improve on its key strategic outcomes, focusing on the priorities of the region.

Wider scope dimension**Audit plan risk****Wider scope audit response and findings****External Audit conclusion**

Value for money
(continued)

The Council continues to develop its performance management arrangements, including transparent reporting of its corporate performance during the year.

In accordance with SPI 1, the Council is required to report on: performance in improving local public services, provided by both (i) the council itself and (ii) by the council in conjunction with its partners and communities; and, progress against the desired outcomes agreed with its partners and communities. Under SPI 2: Demonstrating best value the guidance requires authorities to report on:

- The council's assessment of how it is performing against its duty of Best Value, and how it plans to improve against this assessment;
- audit assessments of its performance against its Best Value duty, and how it has responded to these assessments; and
- how it (in conjunction with its partners as appropriate) has engaged with and responded to its diverse communities.

The Council reports performance through Service Committees during the year as well as publishing performance information on the website. The Council has made significant progress in ensuring updated information available across its Key Performance Indicators to get live performance information.

The Council reports performance through Service Committees during the year as well as publishing performance information on the website. In September the Council received a full report of performance across all KPIs (and available PIs) enabling clear focus on performance of the whole Council. Of the report 9 KPIs (24 PIs) reported areas where no significant progress had been made.

	KPIs	Performance Indicators
Complete / On target	12	35
Performance within Council's performance threshold	16	13
Performance with no significant progress	9	24
No data	-	3
Total	27	75

Key areas for development include: selected educational targets; tourist visits and business start-ups. From the Council's assessment these were predominantly through stretch targets, the impact Covid-19 or through establishing baseline targets.

The Council has enhanced its performance reporting information to improve the level of scrutiny against key strategic objectives as well as providing transparent reporting of performance. The Council is also required to report on its SPIs including Local Government Benchmarking Framework (LGBF) indicators and locally defined performance indicators (LPIs). The Council is currently in the process of completing data returns to the Improvement Service for 2020/21 supporting arrangements for full performance to be assessed by 31 March 2022.

Best Value Assurance Report Follow up

In September 2021, the Council reported the progress made in implementing the agreed BVAR Improvement Plan. The Table Below summarised our external audit assessment of the progress made by the Council to date. We consider the outstanding actions, as identified by Officers in the Council's BVAR Improvement plan as well as any further areas for development.

BVAR Recommendation	Assessment of progress	Assessment of progress made	Outstanding areas
<p>The Council needs to seek to ensure that all staff are fully engaged in the transformation programme and that budget holders are clear on expectations to deliver the planned savings set out in ongoing transformation work. The council should continue to develop and implement a longer-term delivery model which is affordable and achievable.</p>	<p>Delays in implementing agreed Improvement Plan Actions</p> <p>Revised implementation date: March 22</p>	<p>The Council have identified some slippage against this action with actions expected to be completed by March 2022. The Council has aligned budget setting and improvement and transformation activity through incorporating into the 2021 budget setting process, incorporating as part of savings proposals.</p> <p>To promote corporate focus on performance and financial delivery the Executive Leadership Team meets weekly to consider governance, resources and performance issues and the ECO team scrutinises all requests to recruit to vacant posts.</p> <p>The Recovery Board has evolved into the Recovery, Improvement and Transformation Board to co-ordinate all elements of Council recovery, improvement and redesign joining up the Council's Covid-19 response with transformation activity and financial planning.</p> <p>During 2020/21 a key area of focus has been the Council's covid-19 response. Online briefings by the Chief Executive and ECOs are well attended and interactive with opportunities for staff to ask questions. There are also staff focus groups and web resources to support staff input their views and suggestions. The emphasis of this work across 2020/21 has been to engage and inform staff on the Council's response to COVID-19, supporting staff health and wellbeing and in New Ways of Working.</p>	<p>Officers recognise further work is required to complete the Improvement actions. This includes:</p> <ul style="list-style-type: none"> improving the Council's HR and payroll database and in delivering updated financial management training and embedding revised service business planning arrangements to support greater planning and monitoring arrangements across Management and committees.

BVAR Recommendation	Assessment of progress	Assessment of progress made	Outstanding areas
<p>The Council should increase the use of family grouping data, benchmarking and targets to enhance performance reporting.</p>	<p>Complete / on target</p> <p>Implementation Date: February 2022</p>	<p>The Council has made good progress in implementing the actions outlined in the BVAR Improvement Plan in response to this recommendation. The Council's revised Corporate planning process articulates trend data, family and national benchmark positions resulting in targets being set focusing on improvement against the Council's national benchmark positions. This approach has resulted in enhanced performance reporting as reflected in Service Performance Reports and annual performance reporting.</p> <p>The Council has revised its Service Planning guidance to clearly align to the requirements of the Corporate Plan. Work continues to improve the use of data to inform improvement planning and performance reporting to Strategic Committee linked to the improvements now agreed through Service Plans.</p> <p>It will be important that the Council looks to embed these processes in Council and service planning arrangements across the council, supporting consistent approaches to performance reporting.</p>	<p>The Council has demonstrated commitment to continue to develop and enhance performance reporting. Specifically a key area of focus is working with Schools to focus on utilising data to focus on specific performance issues impacting schools (as observed</p>

BVAR Recommendation	Assessment of progress	Assessment of progress made	Outstanding areas
<p>The Council's approach to performance management can be further improved through sharing of practices between services and council teams in order to fully embrace and support effective self-assessment and a culture of continuous improvement.</p>	<p>Delays in implementing agreed Improvement Plan Actions</p> <p>Revised implementation date: March 22</p>	<p>While the Council has progressed with Improvement Actions, there have been delays in completing actions primarily due to Covid-19 impacting the extent to which the Council can look to visit and learn from other bodies. The Council have committed to work with the Improvement Service to adopt the Public Services Improvement Framework. The Improvement Service ran workshops for the Executive and Senior Leadership teams on performance and self-assessment.</p> <p>Through the Executive and wider Senior Leadership team there is focus on challenge and discussion around service delivery and performance, sharing good practice across Council services.</p>	<p>While the Council has worked with other authorities, particularly engaging around response to Covid-19, further work is required to support embedding a culture of self-assessment and learning from other bodies and sharing good practice.</p>
<p>Once the council has implemented the revised governance arrangements, it should seek to monitor the effectiveness of these changes to ensure they deliver the improvements anticipated, including the intended enhanced scrutiny and decision-making.</p>	<p>Complete / on target</p> <p>Revised implementation date: Complete</p>	<p>In response to the BVAR audit report work has been completed to revise the Council's governance arrangements and a framework in place to support ongoing scrutiny around the effectiveness of these. The focus of the revised governance arrangements are to establish sustainable governance arrangements that support effective decision making and oversight regardless of Council operational structure.</p> <p>As noted in our <i>Wider Scope Risks – Governance & Transparency</i>, above, the Council has a planned assessment of the revised Governance arrangements due to be completed in late 2021. This will help shape future member training and development as well as focus on continuous improvement.</p>	<p>The actions take in response to the BVAR action are complete.</p> <p>As part of our ongoing wider scope audit work, we have identified further opportunities to support the self-assessment exercise and enhance governance arrangements.</p>

BVAR Recommendation	Assessment of progress	Assessment of progress made	Outstanding areas
<p>Once the new leadership team is in place, it will be key that they look to successfully manage the need for increased pace of change alongside continued engagement across officers to achieve the strategic objectives and this should be reviewed and evaluated on an ongoing basis.</p>	<p>Delays in implementing agreed Improvement Plan Actions</p> <p>Revised implementation date: March 2022</p>	<p>The Council has made progress in implementing the Improvement Actions in relation to this BVAR finding. Particular, through Council Redesign the new leadership team is nearing completion with levels below Head of Service cascading from the senior structure.</p> <p>The BVAR highlighted the pace of change in transforming the Council's financial position. As noted in our <i>Wider Scope - Finance Management Section</i>, we highlight how the Council's reserves position has significantly improved. However, the Council faces significant financial and operational pressures in the coming years both in terms of the ongoing pressures on local authority finance as well as the medium to longer term uncertainty around the impact of covid-19 and the cost of the response and recovery to the pandemic. As a result pace of change in recovery, improvement and transformation must be maintained to delivery efficiency saving. The Council has revised its corporate and service planning approach to focus on service delivery and improvement with regular reporting to Strategic Committees. This should ensure there is effective officer engagement in the Council's strategic objectives at all levels of the organisation. Ambitious Highland, Health & Prosperity Strategy 2021-22 reflects the unprecedented challenges the Council has faced and continues to face due to Covid and the UK's exit from the EU.</p> <p>While the immediate focus is on the economy and community wellbeing from recovery into full health, the focus also remains on delivering improved performance and medium to long term financial planning and sustainability.</p>	<p>There have been delays in establishing permanent employees in the Council's Executive and Senior Leadership structure. This has been a combination of factors including identifying the right candidate as well as ensuring the structure is fit for purpose with the creation of Deputy Chief Executive Post to further enhance the leadership arrangements. Therefore an assessment of the effectiveness of this structure has been delayed.</p>

BVAR Recommendation	Assessment of progress	Assessment of progress made	Outstanding areas
<p>The Community Planning Partnership (CPP) should increase the pace in developing the remaining locality action plans in line with the requirements of the Community Empowerment Act.</p>	<p>Delays in implementing agreed Improvement Plan Actions</p> <p>Implementation date: March 2022</p>	<p>The Council has had engagement with CPP to identify how to support and resource locality planning and the review of the Terms of Reference for the CPP in Highland were completed. However, consensus could not be reached at that time (December 2019) on how best to support and resource the completion of the commitments of the CPP and the response to covid disrupted taking this forward. This is now being progressed through the partnership. Of the 25 locality plans, 14 remain outstanding.</p> <p>As reported through the Communities and Place Committee and the RIT Board, the Council has developed its framework for engagement with Communities. This has been strengthened throughout the response to covid-19 since March 2020. The strong community response to resilience is supporting improved engagement, with better understanding of community needs and how to support them with their aims and objectives. This is being supported through a new Community Support Co-ordination team along with developments in place-planning.</p>	<p>The CPP is undertaking a review of the CPP locality planning arrangements which includes how the partnership resources, supports and delivers locality planning. It is envisaged that having a more streamlined approach to planning and by creating clear priorities for each Community Partnership for which performance can be monitored, more effective delivery of outcomes will be achieved. Proposals include streamlining the Community Partnership to focus on an area based approach, significantly reducing the number of plans</p>

BVAR Recommendation	Assessment of progress	Assessment of progress made	Outstanding areas
<p>The council should continue to work with elected members to understand reasons for variable uptake of training and agree how this can be improved alongside a programme of ongoing elected member development. In particular, elected members' knowledge of and involvement in the performance management process needs to be improved to enhance scrutiny and help drive improvement.</p>	<p>Complete / on track</p> <p>Implementation Date: December 2021</p>	<p>The Council has made good progress in implementing the actions set out in the BVAR Improvement Plan in response to this recommendation. This has included the development of a Members training and development programme which supports their role in scrutiny and improvement and a framework in place to ensure annual reporting to the Council on the update of training and development. The Council has also established a new induction programme for members in 2022. The new training programme will integrate online training alongside onsite training for members.</p> <p>Supporting the Member training activity is workshops and briefings, particularly around technical or legislative matters to support there understanding.</p>	<p>There are no significant outstanding areas from the BVAR Improvement Plan.</p> <p>The Council will look to incorporate feedback from members (new and departing members) to support continuous learning and development.</p> <p>The application of more system based learning and development programme should support members development and understanding.</p> <p>While there are no significant aspects of the BVAR Improvement Plan outstanding, as noted in our <i>Wider Scope - Governance and Transparency</i>, above, there are opportunities to development and enhance governance arrangements, particularly ensuring the Committee meetings focus on core business.</p>

Appendices

1. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management (senior officers). There was some misstatements to the financial statements identified during our audit, including uncorrected misstatements, both of which are set out in this appendix. Those differences not adjusted are not considered material to the financial statements. In addition Officers identified changes required between the unaudited version and the final version, which were Officer adjustments not identified through audit process.

Impact of adjusted misstatements

Detail	Comprehensive Income and Expenditure £'000	Balance Sheet £' 000
To correction the incorrect reversal of business discretionary grants funded by specific grant from CIES and misclassified as agent transactions	1,526	
Dr Service Expenditure	(1,526)	
Cr Service Income		
The adjustment to correct estimated benefits paid to actual benefits paid within the IAS 19 liability calculation.	267	
Dr Pension Reserve (taken through CIES OCI)		(267)
Cr Pension Liability		
Being the reclassification of short-term to long term debt in relation to loan due > 1 year		662
Dr Long Term Debtors		(662)
Cr Short Term Debtors		
Overall impact	267	(267)

Impact of Officer adjustments

Detail	Comprehensive Income and Expenditure £'000	Balance Sheet £' 000
<i>Officer adjustments</i>		
Being the late revaluation of Council Housing		
Dr HRA depreciation, impairment and write off	153,986	
Dr Revaluation losses in year	49,582	
Cr Council dwellings		(203,568)
<hr/>		
Correction of Skye Housing		
Dr HRA depreciation, impairment and write off	1,446	
Cr Revaluation losses in year	(1,446)	
<hr/>		
Overall impact	203,568	(203,568)

Impact of unadjusted misstatements 2020/21

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. Officers consider these adjustments to not have a material impact on the financial statements and the user of the financial statements understanding of the Council financial position.

Detail	Comprehensive Income and Expenditure £'000	Balance Sheet £' 000
Adjustment to fully recognise year end creditors balance (and remove uncleared BACS balance)		7,678
Dr Short term creditors – trade payables		(7,678)
Cr Cash and cash equivalents		
Being the impact of the use of actual total assets of the pension fund at the year end date compared with the estimates on the employer body liability.		6,348
Dr Pension liability	(6,348)	
Cr Pension reserve		
Being the reversal of internal developer contributions found within substantive testing at <Fees and charges income>	262	
Dr Service Income	(262)	
Cr Service Expenditure		
Being the correction of insurance fund debtor recognised		
Dr Service Income	272	
Cr Insurance fund debtor		(272)
Being the balance sheet reclassification of Highlife Highland credit balance		
Dr Short term debtors – Other entities and individuals		2,945
Cr Short term creditors – Other entities and individuals		(2,945)
Overall impact	(6,076)	6,076

Impact of unadjusted misstatements 2019/20

The table below provides details of adjustments identified during the 2020/21 audit in relation to the 2019/20 annual accounts which have not been made within the final set of financial statements. Officers consider these adjustments to not have a material impact on the financial statements and the user of the financial statements understanding of the Council financial position.

Detail	Comprehensive Income and Expenditure £'000	Statement of Financial Position £' 000
Adjustment to reflect correct school measurements that should have been used in 2019/20		
Dr Other land and buildings		4,200
Cr Revaluation reserve		(4,200)
Adjustment to reflect missing school valuation from 2019/20 valuation exercise		
Dr Revaluation reserve		2,359
Cr Other land and buildings		(2,359)
Adjustment to correct typo identified in relation to 2019/20 valuation exercise		
Dr Other land and buildings		2,586
Cr Revaluation reserve		(2,586)
Overall impact	-	-

Misclassification and disclosure changes

The table below sets out our more significant proposed disclosure amendments, noting those that have been updated and those that have not. We are comfortable those that are not updated do not have a material impact on the users of the accounts and their understanding of the Council.

Disclosure	Auditor recommendations	Adjusted/Not adjusted
Assets last revalued disclosure	Assets purchased in the year for £1.503m but not subject to formal revaluation stated as having last been revalued in 2020/21. Furthermore, 'Office at Inverness Castle' has been revalued in the year to market value and reclassified to AuC. All balances within the disclosure for AuC are stated as being carried at historical cost.	Not adjusted for however this is not deemed to be material.
Cash and cash equivalents	Cash overdraft per Note 18 being offset against temporary investments where no legal right of offset exists.	Not adjusted for however this is not deemed to be material.
Common Good Fund	Common Good Fund presented as a set of financial statements as opposed to a Note to the Accounts. The latter is recommended by Audit Scotland/Code as best practice.	Adjusted
IFRS 15	Disclosures in relation to revenue recognition within accounting policies do not fully meet the requirements of IFRS 15.	Adjusted for in part however this is not deemed to be material.
PFI	Misstatements noted on recalculation of ageing of future payments due in respect of capital, interest and service charges per Note 33. Fair value disclosures for PFI updated for prior year (not considered material) which should only be updated in instances of material changes.	Not adjusted for however this is not deemed to be material.
Capital grants unapplied – movement on reserves	Whilst the opening and closing balances on the movements in the reserve are stated correctly, the movements in the reserves were disclosed incorrectly as well as amounts disclosed in the capital grants unapplied account. A historical difference of £1.8m was also identified in relation to the Council's capital financing requirement as disclosed in the accounts.	Adjusted. Not adjusted for however this is not deemed to be material.

2. Action plan and recommendations

We have set out below, based on our audit work undertaken in 2020/21, the significant recommendations arising from our audit work:

Recommendation

1. Operating Leases

During our testing of Operating Leases, it was noted that for a number of operating leases the original, underlying lease documentation could not be located and provided to the audit team by Officers due to the operating leases being aged and of a historical nature. As the authority is due to transition to IFRS 16 Leases on 1 April 2022 it is important that Officers are able to identify all lease agreements and arrangements in place, in order to fully comply with the new accounting standard. We recommend that management review the requirements of IFRS 16 to ensure they are ready for the transition in the next financial year and the required presentation and disclosures in the 2022/23 annual accounts.

Agreed officer response

Accepted

Responsible Officer – Head of Corporate Finance
Implementation Date – April 2022

Recommendation

2. Related Parties

We noted in our review of Related Parties that management requested that Councillors confirm to them who they consider to be related parties, however the responses to these requests were not formally monitored and reviewed by management or subsequently considered by management during the preparation of the Related Parties note within the annual accounts (Note 28). Management also confirmed that no formal review of the ledger took place at year end in order to identify all potential related party transactions taking place during the financial year. It was also confirmed that no register of interest is maintained for Senior Officers, however we note that management do issue requests to Senior Officers to confirm their related parties, similar to the way in which requests are made of Councillors (as detailed above). Whilst our testing of related parties and related party transactions did not identify any omissions or misstatements, we note that management do not have controls and processes in place in order to gain comfort that the related parties disclosure within the annual accounts is complete. We recommend that going forward management monitor responses from Councillors and Senior Officers to ensure that all responses are returned and to consider whether the responses returned indicate new related parties. We recommend that management undertake a review of the ledger at year end to consider the completeness of the Related Parties note in the annual accounts and we recommend that a register of interests for Senior Officers is also maintained and reviewed by management during the preparation of the Related Parties disclosure.

Agreed officer response

Accepted

Responsible Officer – Head of Corporate Governance

Implementation Date – April 2022

Recommendation

3. IAS 19 Review of data to actuary

We identified differences between the estimates used by the actuary in arriving at the IAS 19 valuation and the underlying records held by Highland Council Pension Fund. Specifically we found that Highland Council's share of benefits paid estimated by the actuary was overstated by £267,000 (see Appendix 1).

Management subsequently obtained an updated actuarial report and this reflected the actual benefits paid in year and has been appropriately reflected in the final accounts. We also found that the Council's share of the pension scheme assets was understated. The IAS 19 report included forecast investment information for one fund manager, rather than **actual** investment values as at 31 March 2021 and as a result, the overall IAS 19 valuation for the scheme was understated. Highland Council's share of this is estimated at £6.077 million. This has been included as an unadjusted difference in our audit report, see Appendix 1.

Given the material value of the scheme liabilities and the level of estimation in the valuation, we recommend that Officers review the controls in place in relation to the review of actuary and pension data, particularly where being relied upon for the purpose of preparing accounting entries and pension disclosures at year end as part of the financial reporting process.

4. Revaluation programme

As detailed within the accounting policies and notes to the accounts, non-current assets included in the Balance Sheet at current value are revalued as at 31 March sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, and as a minimum at least once every five years. However we identified one asset in the current year that had not been revalued for a period of more than 5 years. Management confirmed that they are satisfied that this asset is not materially misstated or impaired and we are satisfied as a result of our audit procedures that the asset has not been materially misstated within the annual accounts, however we recommend that management review the procedures and controls they have in place to ensure that all land and building assets are reviewed as part of the five year programme of professional valuations going forward, in line with their accounting policy.

Agreed officer response

Accepted

Responsible Officer – Head of Corporate Finance

Implementation Date – May 2022

Accepted

Responsible Officer – Head of Corporate Finance

Implementation Date – May 2022

Recommendation

5. Common Good Investment Property

We noted during our audit of the Common Good's investment property that while the valuer documents valuation assumptions on the revaluation database, there is no formal revaluation report provided to Senior Officers to enable effective scrutiny and challenge of the valuation assumptions adopted.

To ensure there is appropriate review and scrutiny of the investment property valuation process, the annual investment property valuation should be reported through a formal revaluation report, summarising the methods and key assumptions made in the valuation as well as the scope and limitations of the valuer's work. Given the significance of the carrying value of investment property (£32.6 million as at 31 March 2021) and the level of estimation and judgement around the valuation, Officers should ensure that they have robust processes in place for effective review, scrutiny and challenge of the Common Good's investment property valuation to ensure that assets continue to be valued in accordance with the Code and RICS guidance.

Agreed officer response

Accepted

Responsible Officer – Head of Corporate Finance
Implementation Date – May 2022

Recommendation

6. PPE valuations – data and assumptions

During our audit of PPE valuations we identified a number of areas where the Council could enhance and improve the revaluation process, for example:

- In some instances we noted that the valuer did not personally inspect certain buildings, instead relying on the advice/observations of teams working within those buildings as to the condition of the buildings as at 31 March 2021;
- Two “system glitches” were noted whereby for two assets the valuation as per the valuation report differed from the valuation recorded in the valuation system (differences were however immaterial);
- A difference was noted between the area used for a sampled building in the valuation report and the area as per the underlying supporting documentation and this difference could not be explained and substantiated;
- It was noted that a building with a nil net book value had been demolished during the year, however Senior Officers were not aware of this matter at year end.

Given the significance of the carrying value of property, plant and equipment and the level of estimation and judgement around the valuation, we recommend that Officers review processes in place for year end for the effective review, scrutiny and challenge of the information provided in the valuation report. We also recommend that Officers perform a review of assets with a nil net book value to confirm whether these assets still exist. Where assets no longer exist they should be treated as disposals within the 2021/22 annual accounts.

Agreed officer response

Accepted

Responsible Officer – Head of Development and Regeneration

Implementation Date – May 2022

3. Follow up of 2019/20 recommendations

We set out below our follow up of our 2019/20 recommendations:

1. Property, plant and equipment valuation

Officers should ensure that a more robust valuation processes is established to consider the extensive portfolio of assets held to ensure they are valued with sufficient frequency to ensure they are not materially misstated in the accounts. This exercise should consider those assets not subject to formal revaluation in year to ensure there is no indication of material movement in carrying value.

Furthermore, to ensure there is appropriate review and scrutiny of the Council's valuation process, the annual valuation should be reported through a formal revaluation report, summarising the key assumptions made in the valuation and scope and limitations of the valuers work. Given the significance of the carrying value of property, plant and equipment and the level of estimation and judgement around the valuation, it is critical that Officers ensure they have robust processes in place for the effective review, scrutiny and challenge of the Council's valuation to ensure that assets continue to be valued in accordance with the Code and RICS guidance.

Officer response: for assets not included in the formal valuation desktop estimations of changes in value will be requested, checked for material changes and if required these will be used to update the reported values. The valuation process will be initiated with a formal instruction from Finance Service and the Internal Valuer will supply a formal valuation report in return.

The Council will review its structures and process across its property and valuation teams to drive improvements in the asset valuation process.

Action owner: Head of Corporate Finance and Head of Development and Regeneration. ECO Housing and Property

Timescale for implementation:

Follow up: **Closed** in relation to Council Dwellings and Other Land and Buildings valuation where we noted that a formal valuation report was prepared in the current year. Superseded by Action Point 5 in the current year in relation to Common Good Investment Property.

2. Accounts preparation

Our audit testing identified a number of quantitative and qualitative misstatements to the financial statements. While we recognise 2019/20 had unique challenges, including the impact of Covid-19 on financial reporting arrangements, it is important that the Council has sufficient resources to support the preparation of the accounts, including internal review and scrutiny prior to audit inspection. In particular, the Council should review arrangements to ensure completeness and accuracy of income and expenditure transactions around the year end, confirming that the thresholds applied by Officers is suitable to ensure financial statements are materially correct. The Council should have sufficient review of the financial statements, including accounting policies and disclosures, to ensure that the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom have been met. This review should incorporate the Management Commentary contained within the financial statements to provide the reader of the accounts a clear understand of the Council's financial performance during the year.

Officer response: The Council will look to amend year end processes and realign resources to facilitate increased checks of income and expenditure for completeness and accuracy and for review of the accounts prior to submission to The Auditor

Action owner: Head of Corporate Finance and Commercialism

Timescale for implementation: 31.03.21

Follow up: **Closed.** As noted on page 3 the quality of unaudited accounts were good, and these were made available for inspection within the timeframe required and no cut off issues have been identified in the current year.

3. Objection to the financial statements –Insurance Fund Administration

There is an opportunity to enhance the transparency around the application of the Fund, including greater evaluation and reporting of the internal insurance risk being held by the Council through reducing the level of Insurance cover. Good practice recommends regular actuarial assessment of the Insurance Fund to quantify the risk being managed by the Council and therefore better inform Officers and Councillors around the level of Insurance Fund that the Council should maintain.

Officer response: The Council will look to increase reporting of the insurance fund to the Resources Committee and give consideration to conducting an actuarial assessment of the fund.

Action owner: Head of Corporate Finance and Commercialism

Timescale for implementation: 30.06.21

Follow up: **Closed.** Reporting on the insurance fund has been reviewed.

4. Risk Management

There is an opportunity to re-review the risk management strategy (framework for the Council). This includes setting out which management groups review risk, when and for what purpose and the same for groups with political representation and ultimately reporting at Committee level. This will better demonstrate the link between service committees and their responsibilities on risk and the Audit and Scrutiny Committee. Lastly, as a result of Covid-19 and Brexit there is an opportunity to refresh the Council wide risks, and Council response to manage or mitigate risk.

Responsible officer: Corporate Audit & Performance Manager

Initial management response: The Council's Risk Management Strategy will be reviewed to ensure links are demonstrated by June 2021. COVID risks are managed on a continuous basis through the Officer GOLD group. Brexit risk is under continuous review by the Brexit Tactical Group feeding into regular reporting to ELT and Audit & Scrutiny. Quarterly and six-monthly reporting will be sustained during the COVID crisis.

Timescale for implementation: June 2021.

Follow up: CLOSED. The Council's Risk Management Strategy was reviewed and there is clearer alignment between Council delivery and risk management. The Council is investing in Business Analysts, who will further embed risk management with business planning, performance and financial management across the Council.

5. Capital Plan

Recent performance would indicate that the Council's capital budgets are unrealistic or unachievable having underspent against budget by £17 million in the current year. The Council's infrastructure is important in supporting the efficient and effective delivery of services. The Council must balance the cost of financing capital projects against the revenue implications of running with ageing or unsuitable infrastructure. It is important that capital plans reflect the Council's true level of planned capital activity in year and set achievable aspiration for the year. This should incorporate any carry forward from previous years.

Responsible officer: Strategic Asset Management Group

Initial management response: The Council has reprofiled its capital plan which was presented to Members in January 2021. Work is ongoing through the officer Strategic Asset Management Group (which comprises the ECOs for Housing and Property, Finance and Resources and Infrastructure and Environment) to develop the Council's capital strategy which will help focus on capital programme deliverability and affordability as well as taking a long-term view on the requirement for investment in the Council's assets

Timescale for implementation: 30 September 2021

Follow up: CLOSED. The Council has reprofiled its capital plan and continues to ensure there is strategic focus on the appropriate use and application of capital resources in light of the impact of Covid-19.

6. Political discussions

The level of discussion and debate, particularly at full Council, can be operational rather than strategic and this has resulted in meetings taking much longer than planned, to get through the agenda. Officers and Elected members should continue to work together, to ensure the papers and subsequent discussion and debate support a strategic focus.

Responsible officer: ECO Performance and Governance

Initial management response: Council and Committee Agendas are being reviewed to ensure a strategic focus and reports will be adjusted to remove operational detail. Guidance to be provided to Committee Chairs to assist in the management of meetings in addressing where members raise operational matters in the course of discussion. A Training session is being arranged with the Standards Commission which will also cover the distinction between strategic and operational

Timescale for implementation: July 2021

Follow up: OPEN- From review of Committee meetings during 2020/21 there continues to be an operational focus rather than strategic. The Council should continue to look at opportunities for ensuring Committee Business remains focused on strategic matters. This could be an area of focus on the new Member training programme following the local elections.

Responsible officer: ECO Performance & Governance

Revised implementation date: September 2022

7. Recovery Board

The gold, silver, bronze command arrangements and the temporary suspension of meetings is like most Council's. As the pandemic is ongoing, the Council should continue to review their governance structures to ensure they remain flexible to meet changing external circumstances and continue to be transparent. This can include lessons learned from the early arrangements established.

Responsible officer: ECO Performance & Governance

Initial management response: Council agreed on 7 January that wherever possible decisions would be taken through the Council's standard formal governance arrangements and there is a full schedule of Committee, Council and Board meetings planned throughout the coming months to provide for this and there is scope to arrange urgent meetings under the current Standing Orders to provide for flexibility. This is facilitated by the successful transition to online meeting platforms that were not available at the start of the first lockdown period. Should very urgent action be required as a consequence of the emergency situation that can't wait for committee approval then this will be reported to Members within a week and published on the Council's website for full transparency. However, it is not envisaged that this will happen often, if at all. The situation will be kept under regular review

Timescale for implementation: January 2021

Follow up: CLOSED -The Recovery Board has evolved into the Recovery, Improvement and Transformation Board to co-ordinate all elements of Council recovery, improvement and redesign joining up the Council's Covid-19 response with transformation activity and financial planning. The Board reports to the full council meetings to ensure transparency with scrutiny of performance through the re-established service committees.

8. Partner Organisations

A number of partner organisations support the Council in delivering services. It is important, given the ongoing uncertainty surrounding covid-19, that Officers and Elected Members continue to maintain an oversight of these bodies and any potential obligation should it crystallise. This is important in ensuring the continuity of services being delivered on the Council's behalf by these entities as well as ensuring the financial position of the Council is maintained.

Responsible officer: Head of Corporate Finance

Initial management response: Financial risks associated with partner organisations will be considered as part of the 2021/22 budget setting process and will continue to be reported on as part of regular budget monitoring as has happened in the current financial year.

Timescale for implementation: July 2021

Follow up: CLOSED – The Council's budget process includes financial risks of approximately £4 million in relation to potential requirement for financial support to Highlife Highland. The Highlife Highland 2021 financial statements include an emphasis of matter in relation to the entity's going concern assessment. Highlife Highland receives approximately £15 million of funding annually from the Council but requires commercially generated revenue to support its operations. As a result of the impact of covid-19 on services, the organisation recognises that the level of future revenue over the next 12-18 months has significant uncertainty and may require additional support from the Council. While the Council has not budgeted for any support being required, a budget risk has been recognised around potential future outlays. This ensures that there remains continued focus on the entity's financial performance and where required consideration of any funding requirement from the Council.

3. Follow up of 2018/19 outstanding external audit recommendations

1. Financial challenges

In August 2019, Officers undertook an exercise to forecast the financial outlook over the next three years covering 2020/21 to 2022/23. This highlighted the scale of the financial challenges facing the Council with a potential funding gap of between £50.2 million (most optimistic) and £77.3 million (most pessimistic) over the three year period. While this incorporates the previously identified financial pressures, it represents a significant challenge for the Council to deliver and will require transformational change. During 2018/19, the Council failed to deliver £2.7 million of the targeted £13 million savings targets. This has been a recurring theme at the council over the last three years with shortfalls in delivering savings of £1 million and £0.5 million in 2016/17 and 2017/18 respectively. In addition, the Council's Care and Learning Service has failed to operate within budget over the last three years as the Council has challenges in managing Looked after children and Additional Support Needs in a financially sustainable operating model.

Responsible officer: ECO – Resources and Finance

Management's follow up response in 2019/20: The Council acknowledges the scale of the financial challenge and has a well-established change programme and change fund in order to deliver the transformation required. The change programme focuses on savings which are challenging to deliver. Increased governance of spend is resulting in better management of historic areas of overspend and plans to provide long term solutions to these issues will be factored into the 2020/21 budget process

Revised implementation date: Ongoing

Follow up: **CLOSED** - During 2020/21 the Council's financial position has improved significantly, with significant increases in general reserve enabling the Council greater ability to manage unforeseen costs. However, the medium to longer term impact of Covid-19 and EU withdrawal has increased the level of financial uncertainty and the level of risk facing the Council, representing new challenges for the Council.

2. Strategic Leadership and Tone from the Top

Elected Members and senior management team play a critical role in both developing and delivering the Council's strategic goals. During 2017/18, the Council's Chief Executive announced his retirement effective from November 2018 and the Director of Care and Learning, the Council's largest service is also due to retire. The Council is currently in the process of recruiting for positions. Given the financial and operational challenges facing the Council and likely difficult decisions that it will face, it is critical that there is a strong leadership team in place to meet these challenges. Following the restructuring of the Council's senior management team in 2018/19, the Council has sought to embed these new structures across the organisation as well as recruit appropriate individuals to fill the executive chief officer roles that support the Chief Executive as part of the Council's senior leadership team.

2019/20 update: While the Council has recruited to five of the eight posts, it has faced challenges in making permanent recruitment across Education and Learning; Health and Social Care and Transformation and Economy. As at November 2020, each of these posts are currently filled on an interim basis. One temporary appointment included a consultant for the position of Executive Chief Officer, Education during the year which included consultancy fees. Given the financial and operational challenges facing the council, it is critical that there is a stable and effective leadership team in place with the capacity and capability to support the organisation through challenging times while maintaining a focus on delivering strategic objectives and statutory services.

Responsible officer: Chief Executive

Management's follow up response in 2019/20: : The ECO Team has 6 permanent appointments and 2 interim. The whole team, under the Chief Executive's leadership, works together very effectively and has a strong corporate strategic focus. The reorganisation of the Council has introduced significant and wide ranging changes to the Council's Service and management structure that would ordinarily have taken some time to work through and fully establish. The advent of a national pandemic has impacted on this as the focus has, unavoidably and appropriately, moved to resilience and response ahead of internal re-structuring. Nevertheless, the effectiveness of the whole senior team has meant that service delivery, financial management, emergency response and COVID recovery are all being taken forward successfully. The ability to put interim posts in place has greatly assisted this in delivering capacity, capability and responsiveness in an agile way. The intention is still to complete the senior management and service restructure at the earliest opportunity and it is anticipated this will be concluded by the middle of 2021 at the latest.

Revised implementation date: July 2021

Follow up: **CLOSED** – The Council has filled all ECO appointments on a permanent basis, with a focus on ensuring stability across the Leadership Team. The Council is in the process of recruiting a deputy chief executive to further strengthen the Council's leadership team.

4. Audit fees and independence

External Audit Fee Service	Fees £
External Auditor Remuneration	260,040
Pooled costs	24,300
Contribution to Audit Scotland costs	14,050
Contribution to Performance Audit and Best Value	136,160
2020/21 Fee	434,550
Highland Council Charitable Trust	1,000
Highland Charities Trust	1,000
Total 2020/21 Fee	436,550

Fees for other services

Service	Fees £
We confirm that for 2020/21 we did not receive any fees for non-audit services	Nil

Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work (joanne.e.brown@uk.gt.com). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to Elaine Boyd, Assistant Director, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.
- We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.
- We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.
- We can confirm no independence concerns have been identified.

5. Communication of audit matters

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table below.

Our communication plan	Audit Plan	Annual Report (ISA 260)
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of the Council's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter.		•

