

Highland Council

Financial year ending 31 March 2022

Final External Audit Plan

31 March 2022



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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 audit planning 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 the organisation 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.

Plan overview

This audit plan for the financial year ending 31 March 2022 sets out our risk based audit approach. It is reported to those charged with governance (Audit and Scrutiny Committee). Planning is a continuous process and we will continue to review our risk assessment and audit plan throughout the year.

01 Group audit scope and risk assessment

In accordance with ISA (UK) 600, as Group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process in order to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Through our audit planning procedures we consider Highland Council as the only component to be “individually financially significant” to the Highland Council Group, with High Life Highland and Inverness Common Good Fund considered to be “not significant but material”. We therefore plan a full scope audit of the Council using a component specific materiality, and apply group materiality when performing specific audit procedures over material balances recognised and held by High Life Highland and Inverness Common Good Fund. Analytical procedures will be performed using group materiality on all other consolidated balances.

02 Materiality

We have calculated planning materiality using gross expenditure as per the 2020/21 financial statements of £974.9 million resulting in the following:

- Group planning materiality of £11.7 million and Council only planning materiality of £11.5 million. Group performance materiality of £7.0 million is based on 60% of planning materiality as is Council only performance materiality at £6.9 million.
- We have capped our trivial threshold at £250,000 in line with Audit Scotland guidance.
- Lower materiality will be used on the Remuneration Report. This is set at £50,000.
- We will revisit our materiality throughout our audit including updating to reflect the unaudited 2021/22 financial statements.

03 Financial statement audit risks

At planning, in accordance with the ISAs (UK) and FRC Practice Note 10 we have identified the following indicative significant financial statement audit risks:

- Management override of controls (ISA UK 240);
- Valuation of property, plant and equipment (valuation of land, buildings and council dwellings) – Council only;
- Valuation of investment property – Group (Inverness Common Good Fund); and
- Valuation of defined benefit pension scheme.

We have rebutted the presumed risk of fraud in revenue recognition (ISA UK 240). We will continue to assess the appropriateness of our rebuttal during the course of our audit.

Plan overview (continued)

04 Wider Scope Audit

Wider Scope risks have been identified in relation to the following areas:

- Financial sustainability: We will review the Council's future financial plans including how they reflect pressures on costs and demand, particularly in relation to Covid 19 recovery activity.
- Governance and transparency: We will consider the Council's leadership arrangements, including elected member training and support to be provided to Councillors following the local elections in May.

In accordance with our responsibilities under the Code and Audit Scotland planning guidance we will also consider:

- The risk of fraud and corruption in procurement, and the arrangements in place at the Council;
- The arrangements in place to support Equal Opportunities.
- We will review the arrangements in place at the Council for the collection, recording and publishing of statutory performance information. This will include consideration of the impact of Covid-19 on performance reporting.
- We report on the progress made by the Council in implementing the recommendations and improvement plan following the Accounts Commission Best Value Assurance Report (published January 2020).

05 Other audit matters

We summarise other audit matters for the Audit and Scrutiny Committee's awareness. This includes:

- Consideration of going concern in accordance with the revisions to Practice Note 10.
- In accordance with the Code and planning guidance we also complete and submit a number of deliverables in year including sharing intelligence with Audit Scotland. This includes the certification of Housing Benefit Returns, Education Maintenance Allowance Claim and Non-Domestic

06 Our Audit Fee

Audit fees were shared by Audit Scotland with Highland Council in December 2021.

The audit fee is £443,570. Alongside external audit remuneration this also includes contribution to Audit Scotland, performance costs and pooled costs.

Audit fees are paid to Audit Scotland who in turn pay Grant Thornton UK LLP.

We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

Introduction

Purpose

This document provides an overview of the planned scope and timing of the external audit of Highland Council for those charged with governance.

We are appointed by the Auditor General as the external auditors of Highland Council for the 6 year period (2016/17 until 2021/22).

Respective responsibilities

Audit Scotland has issued a document entitled Code of Audit Practice ('the Code') dated 2016 covering this audit appointment period. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities, and that of Highland Council are summarised in Appendix 1 of this audit plan. We draw your attention to this and the Code.

Scope of our audit

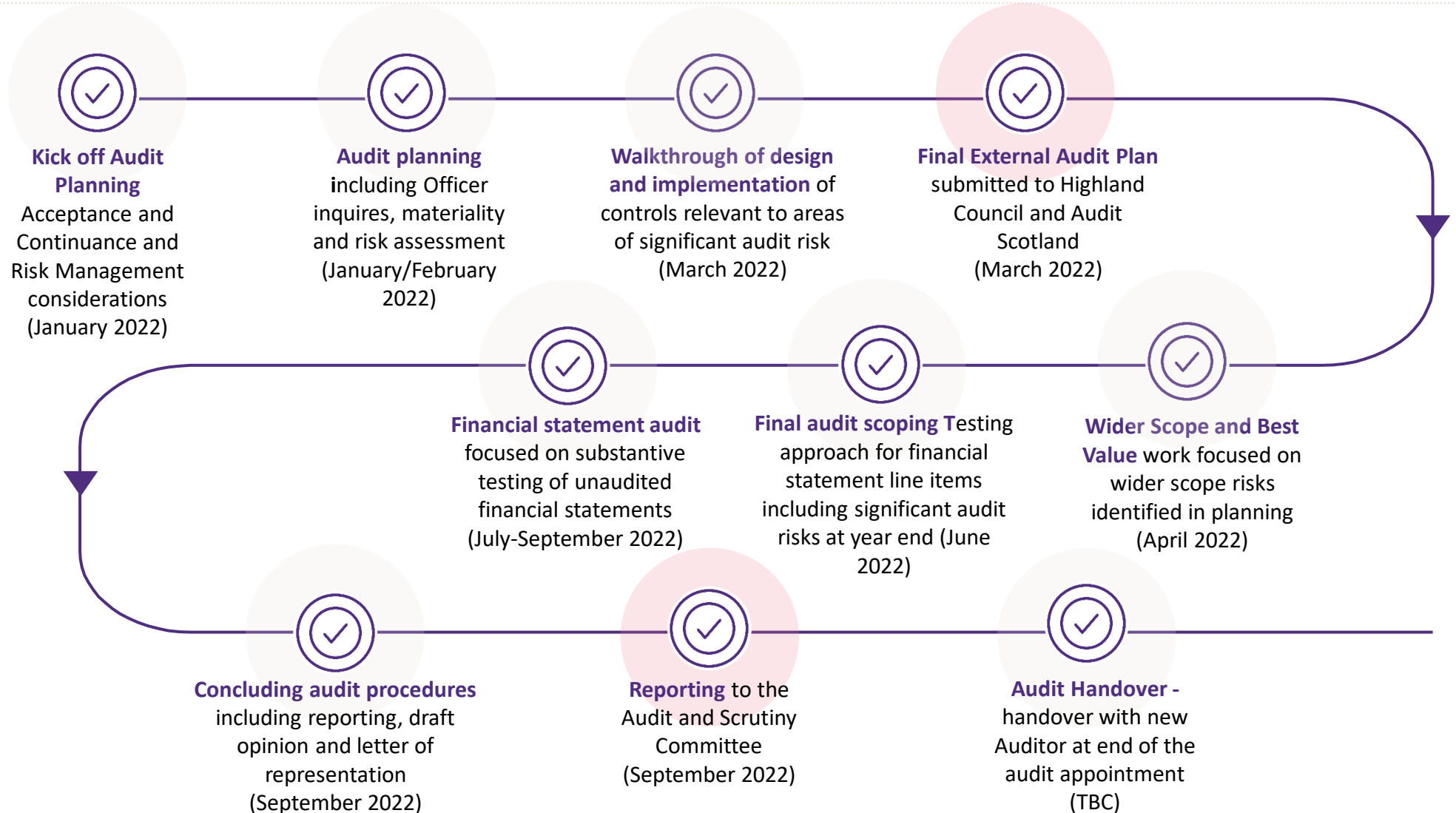
The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on Highland Council's financial statements that have been prepared by management (Senior Officers) with the oversight of those charged with governance (the Audit and Scrutiny Committee).

The audit of the financial statements does not relieve Senior Officers or the Audit and Scrutiny Committee of your responsibilities. It is the responsibility of Highland Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We will consider how Highland Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of Highland Council and is risk based.



Outline audit approach for the year



Group audit scope and risk assessment

In accordance with ISA (UK) 600, as Group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process in order to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The Highland Council Group consists of the following bodies:

Subsidiaries

- High Life Highland
- Inverness Common Good Fund
- Nairn Common Good Fund

Associates

- Highland and Western Isles Valuation Joint Board (80% interest)
- Highlands and Islands Transport Partnership (37.5% interest)

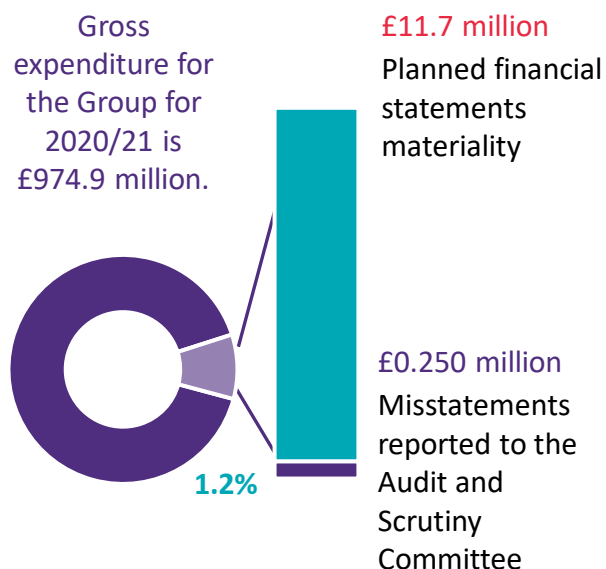
Through our audit planning procedures we consider Highland Council as the only component to be “individually financially significant” to the Highland Council Group, with High Life Highland and Inverness Common Good Fund considered to be “not significant but material”. We therefore plan a full scope audit of the Council using Council only materiality, and apply group materiality when performing specific audit procedures over material balances recognised and held by High Life Highland and Inverness Common Good Fund. Analytical procedures will be performed using group materiality on all other consolidated balances.

With the exception of High Life Highland, we are the external auditor for the rest of the Highland Council Group. Please note an independent audit opinion is not required or issued in relation to Common Good Funds as separate financial statements are not prepared. These funds are instead disclosed within the Highland Council financial statements and audited to group materiality as part of our audit procedures in relation to the Highland Council Group consolidation.

During the course of our audit engagement, we will continue to assess the appropriateness of our planned approach in relation to the Group audit scope.

Materiality assessment

Financial statement materiality is determined based on a proportion of Highland Council's gross expenditure. We have determined **planning materiality** to be £11.7 million for the Group (£11.5 million for Council only) which equates to approximately 1.2% of gross expenditure as per the 2020/21 financial statements.



Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. As we finalise planning we use this to determine our testing approach to the financial statements. We have set this at 60% of planning materiality (£7.0 million for Group, £6.9 million for Council only). The rates used in calculating materiality and performance materiality are consistent with the rates used in the prior year audit and is based on our understanding of Highland Council, recognising the number of corrected and uncorrected misstatements identified during the prior year audit.

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. As such, we are required to audit the Council to component specific materiality which we have determined to be Council only materiality of £11.5 million as part of our audit planning procedures (see further details on page 7).

Materiality reflects our professional judgement of the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. On this basis we apply a separate **lower materiality level of £50,000** to the Remuneration Report, in order to ensure greater precision in this area of the financial statements.

Under ISA 260 (UK) 'Communication with those charged with governance', we are required by auditing standards to report uncorrected omissions or misstatements other than those which are '**clearly trivial**' to those charged with governance. We have determined this threshold to be £250,000 being the maximum threshold prescribed by Audit Scotland.

We will update our materiality based upon receipt of the unaudited 2021/22 financial statements in June 2022. During the course of our audit engagement, we will continue to assess the appropriateness of our materiality.

Significant audit 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.

Management Override of Controls (as required within Auditing Standards – ISA 240)

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, including provisions and accruals, alongside the potential to override Highland Council's internal controls, related to individual transactions.

Our work focuses on journals, management estimates and judgements and transactions outside the normal course of business as set out within the financial statements.

We will:

- Evaluate the design and implementation of management controls over journals;
- Analyse the journals listing and determine the criteria for selecting high risk unusual journals;
- Test unusual journals made during the year and at year end for appropriateness and corroboration;
- Gain an understanding of the accounting estimates and critical judgements applied and made by Officers and consider their reasonableness; and
- Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant audit risks (continued)

Valuation of land, buildings and Council dwellings – Council only

The Council values its land, buildings and Council 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 Council dwellings held at 31 March 2021 were £2.0 billion) and the sensitivity of this estimate to changes in key assumptions.

Given the value of land and buildings held by Highland Council and the level of complexity and judgement in the estimation valuations, there is an inherent risk of material misstatement in these valuations. 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 Council employs an external valuer, District Valuer (DV), to value Council dwellings and the in-house valuer to value all other land and building assets, to provide an independent valuation of land, buildings and Council dwellings on a rolling programme of valuations, valuing all land, buildings and Council dwellings at a minimum of once every five years.

Based on our planning procedures to date and subject to the results of the final valuations we focus the risk on:

- Land and buildings where the valuation movement is not in line with the audit team's expectation;
- Assets which are considered to have had a "change in use" during the financial year; and
- Land and buildings which have been valued by the valuers without any physical inspection of the assets or of relevant data.

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;
- understanding the basis on which valuations are carried out and challenge the information and assumptions used in the valuation process;
- engaging our own valuations expert to assess the instructions issued by Highland Council to their valuers, the final valuers' reports and the assumptions used that underpin the final valuations;
- performing focused testing in relation to Officer's impairment assessment, particularly in relation to assets which have not been subject to a formal valuation during the year, and consider the appropriateness of the assumptions used as part of this assessment.

Significant audit risks (continued)

Valuation of investment property Group (Inverness Common Good Fund) –The Group investment property is held within Inverness and Nairn Common Good Funds. The Group values its investment property using the Council’s in-house valuer.

The only material balance of investment property as at 31 March 2021 was held in Inverness Common Good Fund (£24.3 million). Therefore, in the context of our materiality, the valuation of Inverness investment property represents a significant estimate by management (Senior Officers) in the financial statements due to the material value of the investment property and the sensitivity of this estimate to changes in key assumptions.

Given the value of investment property held by Inverness Common Good Fund and the level of complexity and judgement in the estimation valuations, there is an inherent risk of material misstatement in the valuation of Inverness investment property valuation. We focus this risk on the appropriateness and reasonableness of the underlying rental yield assumptions used by the Council.

Our testing in relation to this identified risk will include:

- review of revaluations made during the year and confirming valuations have been input correctly into the asset register;
- understanding the basis on which the valuation is carried out and challenge the information and assumptions used in the valuation process, particularly in relation to rental yields used; and
- engaging 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 final valuation report.

Significant audit risks (continued)

Defined benefit pension scheme

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 2021 the Council had pension fund liabilities of £336.7 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 focus this risk on the appropriateness and reasonableness of the underlying assumptions adopted by the actuary and suitability of these for the Council.

We will:

- perform walkthroughs of the controls and procedures over the valuation of defined benefit pension liabilities, including Officers oversight of the valuation;
- 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);
- perform substantive analytical procedures over the pension fund movements, investigating any deviations from audit expectation;
- review the accounting entries and disclosures made within the Council's financial statements in relation to IAS 19.

Significant audit risks (continued)

Auditing standards require us to consider the **risk of fraud in Revenue**. This is considered a presumed risk in all entities. Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at Highland Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted as there is deemed to be little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are deemed to be limited.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Annual Report to those Charged with Governance and the Controller of Audit in concluding our audit in September 2022.

Wider scope risks identified in planning

As set out in the Code we are required to consider significant wider scope risks that impact on Highland Council. Where we identify risks, similar to financial statement audit risks, we are required to devise a suitable programme of testing to allow us to conclude on Highland Council's arrangements. There are four wider scope dimensions we consider: financial management, financial sustainability, governance and transparency and value for money (including Best Value for Local Government bodies). Wider scope risks are a matter of auditor judgement, and what we judge to be significant, considered on a risk basis. In addition to wider scope risks there may be other areas that Audit Scotland require us to consider. These requirements are set out in the planning guidance (2021/22). We consider each of these areas through our audit planning process and have identified the following areas of significant wider scope risk:

Financial sustainability – COVID-19 recovery and remobilisation

While the Council continues to report good financial performance in 2021/22, the outturn position in the current year and 2022/23 reflects the planned use of Covid-19 funding. The Council faces more significant challenges in dealing with the longer term uncertainty of the impact of Covid-19 and not anticipating continued future financial support. We will focus on in-year financial performance for 2021/22 as well as considering the impact of the Council's performance on its medium to long term financial sustainability.

We will review the extent to which savings delivered during 2021/22 represent sustainable recurring savings and consider the levels of reserves used by Highland Council during the year.

We will seek to understand the Council's future plans, including their consideration of recovery and re-mobilisation beyond the pandemic and the possibility of less COVID-19 monies being made available to the Council going forward. We will review the Council's consideration and assessment of these matters as well as the plans set out by the Council to ensure future financial stability.

Wider scope risks identified in planning

Governance and transparency

With the pending local council elections and ongoing recovery activity in response to Covid-19, it will be important for the Council to have effective governance arrangements in place. The Council is in the process of recruiting a Deputy Chief Executive Officer, a new position created to support the strategic leadership of the Council. In addition, there a number of the Executive Leadership Team posts that are filled on an interim basis and we understand the Section 95 Officer is due to leave the organisation in June 2022. The Senior Management structure has been in place since 2019 and we will consider the extent to which the Council has assessed the effectiveness of the new structure.

We will consider the progress made by the Council in recruiting to senior management positions within the organisation. We will consider how the Council has evaluated the success of the new model in supporting the Council deliver outcomes for the local area. We will consider the plans the Council has in place for newly elected members, including elected member training and support provided by the Council to new Councillors.

In accordance with Audit Scotland planning guidance, we will also consider the following areas as part of our wider scope work in 2021/22: the [Risk of fraud and corruption in procurement](#). We will consider how the Council's procurement arrangements and controls consider the risk of fraud and corruption in the procurement function and how these arrangements and controls mitigate this risk, with reference to Audit Scotland's 'Red Flags Procurement' (2019) and recent internal audit coverage of this area.

Shared Risk Assessment and Joint Scrutiny Planning

The Accounts Commission, supported by Audit Scotland, chairs the Strategic Scrutiny Group (SSG). The SSG is made up of scrutiny bodies from across the public sector to make their work on local government more co-ordinated, better targeted and more proportionate to identified risks. The scrutiny bodies involved include the Care Inspectorate, Education Scotland and the Scottish Housing Regulator. More information is available from the Scrutiny Improvement page on the Audit Scotland website. The Shared Risk Assessment (SRA) process was established by the SSG as the vehicle for scrutiny bodies to share intelligence and agree scrutiny risks at each council.

At a local level, as the local authority external auditor, we are LAN (Local Area Network) Lead for Highland Council, co-ordinating scrutiny at a local level. We are in the process of contacting individual scrutiny partners in order that they can share any relevant information they are aware of that we should assess as part of our risk assessment and audit planning considerations. This information sharing will also be informed by our Highland Council external audit plan and we will continue to assess the appropriateness of our planned audit approach in light of information shared and scrutiny risks identified during this process.

Best Value

Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions. In accordance with the Code of Audit Practice, as appointed auditors, we are required to consider the effectiveness of the arrangements at the Council to achieve best value and the suitability of arrangements for preparing and publishing statutory performance information.

Best Value coverage

In accordance with the Code of Practice, and Audit Scotland Audit Planning guidance as appointed auditors we are required to consider all areas of Best Value at the Council over our appointment period. In accordance with our Best Value Assurance Plan, in addition to those areas covered under our wider scope work, areas of interest this year include:

- **Equal opportunities** - We will consider the arrangements in place at the Council for ensuring equal opportunities. This will look at arrangements for supporting fairness and equality characteristics, including in Council decision making and as an employer.
- **Partnership working and empowering communities** – We will consider the Council’s arrangements in place for working with communities and transparency of decision making.
- **Performance and outcomes** - We will review the arrangements in place at the Council for the collection, recording and publishing of statutory performance information. This will include consideration of the impact of Covid-19 on performance reporting.

Best Value Assurance Report Follow up

The Accounts Commission’s Best Value Assurance Report on Highland Council was published in January 2020. The report identified a number of recommendations for the Council to improve and demonstrate all aspects of Best Value. As part of our audit work in 2021/22 we will follow the outstanding actions from the Council’s Best Value Assurance Report and the Council’s ability to demonstrate Best Value.

Other matters

Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and planning guidance:

- We audit parts of your Remuneration Report in your Annual Report and check whether these sections of your Annual Report have been properly prepared (opinion).
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set out in Delivering Good Governance in Local Government: Framework (2016) (opinion).
- We read the sections of your Annual Report which are not subject to audit and check that they are consistent with the financial statements on which we give an opinion (opinion).
- We consider our other duties under the Code and planning guidance (2021/22), as and when required, including:
 - Supporting Audit Scotland's reporting to the Accounts Commission;
 - Contributing to Audit Scotland Performance Reports;
 - Providing regular updates to Audit Scotland to share awareness of current issues across our audit clients;
 - Notify the Controller of the Audit when circumstances indicate a statutory report may be required;
 - Contribute to the National Fraud Initiative (NFI) report;
 - Notify Audit Scotland of any cases of money laundering or fraud; and
 - Contribute to Audit Scotland technical guidance.

Internal control environment

Throughout our audit planning and fieldwork we will continue to develop our understanding of the overall control environment (design) as related to the financial statements. In particular we will:

- Consider procedures and controls around related parties, journal entries and other key entity level controls.
- Perform walkthrough procedures on key controls around identified significant risk areas including journal entries, the valuation of land, buildings and council dwellings, the valuation of investment property and defined benefit pension schemes as well as key business cycles such as expenditure, income, grant funding and payroll.
- Our focus is design and implementation of controls only. We do not place reliance on controls when it comes to our year end financial statement audit work.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the significant risks identified in this report.

Other matters (continued)

Going concern assessment

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of Officer's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important.

In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. In considering going concern we will refer to Audit Scotland's Going Concern publication (December 2020).

Within our wider scope work we will conclude on Highland Council's arrangements to ensure financial sustainability.

Accounting estimates

Under ISA (UK) 540 auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

To ensure compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit. Based on our knowledge of Highland Council we have identified some material accounting estimates for which this is likely to apply: Valuation of Property, Plant and Equipment, Depreciation of Property, Plant and Equipment, Valuation of Investment Property (Common Good), Valuation of Heritage Assets, Impairment of debtors (comprising long term debtors, non-taxation debtors and taxation debtors), Fair value of financial instruments, Holiday pay accrual, Non-pay expenditure accruals, Accrued income and Valuation of defined benefit pension scheme liabilities. Further detail is set out in our Appendix on page 34.

Other matters (continued)

Financial accounting updates — International Financial Reporting Standard 16 Leases implementation

Following the previous deferrals of IFRS 16 Leases in Local Government, this accounting standard will now be implemented from 1 April 2022 .

The new standard brings significant changes for lessee accounting. Key points that Highland Council will need to consider on transition include:

- The need to recognise the cumulative effects of initially applying IFRS 16 on 1 April 2022 as an adjustment to the opening balances of taxpayers' equity. (This means prior year comparators will not need to be restated at 31 March 2023).
- The need to recognise the right-of-use asset for leases previously classified as operating leases at an amount equal to the outstanding lease liability.
- No adjustments are needed for leases for which the underlying asset is of low value (less than £5,000 new) or where the lease term ends on or before 31 March 2023.
- Assets where there is no or a below market rate peppercorn lease premium should be recognised as a right-of-use asset measured at current value in existing use or fair value as appropriate. Any difference between this and the lease liability will be recognised as part of the adjustment to the opening balances of taxpayers' equity.

- Irrecoverable VAT should not be included in the lease liability nor the value of the right of use asset.
- Existing finance lease and PFI liabilities that have an element based on an index or other rate will need to be reviewed and possibly amended as such variable payments are incorporated into the measurement of the lease liability under IFRS 16. (HM Treasury is expected to provide further guidance regarding the implementation of changes to accounting for PFI arrangements).
- The 2021/22 financial statements will need to disclose the anticipated impact of adopting IFRS 16 from 1 April 2022.
- Systems will need to be in place to capture the relevant information for new leases entered into on or after 1 April 2022.

Highland Council will need to ensure that controls are in place to identify all of its contracts and any other arrangements which might contain the use of an asset, in order to ensure that the disclosures made within the Group's financial statements are complete and accurate.

Other matters (continued)

Significant Trading Operation

The Council has one trading operation which operates in a commercial environment; Fishery, Piers and Harbours. In accordance with the Local Government (Scotland) Act 2003, STOs are required to break even over a rolling three year period.

We will review Senior Officers' evaluation of Highland Council's STO to ensure that it continues to meet the requirements to be classified as an STO. We will assess the STO's financial performance to determine whether it continues to meet the statutory financial targets.

Highland Charities Trust and Highland Council's Charitable Trusts

Our audit appointment includes the audit of any trust funds falling within section 106 of the Local Government (Scotland) Act 1973 that are registered as charities with the Office of the Scottish Charities Regulator (OSCR).

Auditors, appointed under the Accounts Commission are eligible under the charities regulations to audit a charity's statement of accounts. As part of our audit work in the current year we will provide an opinion over the Council's registered charities; Highland Charities Trust and the Highland Council's Charitable Trusts. As part of our audit planning we have not identified any further audit risks in relation to these audits.

We will provide an independent audit opinion on the financial statements of the Highland Charities Trust and Highland Council's Charitable Trusts for the year ended 31 March 2022.

Whole of government accounts (WGA)

The Code of Audit Practice requires appointed external auditors to review and report on WGA returns prepared by audited bodies. External auditors of local authorities, NDPBs and the Scottish Government are required to provide an assurance statement on 2021/22 WGA returns for bodies over a prescribed threshold determined by NAO. While we do not expect to be informed of the threshold before July 2022, we anticipate that we will be required to provide an assurance statement for the Council for 2021/22. Local government auditors are required to review and report on approved grant claims prepared by local authorities.

We will work with officers to ensure the timely completion and audit inspection of the WGA return.

Grant claims

Appointed auditors are required by the Code of Audit Practice to review, as part of their audit appointment, approved claims and returns submitted to grant-paying bodies by local government bodies and provide reasonable assurance as to whether they are fairly stated and in accordance with specified terms and conditions.

As part of our audit work we will undertake the audit certification of the Council's Housing Benefit return, Education Maintenance Allowance Claim and Non-Domestic Rates claim.

Audit timeline



Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where additional resources are needed to complete the audit due to an audited body not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the annual Governance Statement;
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you;
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing;
- ensure that all appropriate Officers are available (or as otherwise agreed) over the planned period of the audit; and
- respond promptly and adequately to audit queries.

Quality and adding value through the audit

Our overall approach for the audit is clear and upfront communication, founded on our public sector credentials and a methodology to ensure delivery of a quality audit.

The diagram opposite summarises our key approach to adding value to you throughout our audit.

Our methodology is risk based. We comply with Auditing standards and as a Firm we are regulated by the FRC. We take findings on audit quality seriously and continue to invest as a Firm through our audit investment plan. The audit investment plan is supported by a specific national Public Sector audit plan.

We comply with Audit Scotland's quality arrangements including submitting an annual quality report over our Audit Scotland portfolio. As part of Audit Scotland's quality arrangements, ICAS review our work on a rotational basis. Audit Scotland's quality report can be found at www.audit-scotland.gov.uk

Our wider quality arrangements are set out in our annual transparency reports which are available on our website (www.grantthornton.co.uk).

Project management

- Use of InFlo to track progress and deliverables throughout the audit
- Clear roles and ownership of responsibilities within our team
- Clarity over expectations and timetable
- Track record delivering public sector audits on behalf of Audit Scotland

Clear reporting

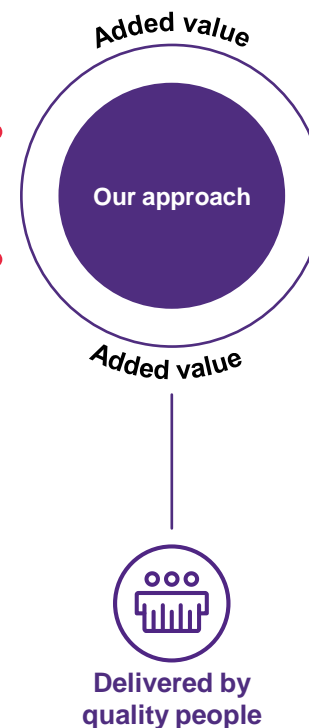
- Clear audit outputs at planning and within our final Annual Report
- Practical, risk based, recommendations for you to take forward
- Our judgements and conclusions set out transparently and in clear language
- Senior presence at Audit and Scrutiny Committee to present our findings and support wider dialogue

Pragmatism and early attention of issues

- Accessible and proactive engagement team
- Working with you to reach the right solution – flexing the workplan, recognising Covid-19 restrictions
- Audit partner takes ultimate decision on technical matters, consulting with our technical experts

Public sector understanding

- Using our public sector insight to inform our audit and identify improvements you could make
- Regular meetings throughout the year sharing our observations and wider sector knowledge
- Wider scope conclusions to support you in considering key risks and the improvement actions to take



Audit Scotland deliverables

As set out in the Code of Audit Practice, as appointed auditors we have a number of wider reporting responsibilities beyond the audit of the financial statements. Below we summarise the key areas of work during our 2021/22 audit, including expected reporting under Audit Scotland's Code of Audit Practice and audit planning guidance:

Requirement	How we will report our findings
<p>Annual Accounts Perform an audit of the annual accounts and express an audit opinion.</p>	<ul style="list-style-type: none"> • External audit plan • External auditor's opinion on the financial statements • Annual external audit report detailing findings from our audit work on the financial statements.
<p>Wider scope audit dimensions Conclude and report on our assessment of the wider scope audit dimensions.</p>	<ul style="list-style-type: none"> • Annual external audit report
<p>Best Value Assurance Report – Follow Up Follow up of the Council's progress in implementing the recommendations raised in the Accounts Commissions' BVAR</p>	<ul style="list-style-type: none"> • Annual external audit report
<p>Performance, impact and overview reports Contribute to performance audits (including overview reports, performance audit reports and impact reports).</p>	<ul style="list-style-type: none"> • Submission of data sets to Audit Scotland of key financial and non-financial data of the body • Providing information returns to Audit Scotland
<p>Audit Scotland area of focus – risk of fraud and corruption in the procurement function Guidance on planning 2019/20 audits advised auditors to assess the risk of fraud and corruption in the procurement function. Where a significant risk was identified auditors were advised to reflect that in their Annual Audit Plans for either 2019/20 or 2020/21. In recognition of the new risk landscape, where appropriate auditors may defer consideration of this risk until 2021/22.</p>	<ul style="list-style-type: none"> • Our audit work will consider the arrangements for the prevention and detection of fraud and corruption. Specifically, we will consider the extent to which the Council follows the principles of CIPFA's Code of Practice on Fraud. This work has been deferred until 2021/22 and our conclusions will be reported in our 2021/22 Annual External Audit Report.

Audit Scotland deliverables (continued)

Requirement	How we will report our findings
Whole of Government Accounts (WGA) Provide assurance over Highland Council's WGA returns.	<ul style="list-style-type: none"> Providing assurance of the Council's WGA return
Housing Benefits Subsidiary Claim Independent certification on housing benefit subsidy claim to DWP	<ul style="list-style-type: none"> Providing independent assessment of Housing Benefit Subsidiary Claim (November 2022)
Education Maintenance Allowance Certification of EMA claim	<ul style="list-style-type: none"> Providing independent audit certification of the Council's EMA return (July 2022)
Non-domestic rates (NDR) Certification of NDR claim	<ul style="list-style-type: none"> Providing independent audit certification of the Council's NDR claim (October 2022)
Local Area Network (LAN) Coordinated approach to local scrutiny.	<ul style="list-style-type: none"> As appointed auditors we will contact individual scrutiny partners including Care Inspectorate, Housing Regulator and Education Scotland in order that they share any relevant information they are aware of that we should assess as part of our continued risk assessment and audit considerations.
Emerging issues Communication of emerging issues to Audit Scotland and highlight any issues for potential statutory reports.	<ul style="list-style-type: none"> Communicating throughout our audit emerging issues identified throughout the year
National Fraud Initiative (NFI) Evaluate Highland Council's participation in NFI.	<ul style="list-style-type: none"> Annual external audit report Reporting participation to Audit Scotland including completion of NFI questionnaire

Audit Scotland deliverables (continued)

Requirement	How we will report our findings
<p>Correspondence queries Carry out preliminary enquiries into any correspondence relevant to Highland Council that is referred to Audit Scotland.</p>	<ul style="list-style-type: none"> • Providing responses to any correspondence received based on our audit knowledge and understanding and the results of any review as agreed with Audit Scotland
<p>Money laundering and fraud Provide information on cases of money laundering or fraud.</p>	<ul style="list-style-type: none"> • Reporting cases to the National Crime Agency of any instances of money laundering at the Authority and identified frauds
<p>Technical Guidance Contribute to Technical Guidance Notes</p>	<ul style="list-style-type: none"> • Providing responses to Audit Scotland consultations on draft Technical Guidance Notes for Auditors

Audit Fees

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing

As a firm, we are absolutely committed to meeting the expectations of the FRC over audit quality and public sector financial reporting. This includes, for Audit Scotland contracts, meeting the expectations of the Audit Scotland Quality Team and the ICAS quality framework.

Audit fees were shared by Audit Scotland with Highland Council in December 2021. Following conclusion of our planning procedures we have agreed our final audit fee and communicate this on page 27. Audit fees are paid to Audit Scotland who in turn pay us. We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

Relevant professional standards

Audit Scotland set the baseline audit fee. We can increase the fee, from the baseline, for the inclusion of additional risks, new technical matters or specific client matters identified. We are required to consider all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which state that the Engagement Lead must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

The baseline fee of £260,980 has been amended for the following reasons and amounts, as set out below:

- Valuations, £3,000. Land and buildings and investment property valuations are complex and are highly material. To meet this risk we use an auditors expert (valuation).

Audit Fees (continued)

Audit fees for 2021-22

Service	Fees £
External Auditor Remuneration	£263,980
Pooled Costs	£27,200
Contribution to Audit Scotland costs	£13,930
Contribution to Performance Audit and Best Value	£136,460
2021-22 Fee	£441,570
Audit of Highland Council Charitable Trusts	£1,000
Audit of Highland Charities Trusts	£1,000
Total 2021-22 Fee	£443,570

Additional Fees (Non-Audit Services)

Service	Fees £
At planning stage we confirm there are no non-audit fees	Nil

Fee assumptions

In setting the fee for 2021-22 we have assumed that Highland Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence for all critical and significant judgements and estimates made in preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Independence

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence.

We encourage you to contact us to discuss these or any other independence issues with us.

We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Standard (Revised 2019) 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 confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard.

Our team complete annual fit and proper declarations including independence confirmations on a client by client basis as well as completing timesheets. The work of our Ethics team is overseen by the Ethics partner and all staff undergo ethics training in year.

We confirm that we are independent of the Highland Council Group.



Appendices

Responsibilities

The Code sets out auditor responsibilities and responsibilities of the audited body. Key responsibilities are summarised below. Please refer to the Code for further detail.

Highland Council

Responsibilities include:

- Preparing financial statements that give a true and fair view;
- Maintaining accounting records;
- Establishing and maintaining systems of internal control;
- Effective internal controls including controls to achieve objectives and secure value for money;
- Establish arrangements for proper conduct of affairs including legality of transactions;
- Arrangements for prevention and detection of fraud, error, irregularity, bribery and corruption; and
- Appropriate corporate governance arrangements and arrangements to monitor the effectiveness of governance.

External Audit

Responsibilities include:

- Comply with professional engagement and ethical standards;
- Provide an ISA compliant audit and opinion on the financial statements including regularity of transactions;
- Demonstrate compliance with the wider scope public audit as detailed in the Code and applicable guidance;
- Liaise with and notify Audit Scotland when circumstances indicate a statutory report may be required. This includes sharing awareness of current and/or sector issues;
- Notify Audit Scotland of any known or suspected frauds greater than £5,000;
- Contribute to Audit Scotland technical guidance; and
- Contribute to relevant performance studies (as set out in the planning guidance for the year).



Communication

ISA (UK) 260 as well as other ISAs set out prescribed matters which we are required to report to those charged with governance (we assume this to be the Audit and Scrutiny Committee). Our reporting responsibilities are set out below. We communicate all matters affecting the audit on a timely basis, to Senior Officers and/or the Audit and Scrutiny Committee.

	Audit Plan	Annual Report (considered our ISA 260 Report)
Our communication plan		
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 Highland Council Group'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.		•

Fraud responsibilities

The term fraud refers to intentional acts of one or more individuals amongst management (Senior Officers), those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at Highland Council.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relations to management override of controls.
- leading a discussion with those charged with governance on their view of fraud. Typically we do this when presenting our audit plan and in the form of management (Senior Officers) and those charged with governance questionnaires.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud.
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain reasonable assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from Senior Officers regarding their assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We also make inquiries of internal audit around internal control, fraud risk and any known or suspected frauds in year.

Fraud responsibilities (continued)

The primary responsibility for the prevention and detection of fraud rests with management (Senior Officers) and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is Highland Council's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we work with Highland Council to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

In addition, as set out in the Audit Scotland Code of Audit Practice we have a role in reviewing Highland Council's arrangements in response to the National Fraud Initiative.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on a quarterly basis.

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the planning guidance) to inform the National Crime Agency if he knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at Highland Council we will report to the Auditor General as required by Audit Scotland.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. The first year this impacted on was the 2020/21 financial year.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over Senior Officers' financial reporting process relevant to accounting estimates;
- How Senior Officers identify the need for and apply specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How Senior Officers review the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do **Audit and Scrutiny Committee** members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee Senior Officers' process for making accounting estimates, including the use of models, and the monitoring of activities undertaken by management; and
- Evaluate how Senior Officers made the accounting estimates?

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting again this year further information from Senior Officers and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of Highland Council, in particular from the prior year audit, we have identified the following material accounting estimates: Valuation of Property, Plant and Equipment, Depreciation of Property, Plant and Equipment, Valuation of Investment Property (Common Good), Valuation of Heritage Assets, Impairment of debtors (comprising long term debtors, non-taxation debtors and taxation debtors), Fair value of financial instruments, Holiday pay accrual, Non-pay expenditure accruals, Accrued income and Valuation of defined benefit pension scheme liabilities.

Highland Council's Information Systems

In respect of Highland Council's information systems we are required to consider how Senior Officers identify the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how Senior Officers select, or design, the methods, assumptions and data to be used and apply the methods used in the valuations. If Senior Officers have changed the method for making an accounting estimate we will need to fully understand their rationale for this change.

Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

Future Auditing developments (2022/23)

There are changes to the following ISA (UK):

- ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement' - This will impact audits of financial statement for periods commencing on or after 15 December 2021.
- ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements' - This will impact audits of financial statement for periods commencing on or after 15 December 2022.
- ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' This will impact audits of financial statement for periods commencing on or after 15 December 2021.

A summary of the impact of the key changes on various aspects of the audit is included below:

Area of change	Impact of changes
Risk assessment	<ul style="list-style-type: none"> • The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: <ul style="list-style-type: none"> • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assessed and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	<ul style="list-style-type: none"> • Greater responsibilities, audit procedures and actions are assigned directly to the engagement lead, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	<ul style="list-style-type: none"> • The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible

Area of change	Impact of changes
Definition of engagement team	<ul style="list-style-type: none"> The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	<ul style="list-style-type: none"> The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> clarification of the requirements relating to understanding fraud risk factors additional communications with management or those charged with governance
Documentation	<ul style="list-style-type: none"> The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

