

The Highland Council

Report to those charged with governance on the 2013/14 audit



Prepared for members of The Highland Council Audit and Scrutiny Committee and Director of Finance

September 2014

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Audit Findings

Introduction

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
2. This report sets out for the Audit and Scrutiny Committee's consideration the matters arising from the audit of the financial statements for 2013/14 that require to be reported under ISA 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management, however this does not relieve management of their responsibilities in this respect.
3. This report covers the audit of The Highland Council's (the Council's) 2013/14 Statement of Accounts and the Highland Council Charitable Trusts and the Highland Charities Trust's financial statements for the year ended 31 March 2014. This report has been prepared for the use of The Highland Council and no responsibility to any third party is accepted.

Status of the audit

4. Our work on all three financial statements is now substantially complete. The issues arising from the audit were included in matters arising schedules issued to the Central Services Finance Manager between 19 August and 9 September. The more significant issues arising were discussed with the Head of Corporate Finance at fortnightly meetings throughout the audit process.
5. We received the unaudited financial statements on 16 June 2014, in accordance with the agreed timetable. The working papers were generally of an acceptable standard although, as noted at paragraphs 21 and 22, capital accounting working papers and housing revenue account reconciliations require improvement in future years. We completed our on-site fieldwork on 29 August 2014.

Matters to be reported to those charged with governance

Conduct and scope of the audit

6. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Audit and Scrutiny Committee on 27 March 2014, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.

7. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2013/14 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not require to carry out any additional work outwith our planned audit activity this fee remains unchanged.

Fraud

8. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In presenting this report to the Audit and Scrutiny Committee we seek confirmation from those charged with governance of any instances thereof that have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud has been included in the draft letter of representation.

Council audit opinion

9. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report on 29 September 2014. The proposed report is attached at Appendix A. There are no anticipated modifications to the audit report.

Council financial statements

10. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature which we regard as errors less than £1,000.
11. A number of presentational and monetary adjustments were identified within the Council's financial statements during the course of our audit. These were discussed with officers who agreed to amend the unaudited financial statements. The effect of these adjustments is to decrease the deficit on the provision of services by £10.629 million and increase the deficit on the revaluation of non-current assets by £11.252 million in the Comprehensive Income and Expenditure Statement. Net assets (and reserves) as recorded in the Balance Sheet have decreased by £0.622 million.
12. A number of monetary errors were identified which were not processed through the financial statements by management. If adjusted these would have a net effect of increasing the surplus on the provision of services by £0.031 million, and the net assets (and reserves) on the Balance Sheet by £1.609 million. It is our responsibility to request that all errors be corrected although the final decision on this matter rests with those charged with governance taking into account advice from officers and materiality. Management explained that these adjustments were not material to the financial statements.

Charitable Trusts' audit opinions

13. An audit is required for the first time, for the 2013/14 financial statements for all registered charities where the local authority is the sole trustee, irrespective of the size of the charity. This is due to the interaction of section 106 of the Local Government (Scotland) Act 1973 with the Charities Accounts (Scotland) Regulations 2006.
14. The Assistant Auditor General wrote to Local Government section 95 officers in June 2013 advising them of these new arrangements and the Accounts Commission's decision to appoint the auditor of each council as the auditor of its relevant charities. The auditor of The Highland Council, Audit Scotland, has been appointed as the auditor of the Highland Council Charitable Trusts and Highland Charities Trust for the year ended 31 March 2014.
15. Subject to the satisfactory conclusion of any outstanding matters and receipt of revised sets of financial statements for final review, we anticipate being able to issue unqualified auditor's reports on 29 September 2014. The proposed reports are attached at Appendices B and C. There are no anticipated modifications to the audit reports.
16. The Highland Council Charitable Trusts opinion highlights that as this is the first year of audit that the financial statements for the year ended 31 March 2013 were not audited. The comparative amounts in the Highland Council Charitable Trusts' financial statements for the year ended 31 March 2014 are therefore unaudited. However, we have obtained sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.

Charitable Trusts' financial statements

17. A number of presentational adjustments were identified within the financial statements of the Highland Council Charitable Trusts during the course of our audit. These were discussed with officers who agreed to amend the unaudited financial statements. There is no impact on the surplus for the year but the Statement of Balances will increase by £0.100 million due to the omission of a property (see paragraph 37 for details). There were no adjustments required to the financial statements of the Highland Charities Trust.
18. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature. There were no unadjusted misstatements which we were identified during the course of our audits of the charitable trusts.

Representations

19. As part of the completion of our audit we seek written assurances from the Director of Finance on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix D. This should be signed and returned by the Director of Finance with the signed financial statements prior to the independent auditor's opinions being certified.

Accounting and internal control systems

20. In previous years we reported that the Council's processes had not been amended, following the setting up of separate bank accounts for the Highland Council Pension Fund, and so work was required as part of the year end processes to ensure that Council and Pension Fund transactions were correctly accounted for and that cash was held in the correct bank account. Our audit this year identified a number of queries regarding the operation and management of the intercompany accounts used by the Council's ledger system to complete the double entry for transactions that cross between the Council and the Pension Fund. In response to our queries officers undertook additional work and identified the main items making up the balance on these intercompany accounts. Work is ongoing to understand why the Pension Fund made payments totalling £0.652 million on behalf of the Council during 2013/14 and to identify the make up of an unexplained balance of £0.274 million.
21. In previous years we have also highlighted our concerns about the Council's arrangements for capital accounting. Considerable additional work required to be done by finance staff and ourselves before we were able to reach an agreed position and certify the 2011/12 and 2012/13 accounts. This year we worked closely with the capital accountant and overall the audit process was much smoother. However, we again identified a lack of audit trail of how key figures in the accounts tied back to the Council's asset registers, and a lack of internal consistency in disclosures within the financial statements. This is an area that requires improvement in future years.
22. Reconciliations between the financial ledger and Housing Information System provide assurance that rents, voids, cash received from tenants and write offs are correctly recorded in the financial statements. The reconciliations provided to audit contained small differences between the ledger position and that recorded in the Housing Information System for which satisfactory explanations could not be provided. While we are satisfied that the closing figures included in the Housing Revenue Account and Comprehensive Income and Expenditure Statement are not materially misstated, final accounts processes need to be amended to ensure that differences on reconciliations are investigated and resolved as part of the year end procedures.
23. The audit process did not identify any other material weaknesses in the accounting and internal control systems which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Significant findings from the audit

24. In our view, the following issues require to be brought to your attention regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.

Council findings

25. **Balances due to / from the Pension Fund (intercompany accounts):** the unaudited balance sheet included a debtor balance of £1.402 million and a creditor balance of £0.053 million due from/to the Pension Fund. As noted at paragraph 20, we raised a number of queries on what these balances represented. After investigation, officers confirmed that the net balance on the intercompany accounts with the Pension Fund included £4.308 million of PAYE payments made by the Council on behalf of the Pension Fund and £1.004 million of Central Support Charges due from the Pension Fund for services provided by the Council during the year. As a result, debtors are understated by £3.910 million in the Council's unaudited accounts.
26. Officers also identified that the net balance on the intercompany accounts included £2.436 million of March pension contributions which the Council had yet to pay to the Pension Fund at the year end and £0.601 million of strain on the fund costs due from the Council to the Pension Fund. Work is ongoing to understand why the Pension Fund made payments totalling £0.652 million on behalf of the Council during 2013/14 and to identify the make up of the unexplained balance of £0.274 million at the year end. As a result, creditors are understated by £3.910 million in the Council's unaudited accounts.

Resolution: the Council has agreed to amend the audited accounts to show the gross amounts due to and from the Pension Fund. As noted above, work is ongoing to understand why the Pension Fund made payments totalling £0.652 million on behalf of the Council during 2013/14 and to identify the make up of the unexplained balance of £0.274 million at the year end. The Director of Finance has confirmed that final accounts processes will be updated to ensure that debtors and creditors due to/from the Pension Fund are shown gross in future years.

27. **Capital accounting:** a number of adjustments were required to the non-current assets figures included in the unaudited balance sheet due the omission of depreciation from some assets, the erroneous inclusion of depreciation for other assets, the misclassification of capital expenditure as non-enhancing expenditure, and inconsistencies between the fixed asset register and the accounts. Adjustments were also required between the Revaluation Reserve and Capital Adjustment Account to correct prior year misstatements and to remove negative balances from the Revaluation Reserve. The overall impact of these adjustments is to increase Property, Plant and Equipment by £0.387 million, increase Assets Held for Sale by £0.010 million, increase the Revaluation Reserve balance by £2.400 million and reduce the Capital Adjustment Account balance by £2.002 million.

Resolution: the Council has agreed to amend the audited accounts to reflect these audit findings.

28. A number of areas have been carried forward for further discussion in 2014/15. These include how the Council accounts for non-enhancing capital expenditure and the need to account for Investment Properties within the Council's balance sheet.

Resolution: the Council has agreed to consider these areas as part of their final accounts planning processes for 2014/15.

29. **Housing Revenue Account (HRA):** the unaudited balance sheet included a debtor balance of £1.372 million described as 'Rent Debtor to Carry Forward the Balance on the Rent Control Account'. As this was additional to arrears due from current and former tenants shown separately in the unaudited balance sheet, we asked officers who was due to pay the Council this money. Subsequent investigation by council officers found that the £1.372 million debtor resulted from the erroneous inclusion of income lost on void properties within the Housing Information System. As a result, debtors are overstated by £1.372 million and housing expenditure (in the Comprehensive Income and Expenditure Statement) and other expenditure in the Housing Revenue Account are overstated by £0.400 million and £0.972 million respectively.

Resolution: the Council has agreed to amend the audited accounts to correct this error. The Council plans to reduce the amount of capital financed from current revenue charged to the Housing Revenue Account and so there will be no impact on the balance on the Housing Revenue Account. The General Fund balance will be reduced by £0.400 million as a result of this error.

30. **Classification of investments:** cash and cash equivalents were overstated and short term investments were understated by £31.092 million due to the misclassification of investments in the unaudited balance sheet. A similar error was identified in the 2012/13 unaudited accounts.

Resolution: the Council has agreed to amend the audited accounts to correct this error, and to update its final accounts processes to ensure that investments are correctly classified in future years.

31. **Accounting for cut-off:** during our audit we identified a number of instances where the Council's balance sheet included both a debtor and a creditor for the same transaction. The largest of these related to an invoice from Scottish Water for £1.547 million for services relating to 2014/15. This had been included as both a creditor (when the invoice was received) and as a prepayment thus overstating both debtors and creditors.

Resolution: the Council has agreed to amend the audited accounts for these amounts and to update its final accounts processes to correctly account for cut-off in future years.

32. **Common Good Funds:** a number of presentational adjustments were required to the Common Good Fund accounts in order to account for investment properties and stock market investments in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. As a result, revaluations gains of £0.025 million previously held in the Revaluation Reserve were moved to the Capital Adjustment Account and an Available for Sale Financial Instruments Reserve was created to hold the unrealised gains on the stock market investment portfolio (£0.004 million) previously treated as capital funds.

Resolution: the Council has agreed to amend the audited accounts to correct this misclassification.

33. The Common Good Funds' heritage assets were valued by Sothebys in 2013/14. Their valuation report included a bust of Sir John Gordon (valued at £1.400 million) which had previously been included as an asset of the Invergordon Common Good Fund. This asset was written out of the Common Good Fund's balance sheet during 2013/14 when it emerged that it was a Council asset but was not included in the Council's balance sheet in 2013/14. Sothebys' report also included assets within Wick Town Hall with a value of £0.178 million. As Wick does not have a Common Good Fund, these assets should also be included on the Council's balance sheet. As a result, the Council's net assets and reserves are understated by £1.578 million.

Resolution: the Council has agreed to update its balance sheet disclosures in 2014/15 and create a new category of heritage assets. It will conduct a wider review to identify other heritage assets which should also be included in the council's balance sheet.

34. **Building dilapidations:** the Council leases a number of buildings which will require to be returned to their original leased condition at the end of the lease. The Council currently does not recognise the costs associated with this future reinstatement work within its financial statements. We have been advised that obtaining a reliable estimate of the costs involved would be time consuming.

Resolution: the Council has agreed to include a contingent liability for this reinstatement work in its 2013/14 audited accounts, and to continue to assess the position during 2014/15 to establish whether a reliable estimate can be established in order to make provision for these costs within the financial statements.

35. **Capital Fund:** the Council has established a Capital Fund into which it pays developers' contributions and council tax income from second homes. Schedule 3 of the Local Government (Scotland) Act 1975 specifies that a Capital Fund can only be used to finance capital expenditure or the repayment of loans principal and so we would not expect to see transfers from the Capital Fund to the General Fund. The unaudited accounts show a net transfer of £0.532 million from the Capital Fund to the General Fund.

Resolution: officers have agreed to amend the audited accounts to correctly disclose transfers to and from the Capital Fund.

Charitable Trusts' findings

Highland Council Charitable Trusts

36. The unaudited Statement of Balances omits a property (Rhind House, Wick) which is used to generate income for the Trusts. This asset has been valued at £0.100 million by the Council's valuer.

Resolution: the Council has agreed to amend the audited accounts to correct this omission.

37. The Trust Deeds of three of the four Educational Trusts (Inverness-shire Educational Trust, Ross and Cromarty Educational Trust, and County of Sutherland Educational Trust) included within the Highland Council Charitable Trusts limit the amount of revenue surpluses which can be carried forward to the following year to £500, £1,000 and £400 respectively. Amounts in excess of this limit require to be added to each Trust's Permanent Endowment. Audit testing identified that this condition had not been adhered to in previous years. As a result, Unrestricted Funds are overstated and Permanent Endowments understated by £0.221 million.

Resolution: the Council has agreed to amend the audited accounts to correct this failure to comply with the Trust Deeds' conditions in previous years.

38. **Governance documentation:** the governance documentation for three trusts included within the Highland Council Charitable Trusts could not be located as a consequence of the age of these trusts. The classification of these funds between restricted, unrestricted and endowment funds could not readily be established. We were also unable to verify whether spend in these areas was in line with the original stated purpose for these individual trusts.

Resolution: disclosures in the accounts have been amended to highlight for which trusts governance documentation is not held and on what basis the trustees account for and use these funds. All funds are treated as endowments and where there is an absence of governance documentation the Council relies on custom and practice to inform any decisions by the trustees in respect of the Trusts' expenditure and use of assets. We are not aware of any matters which would materially impact on the financial statements.

Outstanding matters

39. Finance staff are still working through the impact on the financial statements of the findings from our audits of the Charitable Trusts, Common Good Funds and the Capital Fund. The Director of Finance has confirmed that all material findings will be corrected within the audited charitable trusts accounts and Council accounts.

Acknowledgements

40. We would like to express our thanks to the staff of The Highland Council for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

Appendix A: The Highland Council's Proposed Independent Auditor's Report

Independent auditor's report to the members of The Highland Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of The Highland Council and its group for the year ended 31 March 2014 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, and Cash Flow Statements, the authority-only Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, the Non-Domestic Rate Account, the Common Good Funds Accounts, the Charitable, Educational and Other Trust Funds Accounts, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the 2013/14 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the statement of accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2013/14 Code of the state of the affairs of the group and The Highland Council as at 31 March 2014 and of the income and expenditure of the group and the Council for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2013/14 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword by the Director of Finance for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Corporate Governance Assurance Statement does not comply with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Stephen Boyle CPFA
Assistant Director of Audit
Audit Scotland
4th floor South Suite
8 Nelson Mandela Place
Glasgow G2 1BT

29 September 2014

Appendix B: Highland Council Charitable Trusts Proposed Independent Auditor's Report

Independent auditor's report to the trustees of Highland Council Charitable Trusts and the Accounts Commission for Scotland

I have audited the financial statements of Highland Council Charitable Trust for the year ended 31 March 2014 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the receipts and payments account, statement of balances, and the related notes. The financial reporting framework that has been applied in their preparation is a receipts and payments basis.

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the trustees and auditor

As explained more fully in the Trustees' Annual Report, the trustees are responsible for the preparation of the financial statements which properly present the receipts and payments of the charity. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts or disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- properly present the receipts and payments of the charity for the year ended 31 March 2014 and its statement of balances at that date; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9(1),(2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

Other matter - unaudited comparative amounts

The financial statements for the year ended 31 March 2013 were not audited. The comparative amounts in the financial statements for the year ended 31 March 2014 are therefore unaudited.

Opinion on other prescribed matter

In my opinion the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.
- I have nothing to report in respect of these matters.

Stephen Boyle CPFA

Assistant Director

Audit Scotland

4th Floor South Suite

The Athenaeum Building

8 Nelson Mandela Place

Glasgow G2 1BT

29 September 2014

Stephen Boyle CPFA is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973.

Appendix C: Highland Charities Trust Proposed Independent Auditor's Report

Independent auditor's report to the trustees of Highland Charities Trust and the Accounts Commission for Scotland

I have audited the financial statements of Highland Charities Trust for the year ended 31 March 2014 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the receipts and payments account, statement of balances, and the related notes. The financial reporting framework that has been applied in their preparation is a receipts and payments basis.

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the trustees and auditor

As explained more fully in the Trustees' Annual Report, the trustees are responsible for the preparation of the financial statements which properly present the receipts and payments of the charity. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts or disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- properly present the receipts and payments of the charity for the year ended 31 March 2014 and its statement of balances at that date; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9(1),(2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

Opinion on other prescribed matter

In my opinion the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.
- I have nothing to report in respect of these matters.

Stephen Boyle CPFA

Assistant Director

Audit Scotland

4th Floor South Suite

The Athenaeum Building

8 Nelson Mandela Place

Glasgow G2 1BT

29 September 2014

Stephen Boyle CPFA is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973.

Appendix D: ISA 580 - Letter of Representation

Stephen Boyle

Date

Assistant Director

Audit Scotland

4th floor South Suite

8 Nelson Mandela Place

Glasgow G2 1BT

Dear Stephen

2013/14 Financial Statements

1. This representation letter is provided in connection with your audit of the financial statements of:
 - The Highland Council and its group for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Council and its group as at 31 March 2014 and its income and expenditure for the year then ended
 - the Highland Council Charitable Trusts for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Trusts as at 31 March 2014 and their receipts and payments for the year then ended
 - the Highland Charities Trust for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Trust as at 31 March 2014 and its receipts and payments for the year then ended.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Chief Executive, Directors, the Council and trustees the following representations given to you in connection with your audit of The Highland Council and its group, the Highland Council Charitable Trusts and the Highland Charities Trust for the year ended 31 March 2014.

General

3. I acknowledge my responsibility and that of The Highland Council and the Charity trustees for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by The Highland Council and its group and the charitable trusts have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
4. The information given in the Council's financial statements, including the Explanatory Foreword and Remuneration Report, presents a balanced picture of The Highland Council and the charitable trusts and is consistent with the financial statements. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).
5. I confirm that the Highland Council Charitable Trusts and the Highland Charities Trust are the only trusts that require an audit where the sole trustee is The Highland Council. The information given in the financial statements, including the Trustees' annual Reports, presents a balanced picture of the Trusts and is consistent with the financial statements. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

Financial Reporting Framework

6. The Council's financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and the Local Authority Accounts (Scotland) Regulations 1985 including all relevant presentation and disclosure requirements.
7. The charitable trusts' financial statements have been prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005, Charities Accounts (Scotland) Regulations 2006 (as amended), Accounting and Reporting by Charities: Statement of Recommended Practice (revised 2005) (the SORP) and the provisions of the charity's constitution.
8. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of The Highland Council and its group, and the Highland Council Charitable Trusts and the Highland Charities Trust for the year ended 31 March 2014.

Accounting Policies & Estimates

9. All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
10. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

Related Party Transactions

11. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Events Subsequent to the Balance Sheet Date

12. There have been no material events since the dates of the Balance Sheets which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.
13. Since the dates of the Balance Sheets no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Corporate Governance

14. I acknowledge as Section 95 Officer and as treasurer to the Trusts my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.
15. The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. There have been no changes in the corporate governance arrangements or issues identified, since the 31 March 2014, which require disclosure.

Fraud

16. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

Assets

16. The assets shown in the Council Balance Sheet and the charitable trusts' statement of balances at 31 March 2014 were owned by The Highland Council other than assets which have been purchased under operating leases, and the charitable trusts. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

17. All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31 March 2014.

Contingent Liabilities

18. There are no significant contingent liabilities, other than those disclosed in Note 41 to the accounts, arising either under formal agreements or through informal undertakings requiring disclosure in the accounts. All known contingent liabilities have been fully and properly disclosed, including any outstanding legal claims which have not been provided for under the Code and IAS37.

Carrying Value of Assets and Liabilities

19. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

Provisions

20. Provisions have been made in the Council's financial statements for all material liabilities which have resulted or may be expected to result, by legal action or otherwise, from events which had occurred by 31 March 2014 and of which The Highland Council could reasonably be expected to be aware. The amounts recognised as provisions are the best estimates of the expenditure likely to be required to settle the present obligations, as at 31 March 2014, and I am not aware of any instances of provisions that do not meet the criteria of IAS37.

Commitments

21. All commitments under capital contracts have been disclosed in Note 29 to the Council's accounts. Any other significant commitments or obligations which might adversely affect the Council have been disclosed.

Leases

22. All leasing arrangements have been reviewed and correctly classified as operating or finance within the financial statements. Lease arrangements granted by the Council have been classified and disclosed within the financial statements.

Loans Fund

23. All borrowings have been confirmed as being compliant with the provisions of the Local Government (Scotland) Act 1975.

Group Accounts

24. In my opinion, the group assets, liabilities and revenue transactions within the financial statements are materially complete. The group boundary has been reviewed in accordance with the Code and there are no material entities that have been omitted from consolidation within the financial statements. Any significant issues with the financial statements of group entities, including qualifications, have been advised to audit. In making these assertions, I am reliant on the opinions of the external auditors of group entities.

Pension Fund

25. The pension assumptions made by the actuary in the IAS19 report for The Highland Council have been reviewed and I confirm that they are consistent with management's own view.

Other Matters

26. Except as disclosed in the financial statements, the results for the period were not materially affected by:
- transactions of a sort not usually undertaken by the Council or the charitable trusts
 - circumstances of an exceptional or non-recurrent nature
 - charges or credits relating to prior periods
 - any change in the basis of accounting

Yours sincerely

Derek Yule

Director of Finance & Section 95 Officer