

Agenda Item	8a
Report No	AC/27a/25

THE HIGHLAND COUNCIL

Committee: Audit Committee

Date: 12 November 2025

Report Title: Audited Accounts 2024/25

Report By: Chief Officer - Corporate Finance

1. Purpose/Executive Summary

- 1.1 To present the audited accounts of The Highland Council for financial year 2024/25.
- 1.2 To explain the impact of changes made during the audit process.

2. Recommendations

- 2.1 Members are asked to:
 - i. Approve the audited accounts for signature.
 - ii. Agree that the letter of representation be signed by the Chief Officer Corporate Finance (Section 95 Officer);
 - iii. Consider and note the report to those charged with governance on the 2024/25 accounts; and
 - iv. Scrutinise, consider and note the annual audit report findings, in particular the significant finding and key audit matters on pages 9-10 and the follow up of prior year recommendations at Appendix 1 of the report.

3. Implications

- 3.1 **Resource** - The audited annual accounts documents provide details of the overall financial position for the Highland Council as at 31 March 2025. Changes from the unaudited annual accounts presented in June are noted in section 6 below with there being an increase to the level of resources available for use to the Council of £2.398m.
- 3.2 **Legal** – The Council is required to complete and publish an externally audited set of accounts each financial year. This report and the corresponding audit report fulfil the

Council's obligations in this regard.

3.3 **Risk** – none, this report and accompanying external audit report conclude the Council's obligations regarding Annual Accounts for the year.

3.4 **Health and Safety (risks arising from changes to plant, equipment, process, or people):** There are no implications arising as a direct result of this report.

3.5 **Gaelic** – none

4 Impacts

4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.

4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.

4.3 This is a monitoring and update report and therefore an impact assessment is not required.

5. Annual Accounts

5.1 The final full audited Annual Accounts document for 2024/25 will be available from the link below on the Council website in advance of the Audit Committee meeting. This link may not be live at the point agenda and papers are issued, but will be as soon as possible thereafter, and Committee members will be notified.

[Annual accounts | Audited Accounts April 2024 to March 2025](#)

6. Effect of Audit Changes

6.1 There have been two notable changes to the Accounts arising from the audit, which are described further below. One of which has an effect to the net revenue out-turn position of the Council and the level of usable reserves.

6.2 An adjustment was made for the transition to IFRS 16 (Leases) for service concession arrangements (PPP/PFI). The unaudited accounts did not include the correct accounting treatment for service concessions (PPP/PFI) under IFRS 16 due to late information received from the council's external advisor. A disclosure was included in the Statement of Responsibilities and members were informed of the issue when the unaudited accounts were presented in June 2025. The adjustment had the following impact:

- a net nil change to Plant, Property and Equipment overall
- a reduction in Revaluation Reserve of £33.208m
- an increase to closing PPP lease liability of £30.436m
- an increase to the General Fund Balance of £2.398m and a corresponding £2.398m decrease in the Capital Adjustment Account due to how PPP lease liabilities are now accounted for. There is no change in the overall financial position.

6.3 An adjustment of £244.936m was made to correct assets revaluations for those assets valued under Depreciated Replacement Cost (DRC) using the 'instant build' method in 2024/25 to remove a contingency element historically included. Due to the material value of the adjustment prior year figures were also required to be adjusted as follows:

- For 2024/25 DRC assets had been overvalued by £244.936m
- For 2023/24 DRC assets had been overvalued by £248.484m
- For 2022/23 DRC assets had been overvalued by £251.618m

This adjustment to asset values is a Balance Sheet adjustment and has no impact on the Council's revenue position. In 2024/25 the value of these assets has been revised from £3.316 Billion (draft Accounts) to £3.071 Billion (Audited Accounts). The valuation basis (DRC) is also not a realizable or market value assessment of these assets.

6.4 The changes resulting from these adjustments and restatements in 2024/25 have increased the overall Total Comprehensive Expenditure in the Comprehensive Income and Expenditure Account by £26.887m and in the Balance Sheet had the following effect:

- decreased Property, Plant and Equipment by £244.936m
- increased Short Term Creditors by £2.905m
- increased Other Long Term Liabilities by £27.530m
- increased General Fund Balance by £2.398m.
- decreased Revaluation Reserve by £278.144m
- increased Capital Adjustment Account by £0.375m

As there is a change to the General Fund Balance, which is one of the Council's **usable** reserves on the balance sheet, it has an impact on the level of resources available to the Council.

6.5 Other changes from the previously presented unaudited accounts have been largely presentational in nature with no impact to the Council's overall financial position or the level of resources available and as such are not included within the Audit Report. These changes include:

- Updating leases note 27 to expand upon narrative and update future leases payments receivable table to comply with new standard.
- Other updates within notes have expanded upon previous disclosures or update figures or wording based on audit findings with no impact to the Council's main financial statements.

6.6 There were two unadjusted errors noted during audit testing. Cumulatively these were below the performance materiality level as detailed in exhibit 1 of the Highland Council Annual Audit report and Audit Scotland were satisfied they did not have a material impact on the financial statements. These errors are detailed in Appendix 2 of the Highland Council Annual Audit report.

6.7 The completion of the audited accounts for 2024/25 represents a significant milestone in relation to the Council's core financial governance and reporting requirements, and is of particular significance given this year being the first to conclude using the new Corporate Financial System.

Designation: Chief Officer Corporate Finance

Date: 4 November 2025

Author: Rachel Macdonald, Principal Accountant

Background Papers:

https://www.highland.gov.uk/download/meetings/id/85277/item_3_annual_accounts_for_the_year_to_31_march_2025_and_revenue_and_capital_outturn_for_the_year

Letter of Representations (ISA (UK) 580)

Claire Gardiner, Audit Director
Audit Scotland
102 West Port
Edinburgh
EH3 9DN

Dear Claire

The Highland Council Annual accounts 2024/25

1. This representation letter is provided in connection with your audit of the annual report and accounts of The Highland Council and its group, hereafter referred to as 'the Council', for the year ended 31 March 2025 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view and have been properly prepared, and for expressing other opinions on the Remuneration Report, Management Commentary, and Annual Governance Statement.
2. I confirm to the best of my knowledge and belief, and having made such enquiries as I considered necessary, the following representations given to you in connection with your audit of the Council's annual accounts for the year ended 31 March 2025.

General

3. I have fulfilled my responsibilities for the preparation of the 2024/25 annual accounts as set out in your 2024/25 Annual Audit Plan. All the accounting records, documentation, and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by the Council have been recorded in the accounting records and are properly reflected in the financial statements.
4. I confirm that the effects of uncorrected misstatements as reported by you are immaterial, individually and in aggregate, to the financial statements as a whole.

Financial Reporting Framework

5. The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 (2024/25 Code), and the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003, and the Local Authority Accounts (Scotland) Regulations 2014.
6. In accordance with the Local Authority Accounts (Scotland) Regulations 2014, I have ensured that the financial statements give a true and fair view of the financial position of the Council at 31 March 2025 and the transactions for 2024/25.

Accounting Policies and Estimates

7. All material accounting policies applied are as shown in the note included in the financial statements. The accounting policies are determined by the 2024/25 Code, where applicable. Where the 2024/25 Code does not specifically apply, I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to the Council's circumstances and have been consistently applied.

8. The methodology, significant assumptions, and data used in making accounting estimates are reasonable, and have been properly reflected and disclosed in the financial statements in accordance with the 2024/25 Code. Judgements made in making estimates have been based on the latest available and reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

9. I have assessed the Council's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on the Council's ability to continue to adopt the going concern basis of accounting.

Assets

10. All assets at 31 March 2025 of which I am aware have been reported in the financial statements.

11. Where a rolling programme of asset valuations has been used, I have satisfied myself that the carrying amount of assets at 31 March 2025 does not differ materially from that which would be determined if a revaluation had been carried out at that date.

12. I carried out an assessment at 31 March 2025 as to whether there is any indication that an asset may be impaired and have recognised any impairment losses identified in the financial statements.

13. I have provided you with all information of which I am aware regarding any valuation exercises carried out after 31 March 2025.

14. There are no plans or intentions that are likely to affect the carrying value or classification of the assets recognised in the financial statements.

15. Owned assets are free from any lien, encumbrance, or charge, except as disclosed in the financial statements.

Liabilities

16. All liabilities at 31 March 2025 of which I am aware have been reported in the financial statements.

17. Provisions have been recognised in the financial statements for all liabilities of uncertain timing or amount at 31 March 2025 of which I am aware where the conditions specified in IAS 37, as adapted by the 2024/25 Code, have been met. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the obligation at 31 March 2025. Where the effect of the time value of money is material, the amount of the provision has been discounted to the present value of the expected payments.

18. Provisions recognised in previous years have been reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2025, or to reflect material changes in the assumptions underlying the calculations of the provisions.

19. The accrual recognised in the financial statements for annual leave untaken by 31 March 2025 has been estimated on a reasonable basis.

20. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Contingent Liabilities

21. There are no significant contingent liabilities, other than those disclosed in Note 41 to the financial statements, arising either under formal agreement or through formal undertakings requiring disclosure in the financial statements. All known contingent liabilities have been fully and properly disclosed in accordance with IAS 37, as adopted by the 2024/25 Code.

Litigation and Claims

22. All known actual or possible legal claims have been disclosed to you and have been accounted for and disclosed in the financial statements in accordance with the 2024/25 Code.

Fraud

23. I understand my responsibilities for the design, implementation, and maintenance of internal control to prevent fraud and I believe I have appropriately fulfilled those responsibilities.

24. I have provided you with all information in relation to:

- my assessment of the risk that the financial statements may be materially misstated as a result of fraud,
- any allegations of fraud or suspected fraud affecting the financial statements, and
- fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

25. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related Party Transactions

26. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with IAS 24, as adopted by the 2024/25 Code. I have made available to you the identity of all of the Council's related parties and all the related party transactions of which I am aware.

Remuneration Report

27. The Remuneration Report has been prepared in accordance with the Local Authority Accounts (Scotland) Regulations 2014, and all required information of which I am aware has been provided to you.

Management Commentary

28. I confirm that the Management Commentary has been prepared in accordance with statutory guidance, and the information is consistent with the financial statements.

Corporate Governance

29. I confirm the Council has undertaken a review of the system of internal control during 2024/25 to establish the extent to which it complies with proper practices set out in *Delivering Good Governance in Local Government: Framework 2016*. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.

30. I confirm that the Annual Governance Statement has been prepared in accordance with the *Delivering Good Governance in Local Government: Framework 2016* and the information is consistent with the financial statements. There have been no changes in the corporate governance arrangements, or issues identified, since 31 March 2025 which require to be reflected in the Annual Governance Statement or annual accounts.

Group Accounts

31. I have identified all the other entities in which the Council has an interest and have classified and accounted for them in accordance with the 2024/25 Code. Any significant issues, including those related to fraud and any qualified audit opinions, in relation to the financial statements of group entities, have been provided to you. Any significant issues identified by you as group auditor have been communicated to management of group components, where relevant to those components.

Events Subsequent to the Date of the Balance Sheet

32. All events subsequent to 31 March 2025 for which IAS 10, as adopted by the 2024/25 Code, requires adjustment or disclosure have been adjusted or disclosed.

Other representations – Prior Period Adjustment Due to Material Misstatement

33. I confirm that the annual accounts for the year ended 31 March 2025 include a prior period adjustment resulting from the correction of a material misstatement identified.

34. The misstatement arose due to the incorrect inclusion of a contingency fee as part of the annual revaluation process for those assets valued using the depreciated cost replacement (DRC) basis relating to the 'instant build' method.

35. I confirm the following:

- The error has been corrected by restating the comparative figures for the year ended 31 March 2024 including opening balances at 1 April 2023 in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
- The prior year restatement resulted in a decrease to property, plant and equipment of £248.5 million and a corresponding increase to the revaluation reserve (unusable reserves) for year ended 31 March 2024.
- The nature of the prior period adjustment and its financial impact have been appropriately disclosed in the notes to the financial statements.

- I acknowledge my responsibility for the preparation of the annual accounts in accordance with the relevant legislation and accounting framework, and confirm that the restated figures present fairly, in all material respects, the financial position and performance of the council.
- I confirm that there are no other material misstatements or omissions in the prior period financial statements that require adjustment.

Yours sincerely

Brian Porter

Chief Officer Corporate Finance (Section 95 Officer)

The Highland Council Audit Committee (those charged with governance)

12 November 2025

The Highland Council Audit of 2024/25 Annual Accounts

Independent Auditor's Report

1. Our audit work on the 2024/25 annual accounts is now substantially complete. We anticipate being able to issue unmodified audit opinions in the Independent Auditor's Report on 12 November 2025. The proposed Independent Auditor's Report is attached at [Appendix A](#).

Annual Audit Report

2. Under International Standards on Auditing in the UK (ISA (UK)), we report specific matters identified from the audit of the annual accounts to those charged with governance of The Highland Council in sufficient time to enable appropriate action. For The Highland Council, those charged with governance is the Audit Committee. We present for the Audit Committee's consideration our draft Annual Audit Report on the 2024/25 audit. The section headed "Significant findings and key audit matters" sets out the issues identified in respect of the annual accounts.

3. The Annual Audit Report also sets out conclusions on the wider scope areas that frame public audit as set out in the Code of Audit Practice.

4. The Annual Audit Report will be issued in final form after the audit of the annual accounts has been completed.

Uncorrected misstatements

5. We also report to those charged with governance all uncorrected misstatements in the annual accounts which have been identified during the course of the audit, other than those of a trivial nature, and request that these misstatements be corrected.

6. There are two unadjusted items which officers chose not to adjust for. There is no impact on net expenditure if either are corrected. The items impact the balance sheet, specifically property, plant and equipment and the revaluation reserve. Both items above our reporting threshold but significantly below our performance materiality as follows:

- A £5.8 million classification error in property, plant and equipment.
- A £2.8 million revaluation misstatement for council dwellings.

7. Full details of the uncorrected errors are included in [Appendix B](#) of the Annual Audit Report.

Other ISA (UK) matters

8. In presenting this letter and the Annual Audit Report to the Audit Committee, we seek confirmation from those charged with governance on the following matters:

- any instances of actual, suspected, or alleged fraud,
- any subsequent events that have occurred since the date of the financial statements,
- content with the methods, assumptions, and data used in making accounting estimates in the annual accounts are appropriate,
- content that related party relationships and transactions they are aware of are reflected in the annual accounts, and
- any non-compliance with laws and regulations.

9. Any issues that have been identified from the audit in relation to other ISA (UK) matters that we are required to report to those charged with governance have been reported in the section headed “Other matters to report” in the Annual Audit Report.

Representations from the Section 95 Officer

10. As part of the completion of the audit, we seek written representations from the Chief Officer Corporate Finance, who is the Section 95 Officer, on aspects of the annual accounts, including the judgements and estimates made.

11. A draft letter of representations is attached at [Appendix B](#). This should be returned to audit by the Chief Officer Corporate Finance (Section 95 Officer) alongside the annual accounts. DocuSign will be used to sign and date the letter prior to the Independent Auditor’s Report being signed.

Appendix A: Proposed Independent Auditor's Report

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

Reporting on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of The Highland Council and its group for the year ended 31 March 2025 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash Flow Statements, the council-only Housing Revenue Account Income and Expenditure Statement, the Statement of Movement on the Housing Revenue Account, the Council Tax Income Account, and the Non-domestic Rate Account and notes to the financial statements, including material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 (the 2024/25 Code).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the council and its group as at 31 March 2025 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2024/25 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Accounts Commission on 5 June 2023. My period of appointment is five years, covering 2022/23 to 2026/27. I am independent of the council and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the ability of the council and its group to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the current or future financial sustainability of the council and its group. However, I report on the council's arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

Risks of material misstatement

I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

Responsibilities of the Chief Officer Corporate Finance and Audit Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Officer Corporate Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Officer Corporate Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Officer Corporate Finance is responsible for assessing the ability of the council and its group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the operations of the council and its group.

The Audit Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using my understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003 are significant in the context of the council and its group;
- inquiring of the Chief Officer Corporate Finance as to other laws or regulations that may be expected to have a fundamental effect on the operations of the council and its group;
- inquiring of the Chief Officer Corporate Finance concerning the policies and procedures of the councils and its group regarding compliance with the applicable legal and regulatory framework;
- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the council's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Reporting on other requirements

Opinion prescribed by the Accounts Commission on the audited parts of the Remuneration Report

I have audited the parts of the Remuneration Report described as audited. In my opinion, the audited parts of the Remuneration Report have been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Other information

The Chief Officer Corporate Finance is responsible for the other information in the annual accounts. The other information comprises the Management Commentary, Annual Governance Statement, Statement of Responsibilities and the unaudited parts of the Remuneration Report.

My responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on the Management Commentary and Annual Governance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary and Annual Governance Statement

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited parts of the Remuneration Report 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.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

Use of my report

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 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Signature / Date to be added by DocuSign

Claire Gardiner CPFA
Audit Director
Audit Scotland
102 West Port
Edinburgh
EH3 9DN

Appendix B: Letter of Representations (ISA (UK) 580) [to be reproduced on Highland Council's letterhead and returned to audit]

Claire Gardiner, Audit Director
Audit Scotland
102 West Port
Edinburgh
EH3 9DN

Dear Claire

The Highland Council Annual accounts 2024/25

1. This representation letter is provided in connection with your audit of the annual report and accounts of The Highland Council and its group, hereafter referred to as 'the Council', for the year ended 31 March 2025 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view and have been properly prepared, and for expressing other opinions on the Remuneration Report, Management Commentary, and Annual Governance Statement.

2. I confirm to the best of my knowledge and belief, and having made such enquiries as I considered necessary, the following representations given to you in connection with your audit of the Council's annual accounts for the year ended 31 March 2025.

General

3. I have fulfilled my responsibilities for the preparation of the 2024/25 annual accounts as set out in your 2024/25 Annual Audit Plan. All the accounting records, documentation, and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by the Council have been recorded in the accounting records and are properly reflected in the financial statements.

4. I confirm that the effects of uncorrected misstatements as reported by you are immaterial, individually and in aggregate, to the financial statements as a whole.

Financial Reporting Framework

5. The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 (2024/25 Code), and the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003, and the Local Authority Accounts (Scotland) Regulations 2014.

6. In accordance with the Local Authority Accounts (Scotland) Regulations 2014, I have ensured that the financial statements give a true and fair view of the financial position of the Council at 31 March 2025 and the transactions for 2024/25.

Accounting Policies and Estimates

7. All material accounting policies applied are as shown in the note included in the financial statements. The accounting policies are determined by the 2024/25 Code, where applicable. Where the 2024/25 Code does not specifically apply, I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to the Council's circumstances and have been consistently applied.

8. The methodology, significant assumptions, and data used in making accounting estimates are reasonable, and have been properly reflected and disclosed in the financial statements in accordance with the 2024/25 Code. Judgements made in making estimates have been based on the latest available and reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

9. I have assessed the Council's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on the Council's ability to continue to adopt the going concern basis of accounting.

Assets

10. All assets at 31 March 2025 of which I am aware have been reported in the financial statements.

11. Where a rolling programme of asset valuations has been used, I have satisfied myself that the carrying amount of assets at 31 March 2025 does not differ materially from that which would be determined if a revaluation had been carried out at that date.

12. I carried out an assessment at 31 March 2025 as to whether there is any indication that an asset may be impaired and have recognised any impairment losses identified in the financial statements.

13. I have provided you with all information of which I am aware regarding any valuation exercises carried out after 31 March 2025.

14. There are no plans or intentions that are likely to affect the carrying value or classification of the assets recognised in the financial statements.

15. Owned assets are free from any lien, encumbrance, or charge, except as disclosed in the financial statements.

Liabilities

16. All liabilities at 31 March 2025 of which I am aware have been reported in the financial statements.

17. Provisions have been recognised in the financial statements for all liabilities of uncertain timing or amount at 31 March 2025 of which I am aware where the conditions specified in IAS 37, as adapted by the 2024/25 Code, have been met. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the obligation at 31 March 2025. Where the effect of the time value of money is material, the amount of the provision has been discounted to the present value of the expected payments.

18. Provisions recognised in previous years have been reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2025, or to reflect material changes in the assumptions underlying the calculations of the provisions.

19. The accrual recognised in the financial statements for annual leave untaken by 31 March 2025 has been estimated on a reasonable basis.

20. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Contingent Liabilities

21. There are no significant contingent liabilities, other than those disclosed in Note 41 to the financial statements, arising either under formal agreement or through formal undertakings requiring disclosure in the financial statements. All known contingent liabilities have been fully and properly disclosed in accordance with IAS 37, as adopted by the 2024/25 Code.

Litigation and Claims

22. All known actual or possible legal claims have been disclosed to you and have been accounted for and disclosed in the financial statements in accordance with the 2024/25 Code.

Fraud

23. I understand my responsibilities for the design, implementation, and maintenance of internal control to prevent fraud and I believe I have appropriately fulfilled those responsibilities.

24. I have provided you with all information in relation to:

- my assessment of the risk that the financial statements may be materially misstated as a result of fraud,
- any allegations of fraud or suspected fraud affecting the financial statements, and
- fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

25. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related Party Transactions

26. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with IAS 24, as adopted by the 2024/25 Code. I have made available to you the identity of all of the Council's related parties and all the related party transactions of which I am aware.

Remuneration Report

27. The Remuneration Report has been prepared in accordance with the Local Authority Accounts (Scotland) Regulations 2014, and all required information of which I am aware has been provided to you.

Management Commentary

28. I confirm that the Management Commentary has been prepared in accordance with statutory guidance, and the information is consistent with the financial statements.

Corporate Governance

29. I confirm the Council has undertaken a review of the system of internal control during 2024/25 to establish the extent to which it complies with proper practices set out in *Delivering Good Governance in Local Government: Framework 2016*. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.

30. I confirm that the Annual Governance Statement has been prepared in accordance with the *Delivering Good Governance in Local Government: Framework 2016* and the information is consistent with the financial statements. There have been no changes in the corporate governance arrangements, or issues identified, since 31 March 2025 which require to be reflected in the Annual Governance Statement or annual accounts.

Group Accounts

31. I have identified all the other entities in which the Council has an interest and have classified and accounted for them in accordance with the 2024/25 Code. Any significant issues, including those related to fraud and any qualified audit opinions, in relation to the financial statements of group entities, have been provided to you. Any significant issues identified by you as group auditor have been communicated to management of group components, where relevant to those components.

Events Subsequent to the Date of the Balance Sheet

32. All events subsequent to 31 March 2025 for which IAS 10, as adopted by the 2024/25 Code, requires adjustment or disclosure have been adjusted or disclosed.

Other representations – Prior Period Adjustment Due to Material Misstatement

33. I confirm that the annual accounts for the year ended 31 March 2025 include a prior period adjustment resulting from the correction of a material misstatement identified.

34. The misstatement arose due to the incorrect inclusion of a contingency fee as part of the annual revaluation process for those assets valued using the depreciated cost replacement (DRC) basis relating to the 'instant build' method.

35. I confirm the following:

- The error has been corrected by restating the comparative figures for the year ended 31 March 2024 including opening balances at 1 April 2023 in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
- The prior year restatement resulted in a decrease to property, plant and equipment of £248.5 million and a corresponding increase to the revaluation reserve (unusable reserves) for year ended 31 March 2024.
- The nature of the prior period adjustment and its financial impact have been appropriately disclosed in the notes to the financial statements.

- I acknowledge my responsibility for the preparation of the annual accounts in accordance with the relevant legislation and accounting framework, and confirm that the restated figures present fairly, in all material respects, the financial position and performance of the council.
- I confirm that there are no other material misstatements or omissions in the prior period financial statements that require adjustment.

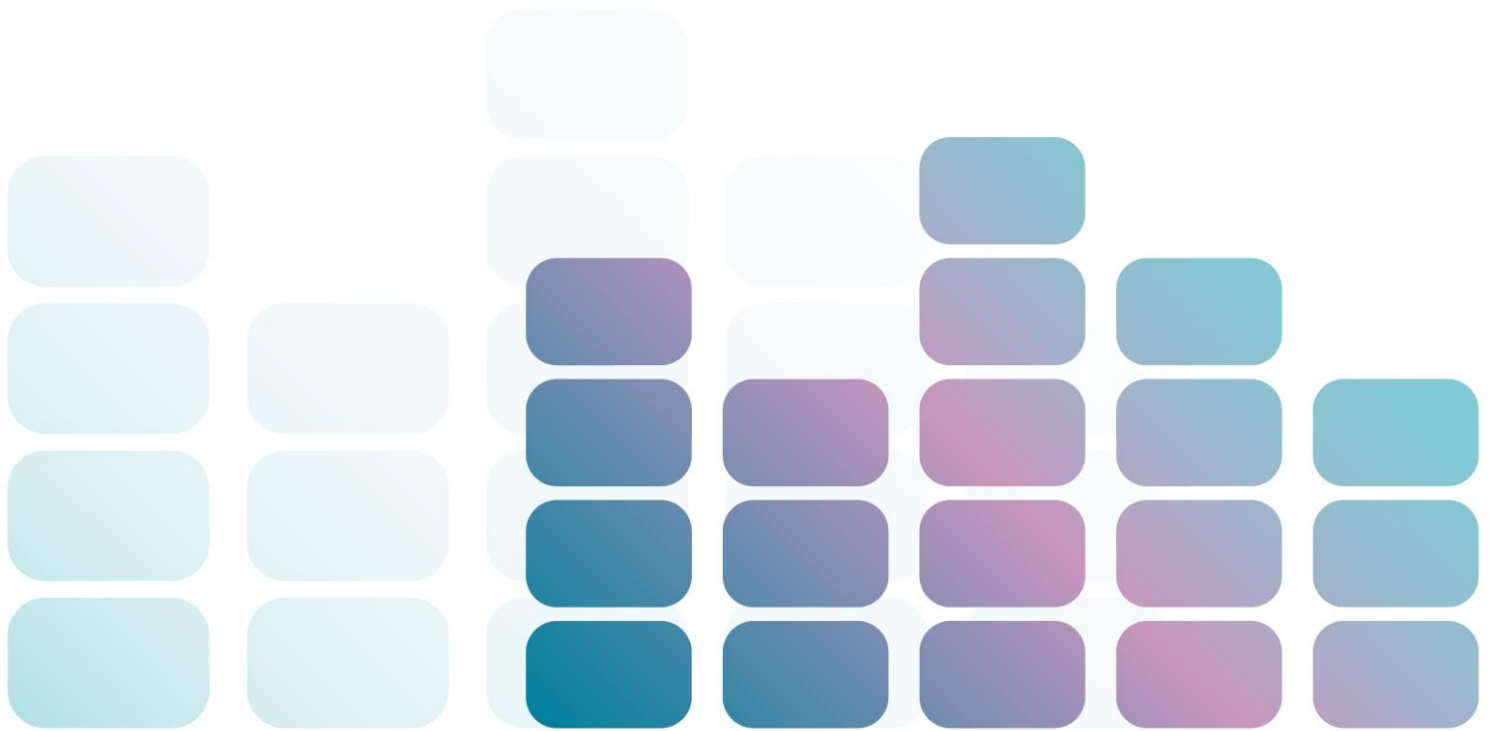
Yours sincerely

To be signed and dated by DocuSign

Chief Officer Corporate Finance (Section 95 Officer)

The Highland Council

2024/25 Annual Audit Report



Prepared for the Members of The Highland Council and the Controller of Audit
November 2025

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Accessibility

You can find out more and read this report using assistive technology on our website www.audit.scot/accessibility.

Key messages

Audit of the annual accounts

- 1 All audit opinions stated that the annual accounts were free from material misstatement.
- 2 All audit adjustments required to correct the financial statements for a true and fair view were processed by the council.

Financial Management

- 3 The council has effective and appropriate arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.

Financial Sustainability

- 4 The audit work performed on the arrangements the body has in place for securing financial sustainability found that these were effective and appropriate.

Vision, Leadership and Governance

- 5 The arrangements the council has in place for securing vision, leadership and governance were effective and appropriate.

Use of Resources to Improve Outcomes

- 6 The council has demonstrated there are appropriate arrangements in place for securing financial sustainability including regular reporting to full council. Overall we found that these arrangements were effective and appropriate.

Best Value

- 7 The Highland Council has effective and appropriate arrangements in place for securing Best Value.

- 8 There are effective and appropriate arrangements in place for preparing and publishing Statutory Performance Information in the annual Performance Plan.
- 9 The Best Value report on transformation reported that The Highland Council has establish a clear plan for transformation via its Operational Delivery Plan including transformation portfolios alongside quantified costs and benefits.

Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2024/25 audit of The Highland Council's annual accounts and the wider scope areas specified in the [Code of Audit Practice \(2021\)](#).
2. The Annual Audit Report is addressed to The Highland Council, hereafter referred to as 'the council' and the Controller of Audit, and will be published on [Audit Scotland's website](#) in due course.

Appointed auditor and independence

3. Claire Gardiner, of Audit Scotland, has been appointed as external auditor of the council for the period from 2022/23 until 2026/27. Claire Gardiner, as engagement lead, and the audit team are independent of the council in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead and audit team. No non-audit services were provided.

Acknowledgements

4. We would like to thank the council and its staff, particularly those involved in preparation of the annual accounts, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the audit appointment.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An opinion on statutory other information published with the financial statements in the annual accounts, namely the Management Commentary and Annual Governance Statement.
- An opinion on the audited part of the Remuneration Report.
- Conclusions on the council's arrangements in relation to the wider scope areas: Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.
- Reporting on the council's arrangements for securing Best Value.
- Providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return and Whole of Government Accounts return.
- A review of the council's arrangements for preparing and publishing statutory performance information.
- Provision of this Annual Audit Report.

Responsibilities and reporting

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

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information reported within the annual accounts, and concluding on the council's arrangements in place for the wider scope areas and Best Value.

8. The matters reported in the Annual Audit Report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve the council from its responsibilities outlined below.

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

The council's responsibilities

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

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of annual accounts, comprising financial statements for the council and its group that gives a true and fair view and other specified information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

National performance audit reporting

11. The Auditor General for Scotland and the Accounts Commission regularly publish performance audit reports. These cover a range of matters, many of which may be of interest to the Audit Committee and Members of the council. Details of national and performance audit reports published over the last year can be seen in [Appendix 3](#).

Audit of the annual accounts

Main judgements

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

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

Audit opinions on the annual accounts

12. The council and its group annual accounts were approved by the Audit Committee on 12 November 2025 and certified by the appointed auditor on the same day. The Independent Auditor's Report is included in the council's annual accounts, and this reports that the annual accounts were free from material misstatement.

Audit timetable

13. The unaudited annual accounts and all working papers were received on 26 June 2025 in accordance with the agreed audit timetable.

Audit Fee

14. The audit fee for the 2024/25 audit was reported in the Annual Audit Plan and was set at £533,160. There have been no developments that impact on planned audit work required, therefore the audit fee reported in the Annual Audit Plan remains unchanged.

Materiality

15. Materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual accounts.

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

17. Materiality levels for the audit of the council and its group were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. Materiality levels were reassessed on receipt of the unaudited annual accounts and updated as shown in [Exhibit 1](#).

Exhibit 1
2024/25 Materiality levels for The Highland Council and its group

Materiality	Council £m	Group £m
Materiality: Set at 2% of gross expenditure.	21.6	22.1
Performance materiality: Set at 70% of materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required.	15.0	15.5
Reporting threshold: All misstatements greater than this are reported.	0.75	0.75

Source: Audit Scotland

Significant findings and key audit matters

18. ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged as governance, which for the council is the Audit Committee.

19. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor’s professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

- 20.** In determining key audit matters, auditors consider:
- Areas of higher or significant risk of material misstatement.
 - Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
 - Significant events or transactions that occurred during the year.

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

Exhibit 2

Significant findings and key audit matters

Significant findings and key audit matters	Outcome
Valuation of property, plant and equipment (PPE) As part of the council's revaluation process, a contingency fee has been incorrectly included for those assets valued using the depreciated cost replacement (DRC) basis relating to the 'instant build' method. The valuation basis, DRC, reflects the depreciated replacement cost of these assets rather than a realisable or market value valuation basis. This has been in place for several years and is the result of a misinterpretation of the RICS guidance which states contingency costs should be included when they reflect real, foreseeable risks. In the instant build model these risks are assumed not to exist, so contingency costs should be excluded. Our Annual Audit Plan identified the valuation of PPE as a significant risk of material misstatement given the significant degree of subjectivity in these valuations which are based on specialist assumptions, and changes in the assumptions can result in material changes to valuations.	The council's Chief Officer Corporate Finance and valuer engaged with other local authorities and the consensus was that a contingency should not be included in revaluations. Officers reviewed and recalculated the affected revalued assets. This resulted in an adjustment to PPE of £245 million in 2024/25. There is no cash impact as a result of this adjustment with the movements affecting the balance sheet, specifically PPE and unusable reserves (revaluation reserve). The prior year figures have also been restated as follows: • 2023/24 overvalued by £248.5 million • 2022/23 overvalued by £251.6 million. The impact of the valuation adjustment requires an amendment to depreciation charges in 2023/24 and 2024/25 due to the change in opening gross book value of the DRC. Officers have reviewed and processed the adjustment. Depreciation was overstated as follows: • 2024/25 overstated by £5.4 million. • 2023/24 overstated by £5.1 million. Further work will be required by the council to ensure their fixed asset register is updated in line with the revised valuations. Refer, action plan, recommendation 2. Exhibit 4 includes further details on the audit procedures we carried out as well as our conclusions. Appendix 2 includes the details of the adjustment to the accounts.

Qualitative aspects of accounting practices

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

Accounting policies

23. The appropriateness of accounting policies adopted by the council was assessed as part of the audit. These were considered to be appropriate to the circumstances of the council, and there were no significant departures from the accounting policies set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Accounting estimates

24. Accounting estimates are used in a number of areas in the council's financial statements, including the valuation of land and buildings and the valuation of the pension asset / liability. Audit work considered the process management of the council has in place around making accounting estimates, including the assumptions and data used in making the estimates, and the use of any management experts. Audit work concluded:

- There were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable with the exception of the valuation of PPE which has been adjusted and is summarised in [Exhibit 2](#) and [Exhibit 4](#).
- There was no evidence of management bias in making the accounting estimates.

25. Details of the audit work performed and the outcome of the work on accounting estimates that gave rise to significant risks of material misstatement are outlined in [Exhibit 4](#) under other areas of audit focus.

Disclosures in the financial statements

26. The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional levels of detail provided for disclosures around areas of greater sensitivity, such as IFRS 16 (leases) and pensions.

Group audit

27. The council is part of a group and prepares group financial statements. The group is made up of seven components, including the council which is the parent of the group. As outlined in the Annual Audit Plan, audit work was required on a number of the group's components for the purposes of the group audit, and this work was performed by a combination of the audit team and the components' audit teams.

28. The audit work performed on the group's components is summarised in [Exhibit 3](#).

Exhibit 3

Summary of audit work on The Highland Council Group's components

Group component	Auditor and audit work required	Summary of audit work performed
The Highland Council (parent body)	Audit Scotland Fully scope audit of the council's annual accounts.	The outcome of audit work performed is reported within this Annual Audit Report. Significant findings and key audit matters are reported in Exhibit 2 .
High Life Highland (100% subsidiary)	Saffery LLP Analytical procedures at the group level.	No significant issues were identified.
D&E Coaches Limited (100% subsidiary)	Leipur & Summers Analytical procedures at the group level	No significant issues were identified.
Inverness Common Good Fund (100% subsidiary)	Audit Scotland Part of the parent body audit.	No significant issues were found from our work on the Inverness Common Good Fund.
Nairn Common Good Fund (100% subsidiary)	Audit Scotland Part of the parent body audit.	No significant issues were found from our work on the Nairn Common Good Fund.
Highland and Western Isles Valuation Joint Board (associate)	Audit Scotland Group level analytical procedures only	No significant issues were identified.
Highland and Islands Transport Partnership (associate)	Audit Scotland Group level analytical procedures only	No significant issues were identified.

Source: Audit Scotland

29. ISA (UK) 600 requires auditors to report the following matters if these are identified or encountered during an audit:

- Any instances where review of a component auditor's work gave rise to issues and how this was resolved.

- Any limitations on the group audit.
- Any frauds or suspected frauds involving group or component management.

30. We did not identify or encounter any of these matters during the group audit and have nothing to report in this regard.

Audit adjustments

31. Audit adjustments were required to the financial statements to correct misstatements that were identified and discussed during the audit. Audit adjustments include:

- **Valuation of PPE (decrease by £245 million):** An adjustment of £245 million was made to correct assets revaluations for those assets valued using the 'instant build' method in 2024/25, details are included in [Exhibit 2](#) and [Exhibit 4](#). Due to the material value of the adjustment, prior year figures were also required to be adjusted as follows:
 - For 24/25 DRC assets have been overvalued by £244.936 million.
 - For 23/24 they have been overvalued by £248.484 million.
 - For 22/23 they have been overvalued by £251.618 million.
- **Transition to IFRS 16 (service concession adjustments) £33.2 million:** The unaudited accounts did not include the correct accounting treatment for service concessions (PPP/PFI) under IFRS 16 due to late information received from the council's external advisor. A disclosure was included in the Statement of Responsibilities and members were informed of the issue when the unaudited accounts were presented in June 2025. Officers liaised with audit during the year to discuss and agree this approach. The adjustment to the school assets has the following impact:
 - a net nil change in PPE overall;
 - reduction in revaluation reserve of £33.2 million;
 - closing PPP lease liability increase of £30.4 million;
 - general fund increase of £2.4 million and a corresponding £2.4 million decrease in the unusable reserve (capital adjustment account) due to how PPP lease liabilities are now accounted for. There is no change in the overall financial position.

32. Details of all audit adjustments are outlined in [Appendix 2](#).

33. Management of the council processed audit adjustments for all misstatements identified greater than the reporting threshold of £750,000 except for the following:

- There is a classification error in the PPE note between assets under construction (AUC) and council dwellings (CDs) of approximately £5.8 million. The closing gross book value for CDs represents what is recorded on the District Valuer's report. Overall, PPE is correct. The value is above the reporting threshold but significantly below our performance materiality. The misclassification also impacts depreciation however, overall this is immaterial.
- The council incorrectly applied a desktop valuation increase to CDs. This resulted in a £2.8 million difference between the closing gross book value of CDs and the valuer's report. It represents less than 0.5% of the value of CDs. The value is above the reporting threshold but significantly below our performance materiality.

34. It is the auditor's responsibility to request that all misstatements greater than the reporting threshold of £750,000 are corrected, even if they are not material. Management of the council chose not to adjust for the item(s) above. However, the final decision on whether an audit adjustment is processed to correct a misstatement rests with Audit Committee as those charged with governance.

35. The value, nature, and circumstances of the uncorrected misstatements were considered, individually and in aggregate, by the audit team, and it was concluded these were not material to the financial statements. As a result, these did not have any impact on the audit opinions given in the Independent Auditor's Report.

Whole of Government Accounts (WGA) return

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

Significant risks of material misstatement identified in the Annual Audit Plan

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

Exhibit 4

Significant risks of material misstatement to the financial statements

Risk of material misstatement	Audit response	Outcome of audit work
Significant risks of material misstatement		
Fraud caused by management override of controls Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	The audit team will: • Evaluate the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end.	Audit work performed found: • The design and implementation of controls over journal processing were appropriate. • No inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting. • No significant issues were identified from testing of journal entries. Conclusion: No evidence of fraud caused by management override of controls was found.
Valuation of property, plant and equipment The council held £3.1 billion of property, plant, and equipment (PPE) at 31 March 2024, of which £1.7 billion was land and building assets. The council is required to value land and building assets at existing use value where an active market exists for these assets. Where there is no active market, these assets are valued on a depreciated cost replacement (DRC) basis. As a result, there is a significant degree of subjectivity in these valuations which are based on specialist assumptions,	The audit team will: • Evaluate the design and implementation of controls over the valuation process. • Review the information provided to the valuer and assess this for completeness and accuracy. • Evaluate the competence, capabilities, and objectivity of the valuer. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred.	Audit work performed found: • The design and implementation of controls over the valuation process were appropriate. • The information provided to the valuer was accurate and complete. • The valuer had sufficient competence, capability, and objectivity to perform their work. • Management are involved in the valuation process and have an appropriate level of oversight. • The data and assumptions used in the valuation process incorrectly included a contingency fee

Risk of material misstatement	Audit response	Outcome of audit work
and changes in the assumptions can result in material changes to valuations.	- Review the appropriateness of the key data and assumptions used in the 2024/25 valuation process, and challenge these where required. - Review management's assessment that the value in the balance sheet of assets not subject to a valuation process in 2024/25 is not materially different to current value at the year-end, and challenge this where required.	for assets valued using DRC (for assets using the instant build method). Officers reviewed and corrected the material error in the accounts as noted in Exhibit 2. Conclusion: Following the adjustment to the unaudited accounts of £245 million the valuation of PPE is not materially misstated.

Other areas of audit focus / key audit matters

Pension valuation	The audit team will:	Audit work performed found:
The council had a pension liability of £34.2 million at 31 March 2025. The council is a member of LGPS, which is a defined benefit pension scheme. LGPS is subject to formal valuation every three years, and this sets out each member's share of the scheme's overall pension liability and contributions for the next three years. The last formal valuation was carried out at 31 March 2023. An estimation of the council's share of the overall pension liability is required in each intervening year between formal valuations, and these are carried out by the actuary, Hymans Robertson. There is a significant degree of subjectivity in the estimation of the pension	- Evaluate the design and implementation of controls over the pension liability estimation process. - Review the information provided to the actuary and assess this for completeness and accuracy. - Evaluate the competence, capabilities, and objectivity of the actuary. - Obtain an understanding of the management's involvement in the estimation process to assess if appropriate oversight has occurred. - Review the appropriateness of the key data and assumptions used by management for the estimation of the pension liability, and	Audit work performed found: - The design and implementation of controls over the pension liability estimation process were appropriate. - The information provided to the actuary was accurate and complete. - The actuary had sufficient competence, capability, and objectivity to perform their work. - Management are involved in the estimation process and have an appropriate level of oversight. - The data and assumptions used in the estimation process were appropriate. - The information provided by PwC was reviewed and this reflected in the planned audit procedures, where required.

Risk of material misstatement	Audit response	Outcome of audit work
liability as the estimation is based on specialist assumptions, and changes in the assumptions can result in material changes to the estimation.	challenge these where required. Audit Scotland uses PwC as an auditor's expert to inform the planned audit procedures outlined above. Therefore, the audit team will also review the information provided by PwC and reflect this in the planned audit procedures where required.	Conclusion: The estimation of the pension liability is not materially misstated.
New Corporate Financial System (Tech One/CiA) From 1 April 2024 the council moved to a new financial ledger, Technology One. Any significant change of this nature increases the risk of misstatement in the annual accounts. The internal controls and integrity of the new corporate finance system (the financial ledger) implemented from April 2024 will be reviewed. This will include consideration of the controls put in place by management, transfer of opening balances as well as the governance around the project.	The audit team will: - Evaluate the design and implementation of controls over the ledger including general IT controls. - Review and confirmation of the transfer of opening balances from the old to new ledger. - Assess the overall governance of the implementation of the project.	Audit work performed found: - The design and implementation of controls over the ledger, including general IT controls, were found to be appropriate. - Opening balances were found to have been transferred correctly from the old to the new system. - The overall governance of the project was found to be satisfactory. Project updates were presented at the Corporate Resources Committee on a regular basis. A post go-live report was presented in June 2024 highlighting that all milestones had been completed. - As part of the overall project there was sufficient testing undertaken at key milestones, updating the business-continuity plan and training for all staff. - The project has noted no downtime since the go live date and has operated as expected.

Risk of material misstatement	Audit response	Outcome of audit work
Emerging risk of material misstatement		
Transition to IFRS 16 (service concession adjustments) A significant risk of material misstatement arose during the audit. The unaudited accounts did not include the correct accounting treatment for service concessions (PPP/PFI) under IFRS 16 due to late information received from the council's external advisor. Officers liaised with audit during the year to discuss and agree an approach. A disclosure was included in the Statement of Responsibilities and members were informed of the issue when the unaudited accounts were presented in June 2025.	- Review the updated PPP/PFI accounting treatment when available including corresponding disclosures and note to the accounts. - Identify material PPP/PFI arrangements and whether these have been measured and accounted for in line with the applicable accounting framework. - Consider if all PPP/PFI arrangements have been identified and disclosed in the financial statements. - Agree the disclosures to supporting documentation, and assess whether it is complete and free from misstatement. - Evaluate the competence, capabilities, and objectivity of the external advisor.	Audit work performed found: - PPF/PFI arrangements have been accounted for in accordance with IFRS 16 and disclosed in the audited accounts in line with the Code. - The external advisor had sufficient competence, capability, and objectivity to perform their work. - Delays with obtaining IFRS 16 information in a timely fashion from the external advisor was an issue across the sector in 2024/25. Conclusion: Following the adjustment to the unaudited accounts of £33.2 million, long term liabilities is not materially misstated.

Source: Audit Scotland

Prior year recommendations

38. There were no recommendations made in the 2023/24 Annual Audit Report relating to the financial audit of the annual accounts. Progress against previous Best Value recommendations including the thematic reviews are outlined below in [Appendix 1](#).

Wider scope audit

Audit approach to wider scope

Wider scope

39. As reported in the Annual Audit Plan and the Code of Audit Practice, the wider scope audit areas are:

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

40. Audit work is performed on these four areas and a conclusion on the effectiveness and appropriateness of arrangements the council has in place for each of these is reported in this chapter.

Financial Management

Conclusion

The council has effective and appropriate arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.

The council operated within budget in 2024/25 and has demonstrated appropriate financial management

41. The 2024/25 budget was presented and approved at the council meeting on 29 February 2024. The covering paper highlighted that *the budget gap, was estimated as £108.3 million across the three-financial years and increased to £113 million once the impact of the 2024/25 Scottish Government grant settlement was known.*

42. The revenue budget was set at £775.442 million and revised during the year to a final reported budget of £791.571 million (June 2025).

43. The council's initial revenue budget for 2024/25 set out a balanced budget of £775.442 million including the utilisation of £9.9 million of reserves. As part of the council's medium term financial planning, the budget also included indicative amounts for the use of reserves in 2025/26

and 2026/27 (£12.9 million and £1.1 million respectively) to balance the revenue budget. The original planned indicative use of reserves in 2025/26 and 2026/27 to balance the budget was reduced to nil in the medium term financial plan for 2025/26 – 2027/28 as presented and approved at the council meeting on 6 March 2025.

44. During 2024/25 several major developments have significantly impacted the council's financial outlook and budget position. These changes have prompted a substantial revision of the council's financial planning assumptions. In addition, ongoing uncertainty surrounding the grant settlement has also had an impact on assumptions.

45. During 2024/25 the council managed its revenue budget and ended the year with a net overspend of £3.4 million following adjustments for PPP financial flexibility.

46. Overall, we noted that the budget and budget updates are routinely provided to full council for scrutiny but we note the challenges ahead in terms of the longer term planning.

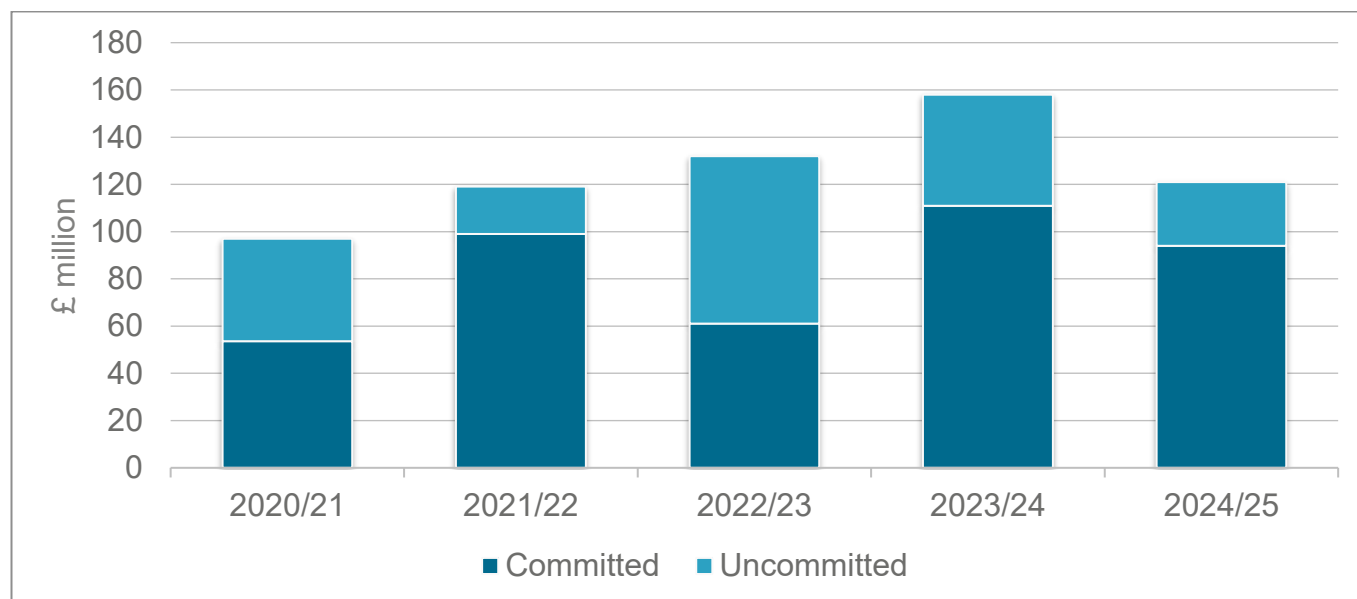
47. We also reported in our Best Value thematic report on transformation that the council engaged with communities when setting its three-year budget in 2024 and has evidenced how engagement with communities has influenced transformational activity for the Highlands.

Reserves

48. The council earmarked £35.7 million reserves over 2024/25 to 2026/27 to support the Delivery Plan and the delivery of £54.6 million projected savings. Based on unaudited data, the council delivered savings of £22.2 million through its Delivery Plan in 2024/25. A number of projects did not achieve their planned savings for 2024/25, most notably in adult social care, for which there was a £4.5 million shortfall. [Exhibit 5](#) presents an analysis of the general fund balance split between committed and uncommitted for the last five financial years.

Exhibit 5

Analysis of general fund over the last five years: committed and uncommitted reserves



Source: Highland Council Audited Annual Accounts 2020/21 to 2024/25

The council delivered against their savings target, however, general fund reserves were used to balance the budget

49. As we reported in our 2024/25 Best Value transformation report; the council achieved £22.2 million out of £27.6 million (80.4 per cent) planned Delivery Plan savings in 2024/25. The most notable savings came from an additional £5.6 million in council tax revenue generated from second homes and long-term vacant properties, along with £3 million in extra income resulting from increased fees and charges.

50. In 2024/25, 21 Delivery Plan projects were expected to deliver savings. Of these:

- Nine projects met or exceeded their targets, achieving a total of £3.4 million in savings over the target.
- 12 projects fell short, resulting in a combined shortfall of £8.8 million.

51. A significant portion of this shortfall, £4.5 million, was linked to adult social care. Additionally, £2.4 million in planned savings for 2024/25 have been deferred and are now scheduled for delivery in future years, as reflected in the Medium-Term Financial Plan (MTFP) for 2025–28.

52. Looking ahead, the council's MTFP 2025–28 sets out £36.7 million of projected savings (excluding savings which were re-based from 2024/25) and £4.5 million of revenue investment. Significant savings planned for 2025/26 onwards include:

- redesign of adult social care (£2.6 million in 2026/27)
- redesigning recycling services (£1.7 million in 2025/26)
- a family first approach to children's services (£0.7 million in 2025/26 and a further £0.7 million 2026/27)
- efficiencies from procurement (£0.3 million in 2025/26 and £1.1 million in 2026/27)
- maximising and expanding solar PV (£0.9 million in 25/26 and £0.5 million in 2026/27)
- commercial scale solar PV (£2.6 million in 2026/27).

Financial management culture

53. This is our third year as external auditors and over this time we have noted that the council have a good financial management culture with appropriately documented financial controls, and approval processes in place. We note there are defined financial responsibilities across the various departments and services and these have been reinforced since the organisational changes implemented in 2023/24.

54. We have observed open communication between officers and members at the audit committee. Officers are responsive to members' questions and provide appropriate explanations.

55. There is a schedule of training and awareness sessions provided by internal audit to members. Training is available to all members. The training includes regular updates on financial responsibilities, code of good governance, fraud risks, strategic risks and ethical standards.

56. A 'Members' Learning and Development Framework' was agreed in October 2023 and it is revised annually. A key part of the 2024/25 plan included ensuring *members' learning and development aligns with the Council's objectives as outlined in the Council Programme, the Operational Delivery Plan 2024-2027 and the Performance Plan, formally known as the Corporate Plan.*

57. Regular budget monitoring reports including updates to forecasts are provided to members. The audit committee, those charged with governance, routinely demonstrate good oversight and scrutiny, and discuss/consider all the reports including those on internal audit and risk register updates.

58. Our audit work concluded that the council has appropriate whistleblowing policies in place as well as clear procedures for investigating and responding to suspected fraud or corruption.

Financial Sustainability

Conclusion

The audit work performed on the arrangements the body has in place for securing financial sustainability found that these were effective and appropriate.

59. As we reported in our 2024/25 Best Value transformation report, the council's budget gap reduced significantly going into 2025/26, having been projected at £113 million over three years in the MTFP 2024–2027. The improved financial position resulted from a combination of factors, including the agreement of council tax and budget savings, as well as Scottish Government funding being higher than the council had expected.

60. The council set out further detail on savings/income stemming from the Delivery Plan in its MTFPs for 2024–27 and 2025–28. This included contextual information, costs, savings/income, anticipated benefits, impacts on the public and vulnerable groups/communities, FTE impact, deliverability, and risks/mitigations.

61. The MTFP for 2025–28 also includes similar details on proposed investments, some of which link to the Delivery Plan with the latest update provided to members in September 2025.

Medium and longer term financial planning

Highland Investment Plan (HIP)

62. The council approved a £2.1 billion 20-year Highland Investment Plan in May 2024. This sets out plans for capital investment over this period to help improve facilities for communities and enable transformational change and changes to future service delivery. The Delivery Plan includes a Highland Investment Plan workstream.

63. Routine updates on progress against the HIP are presented to the full council. The May 2025 update provided a consolidated view of investment plans for the five-year period from 2025/26 to 2029/30, reflecting decisions made by the council over the previous 12 months.

64. This included an estimated net investment profile of £756 million over the next five years as shown in [Exhibit 6](#). The consolidated programme is part of a longer-term strategy for the HIP which is forecasted to create a potential £2.1 billion of capital investment over a 20 year period.

Exhibit 6

Highland Council Investment profile 2024/25 to 2029/30

Category / area	24/25 £m	25/26 £m	26/27 £m	27/28 £m	28/29 £m	29/30 £m	5 year total £m
Roads and buildings	0	25.3	50.3	100.5	126.9	94.2	397.2
Five year investment plan	155.2	100.6	91.9	52.4	40.5	41.0	326.4
Estimated carry forward from 24/25	(32.7)	32.7	0	0	0	0	32.7
Net HIP totals	122.5	158.6	142.2	152.9	167.4	135.2	756.3

Source: Highland Council HIP update (May 2025)

65. The consolidated HIP is aligned with funding and affordability parameters agreed by the council in March 2025. The May 2025 report highlights emerging cost pressures that will require management within the totality of the HIP and provides a description of the methodology and process for achieving this. Project risks related to the HIP are managed at the project / board level, with appropriate reporting and escalation to strategic committees as required.

66. There is clear evidence that the HIP has been produced with financial sustainability in mind. The strategy includes key assumptions and factors such as:

- the earmarking annually of a sum equivalent to 2% of Council tax income year on year;
- overall borrowing costs remaining within 10% of the total revenue funding of the council;
- a 10% cap applied across the totality of the council's general fund capital investment.

67. For 2025/26, consideration is being given to a 10% (£15 million) 'over-programming' built in. This reflects an intentional and deliberate objective of programming spend beyond the intended budget level. This is to recognise the likelihood of project slippage relative to the size and scale of investment planned. It provides officers with a short-term mechanism to manage potential cost pressures in 2025/26. Over the longer-term it is accepted that this programming is not suitable. The cost pressures represent approximately 2% of the five year investment, and it is expected that these will be managed over the duration of the programme.

68. There is a dedicated page on the council’s website for the HIP and links to various Area and Place Plans demonstrating the transparency of the council’s plans and accessibility to stakeholders and the general public.

69. As shown in [Exhibit 7](#), the council’s level of borrowing has increased year-on-year from £972.5 million in 2020/21 to £1,309 million in 2024/25. While borrowing remains within the Council’s agreed cap of 10%, it is important to recognise the real and ongoing revenue implications of servicing this debt. As the council continues to support its ambitious HIP, it will need to carefully balance investment priorities with the long-term affordability of its borrowing commitments.

Exhibit 7

Short and long term borrowing summary 2020/21 to 2024/25

	24/25	23/24	22/23	21/22	20/21
	£m	£m	£m	£m	£m
Short term borrowing	267.1	224.4	167.9	154.3	155.9
Long term borrowing	1,041.6	944.1	889.9	884.9	816.6
Total borrowing	1,308.7	1,168.5	1,057.8	1,039.2	972.5

Source: Highland Council Audited Annual Accounts 2020/21 to 2024/25

Vision, Leadership and Governance

Conclusion

The audit work performed on the arrangements the body has in place for securing Vision, Leadership and Governance and found that these were effective and appropriate.

Effectiveness of governance arrangements for delivery

70. We noted that good governance has been demonstrated including the timing and content of the reports presented for scrutiny. Members are provided with regular reports including those areas susceptible to fraud. In May 2025, members were provided with the following updates:

- Salary overpayments: ongoing progress report regarding the salary overpayments initially reported in our 2022/23 Annual Audit Report. The council are committed to addressing the issue and provide routine updates on this area.

- National Fraud Initiative: update on the 2024/25 exercise with the outcome to be reported in 2025/26.
- Corporate Risk Register: regular report presented at each meeting for scrutiny of the council's key strategic risks.
- Fraud and Whistleblowing Annual Report: includes details of fraud, other investigation activities, outcomes relating to the whistleblowing concerns.
- Audit Committee Annual Report: summary of work of the Audit Committee including the annual self-assessment as well as reporting on progress on actions including areas noted for improvement from the prior year report.
- Internal Audit Annual Report: final annual report (last one where PSIAS are applicable).
- Draft Annual Governance Statement for 2024/25 accounts.

71. Internal audit have been proactive and carried out work on council tax refunds following the January 2025 Controller of Audit report [2023/24 Audit of Aberdeen City Council - council tax refunds – a significant fraud](#). Full assurance was given and there were no issues noted overall. This was reported to members in November 2024.

72. There is a suite of member training and induction carried out by the council to support members and their governance role. We note that a training session on understanding the annual accounts was provided to members at the member workshop in April 2025. This was one of 4 sessions planned for the year. The final session on the role of external audit will take place following the Audit Committee in November 2025. These training sessions help support member understanding of the annual accounts including things to look for as part of their review.

Internal Audit should ensure they fully comply with new Global Internal Audit Standards (GIAS)

73. The council's internal audit function was not currently fully compliant with the Public Sector Internal Audit Standards (PSIAS), due to the absence of an external quality assessment (EQA). The delay has been reported to members for several years. The council has considered the associated risk and disclosed this in its Annual Governance Statement. There are plans to address the EQA this as part of the implementation and move to the new GIAS framework. The GIAS, like PSIAS, state that there should be an EQA at least once every five years, carried out by a qualified assessor, to ensure conformance with professional standards.

Recommendation 3

Internal audit should arrange to have an external quality assessment now that GIAS have been implemented.

Reporting of decisions and outcomes

74. The council's 2024-27 Operational Delivery Plan is the key mechanism intended to demonstrate how the council plan, deliver and ultimately improve the outcomes for the people and communities across the Highland region. It is also used to demonstrate financial sustainability in the medium term. The first Operational Delivery Plan Annual Progress Report 2024/25 was provided at the May 2025 meeting of the Highland Council.

Use of Resources to Improve Outcomes

Conclusion

The council has demonstrated there are appropriate arrangements in place for securing financial sustainability including regular reporting to full council. Overall we found that these arrangements were effective and appropriate.

Resources are deployed to improve strategic outcomes

Review of lead agency model

75. In the Highland region, adult social care is delivered by NHS Highland under the current lead agency model. As part of our BV3 audit on transformation, we reviewed the work the council and NHS Highland have carried out as part of their review of the lead agency model for delivering health and social care and if it remains appropriate. Our report made a recommendation regarding the need *to increase the pace of adult social care change and transformation* (refer [Best Value Transformation report](#)). The council and NHS Highland are exploring the options and implications of moving away from the lead agency model. It is recognised that a change in governance model could accompany other technical and strategic changes which might enable wider system change and transformation.

76. The council reported that it was aiming to deliver £9.6 million in savings relating to adult social care through the Delivery Plan between 2024–27. The council earmarked £20 million of reserves funding for the change and transformation of adult social care over this period.

77. As of May 2025, £2.3 million had been drawn down by NHS Highland against a total of the £2.65 million agreed investment from the fund. The agreed investment comprised:

- £1.15 million for the local care model project. This aims to enhance community-based support and care coordination. As of April 2025, four sites had been identified for pilots.
- £1.50 million for resource and support costs for the adult social care transformation programme.

78. The council's medium term financial plan (MTFP) 2024–27 projected £7 million savings in 2024/25 through the redesign of adult social care. Under the current lead agency model, these savings will be delivered through NHS Highland.

79. The council's MTFP for 2025–28 includes £2.6 million in recurring savings from the planned redesign of adult social care in 2026/27. However, the specific approach for achieving these savings remains uncertain. It is also unclear how the remaining £12 million in the earmarked reserve will be utilised.

80. As our report notes, in May 2025 the council approved use of £5.6 million of earmarked funds to mitigate an adult social care overspend in NHS Highland for 2024/25. Factors contributing to the overspend included increased costs of agency spend due to staffing challenges and underlying cost pressures. In light of this, the council recognised that work will be required with NHS Highland to increase the pace of adult social care change and transformation.

81. We also found that there is good governance arrangements set up for this project. There is joint governance and oversight arrangements in place between the council and NHS Highland to oversee the change and transformation activity in adult social care. This includes a Joint Officer Group, Joint Monitoring Committee, the Person-Centred Solutions Portfolio Board and the Joint Chief Executive meetings. In addition, an Adult Social Care Programme Board was established.

Continuous improvements in priority services.

82. Our Future Highland Programme sets out what the council has committed to and why. The council has an appropriate and clearly set out Operational Delivery Plan which is a key mechanism for how it plans to deliver on the Programme and improve the outcomes for people and communities within the Highland area.

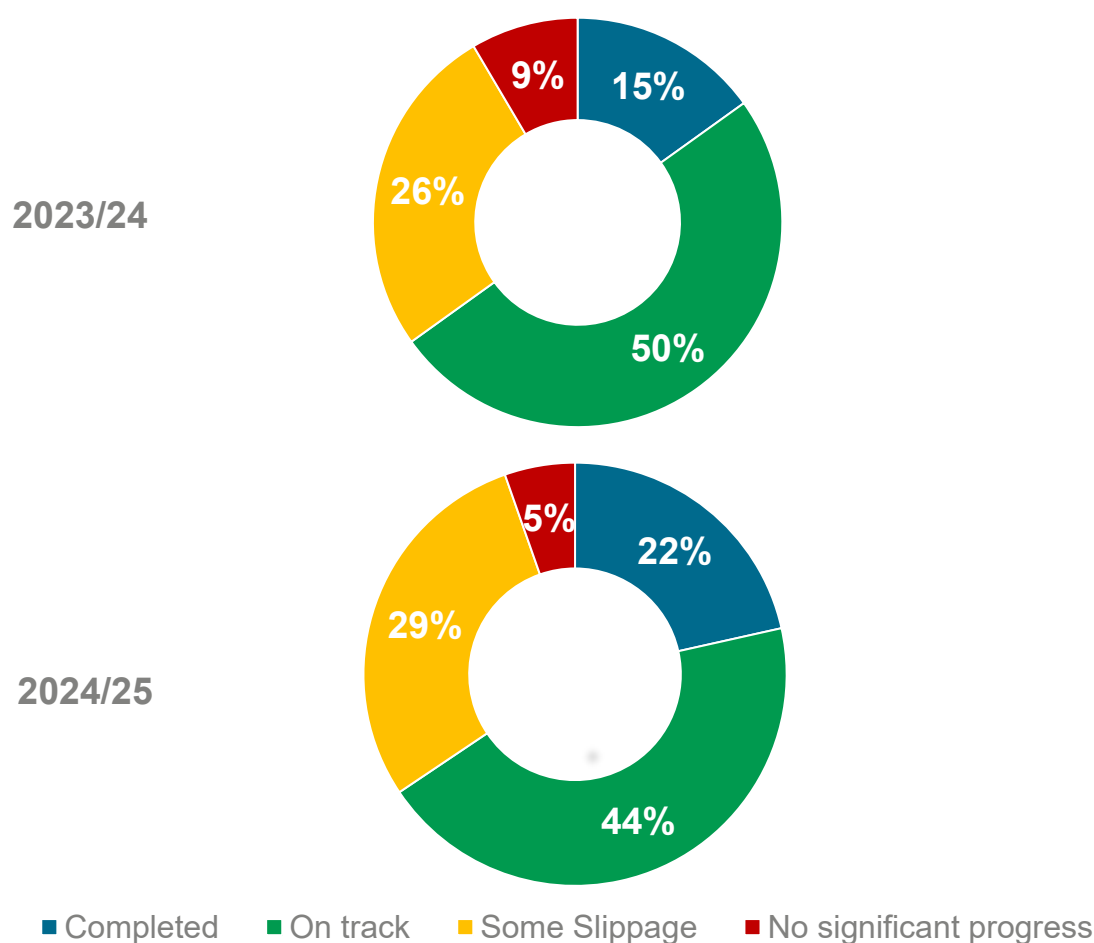
83. The council prepare an Annual Performance Report which provides performance information against the commitments set out in the Council's Performance Plan. As outlined in paragraphs 94-98 below, the Annual Performance Report is one of several mechanisms to monitor and report on council performance.

84. The Annual Performance Reports are generally published in autumn, and the most recent report was presented to the Council in September 2025.

85. The Annual Performance Report highlights a slight improvement in council performance when compared with the 2024 position, with 61 out of 93 (66 per cent) of actions being complete or on target (65 per cent in 2024) as set out in [Exhibit 8](#).

Exhibit 8

The Highland Council Annual Performance Report Results



Source: The Highland Council Annual Performance Report

86. The latest performance report paints a mixed picture of progress across the Council's key service areas. There have been encouraging developments in several fronts: literacy and numeracy attainment among P1/4/7 pupils has improved, and efforts to upskill staff through modern apprenticeships are moving in line with the Delivery Plan. Initiatives to keep children and young people within Highland continue to show positive results, while street cleanliness standards remain strong. Community transport projects and council house developments are progressing well and have exceeded targets.

87. However, the report also highlights areas where improvement has lapsed for example, foster carer approvals have not advanced as planned. Support for older people with long-term care needs, particularly in providing personal care at home, continues to be a challenge. Similarly, the expansion of electric vehicle charging infrastructure has not kept pace with targets, and efforts to assist unemployed residents into work have yet to deliver the desired impact.

Best Value audit

Conclusion

The Highland Council has effective and appropriate arrangements in place for securing Best Value.

There are effective and appropriate arrangements in place for preparing and publishing Statutory Performance Information in the annual Performance Plan.

The Best Value report on transformation reported that The Highland Council has established a clear plan for transformation via its Operational Delivery Plan including transformation portfolios alongside quantified costs and benefits.

Audit approach to Best Value

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

89. The Accounts Commission also reports nationally on thematic aspects of councils' approaches to, and performance in, meeting their Best Value duties. As part of the annual audit, thematic reviews, as directed by the Accounts Commission, are conducted on the council. The thematic review for 2024/25 is on service transformation and involved considering how the council is redesigning services to maintain outcomes and deliver services more efficiently.

90. Conclusions and judgements on the 2024/25 thematic review were reported in a separate Management Report at the August 2025 Audit Committee. Key messages have been summarised in this chapter.

Statutory performance information (SPI) and service performance

91. The Accounts Commission issued a [Statutory Performance Information Direction](#) which requires the council to report its;

- performance in improving services and progress against agreed desired outcomes (SPI 1), and
- a self-assessment and audit, scrutiny, and inspection body assessment of how it has responded to these assessments (SPI 2).

92. Auditors have a statutory duty to satisfy themselves that the council has made proper arrangements for preparing and publishing statutory performance information in accordance with the Direction and report a conclusion in the Annual Audit Report.

93. The Accounts Commission also requires auditors to report a summary of the information on service performance reported by the council. The council reports information on service performance on its website and through:

- an annual Performance Report
- the [Local Government Benchmarking Framework](#) (LGBF).

SPI 1: Performance Reporting

94. The most recent SPI report that includes the LGBF data is the 2023/24 Statutory Performance Indicators, Benchmarking, and Best Value Report presented to the council's March 2025 meeting. This was within the 12 month limit for SPI reporting and satisfactory. There were 81 PIs in 2023/24, however, data was only available for 70 at the time of publication.

95. The 2024/25 Annual Corporate Performance Report was presented to the council in September 2025 excluding the LGBF information which was not available at the time. A decision was taken at the Corporate Management Team in September 2025 to stop the annual SPI Report in March and instead, the LGBF Data will be reported on a quarterly basis to the relevant Strategic Committees as soon as it becomes available, allowing for the timeous assessment of performance. It will also be published on the council's website, which includes utilisation of the LGBF Dashboard provided through the Improvement Service.

96. The report highlights key information on the delivery of the Performance Plan and represents a crucial element of the council's overall performance management process. It analyses the performance indicators and actions set out in the Performance Plan against the targets set and related benchmarks. The information reported is a combination of the LGBF indicators (where available) and other local performance indicators (LPIs) and actions the council has chosen / developed to monitor progress against key strategic priorities as set out in the Our Future Highland Programme.

97. In addition to the annual report, quarterly performance reports are also presented to the relevant strategic committees. The reports include progress on corporate performance indicators and those where the service either leads or contributes to the Performance Plan.

98. From review of the service performance information reported, this was found to be sufficiently detailed to provide an assessment of progress the council is making against its strategic priorities set out in the Our Future Highland Programme and allow effective scrutiny of performance.

SPI 2: Demonstrating Best Value

99. Per the direction provided by the Accounts Commission, Highland Council are thus required to ensure:

- balance in reporting areas of improvement that have been achieved and not achieved;
- this is undertaken in a timely manner;
- easy access to its performance information for all of its citizens and communities, with such information presented in an accessible style.

100. Our review of the council's public performance reporting processes indicates there is sufficient inclusion of audit assessments on council performance against its Best Value Duty, and how it has responded to these.

101. We found that the council effectively reports on its own assessment of performance against Best Value. These assessments and evidence of scrutiny are available within the various minutes and reports that are readily available on the council's website.

102. Audit work assessed the arrangements the council has in place for preparing and publishing SPI 1 and SPI 2, including how it has responded to assessments, as well as demonstrating Best Value. We concluded the arrangements in place were effective and appropriate.

103. Audit Scotland also published two Best Value reports in 2024/25, [Controller of Audit report](#) (April 2025) and the [BV3: Transformation report](#) (August 2025). The findings in the reports also demonstrate the council's approach to meeting its Best Value duties. A high level summary of the key messages from these reports is below.

Conclusions on Best Value

The council's arrangements and performance in meeting Best Value and community planning duties

104. The council is part of the second year of the programme for Controller of Audit reports to the Accounts Commission on the council's

performance in meeting its Best Value duties. The Commission considered the report on 10 April 2025. The [full report](#) is available on the Audit Scotland website however a summary of the Commission's findings is below.

- We welcome the progress made by The Highland Council since we reported in 2020. After a management restructure in 2024, the council's new leadership has developed plans and policies to support its strategic priorities and has embedded a culture of transformation which should be commended. The council now needs to drive delivery, maintain momentum and continue to identify opportunities for transformation. The council has designed performance management arrangements to align with its new plans so data can be used to drive improvement, including proactive use of benchmarking data given that comparative performance has declined over time. These new arrangements will be considered as part of upcoming audit work.
- The auditor's recommendations around better alignment of workforce plans and strategies with new corporate and financial plans should be actioned as a priority, along with the collection and regular reporting of council-wide workforce data. A 47% response rate to the 2022 staff survey is encouraging and we would urge the council to deliver the improvement actions identified as a result of the survey to ensure ongoing and effective staff engagement.
- The council has worked hard to close significant budget gaps in recent years, but we note this has relied heavily on the use of reserves, financial flexibilities and achieving savings targets. Savings challenges and financial risks still lie ahead, including in relation to adult social care, where transformation is needed to meet demand pressures. We note with interest the intention to review the council and NHS 'lead agency' model for social care to ensure the council is equipped to address the financial challenges ahead.
- Comprehensive IT and Digital strategies will be critical to supporting the delivery of transformation plans and to improving service delivery. We look forward to seeing how these strategies are developed, embedded and monitored. Ensuring the council has the necessary workforce skills and capacity to deliver in this area is also critical.
- Inherent challenges in delivering services across a large rural area have driven an ambitious capital programme. We note with concern the council's borrowing costs, which are relatively high as a percentage of net revenue – 11.6 per cent compared to the Scottish average of 5.8 per cent. We note that the capital plan will be reviewed at key phases to assess affordability and prudence and look forward to future audit assessments, including understanding

the full impact of these plans given ongoing revenue budget challenges.

- Following the recent review of area committees, we look forward to seeing how area 'place plans' develop, building on the council's ambitions around community engagement, including participatory budgeting and community asset transfers. Engaging with and empowering communities will become increasingly important as financial challenges increase and difficult decisions require to be taken.

BV3: Transformation - how councils are redesigning and delivering more efficient services to achieve planned outcomes

105. As outlined above, the Accounts Commission reports nationally on thematic aspects of council's approaches to, and performance in, meeting their Best Value duties, with the thematic review for 2024/25 on the subject of service transformation. Conclusions and judgements on the council's approach to service transformation are outlined in a separate Management Report which is available on the Audit Scotland website. A summary of the conclusions and judgments made in the report is outlined below.

- The Highland Council has established a clear plan for transformation via its Operational Delivery Plan 2024-27. The council has transparently set out six transformation portfolios and supporting workstreams and projects, along with quantified costs and benefits. The Delivery Plan supports the delivery of various strategic plans, including the Our Future Highland Plan and Medium Term Financial Plans.
- The Delivery Plan aims to help the council to close its funding gap, with an ambitious target to deliver £54.6 million in recurring savings between 2024/25 and 2026/27. It achieved 80 per cent of its targeted Delivery Plan savings in 2024/25 (based on unaudited figures).
- The council has invested £35.7 million in reserves to support transformation activity. This includes £20 million for adult social care transformation, which faces significant budget pressures. The council plans to deliver £9.6 million savings in adult social care, but it is not yet clear how the savings will be delivered or how it plans to use the remaining balance on the earmarked fund.
- The council has good governance arrangements in place to oversee progress with its delivery plan at various levels. This includes via its Corporate Management Team, Strategic Portfolio Boards and Project Boards. There is regular reporting to elected members which includes information on progress in relation to costs and benefits. Reporting to both elected members and the senior

leadership team is underpinned by the council's performance and risk management system.

- The council has invested in its staffing resources to support the Delivery Plan, with posts created at both a project level and within its central programme management office. Nonetheless, resourcing remains an inherent risk to the implementation of the Delivery Plan.
- The council is working with various public, private and third sector partners to progress various projects within its Delivery Plan. There is also evidence of joint funding arrangements in place.
- The council engaged with communities when setting its three-year budget in 2024. It has also evidenced how engagement with communities has influenced transformational activity.
- The council has implemented an integrated approach to impact assessments. Summaries of impact assessment screenings and full impact assessments are included within relevant committee reports to support decision making.
- The council has made good progress with identifying clear success measures for projects in the Delivery Plan. It has put in place a systematic approach to monitoring and reporting these.

Progress against previous Best Value findings and recommendations

106. Best Value findings and recommendations have been made in previous years' Annual Audit Reports, thematic Best Value reports and the Controller of Audit Report on the council's performance in meeting its Best Value duties. Details of the previous Best Value recommendations and progress the council is making against these can be seen in [Appendix 1](#).

107. Out of the 12 Best Value recommendations open:

- 9 have been addressed and are complete;
- 2 are in progress / continuing;
- 1 has been closed.

108. Overall, the council has made substantial progress in implementing the previous recommendations. Several recommendations have been addressed or superseded given the recent Best Value thematic review published in August 2025.

Appendix 1: Action plan 2024/25 and prior year follow up

2024/25 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
1. Annual Accounts review Based on our review and in our third year as appointed auditors, we identified opportunities to enhance the usability of the annual accounts as part of continuous improvement. While the management commentary is comprehensive, key information is not always easily accessible, which may affect the clarity and interpretability of the accounts. Essential details can be difficult to locate or may be overlooked, and this also extends to the overall accessibility of the document. Additionally, some notes to the accounts include information that is surplus to requirements and not mandated for reporting. We have discussed these observations with officers, who have agreed to collaborate with us to improve the presentation and accessibility of the annual accounts going forward.	Officers should review of the content, layout and accessibility of the 2024/25 audited accounts including the management commentary and notes with a view to 'clearing the clutter' and improving the quality of the accounts including accessibility and financial reporting.	Accepted Details of agreed action: recognising the constraints of complying with Accounting Codes of Practice and disclosure requirements, which limit scope to revise or reduce complexity of the Accounts, Officers will review the document and with a particular focus on the Management Commentary to consider scope to improve readability and access. Responsible officer: Chief Officer Corporate Finance Agreed date: June 2026
2. Update to the fixed asset register (FAR) The council need to ensure the FAR is accurate and	The council need to review the individual assets valued on 'instant build' method to ensure they are updated to	Accepted Details of agreed action: The individual assets values have been recalculated without the contingency

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
correctly reflects the value of individual assets.	remove the contingency and reflect the correct valuation.	element and the fixed asset register will reflect these values moving forward. Responsible officer: Chief Officer Corporate Finance Agreed date: June 2026
3. External quality assessment The council's internal audit function was not currently fully compliant with the Public Sector Internal Audit Standards (PSIAS), due to the absence of an external quality assessment (EQA). The introduction of GIAS caused a further delay to the EQA process.	Internal audit should arrange to have an external quality assessment now that GIAS have been implemented.	Accepted Details of agreed action: This will be undertaken through the Scottish Local Authority Chief Internal Auditors Group (SLACIAG). The intent is that Highland will be one of the early authorities receiving their EQA. However, SLACIAG have still to develop the new EQA process and so the date below reflects this. Meantime, conformance with the GIAS will continue to be progressed and the Audit Committee informed through regular reports. Responsible officer: Strategic Lead (Audit and Risk) Agreed date: by 31 March 2027 (at the latest)

Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
There were no prior year (2023/24) recommendations made except for those relating to Best Value which are noted in the section below .		

Progress against previous Best Value findings and recommendations

Original recommendation	Prior year agreed actions	2024/25 progress update
<u>Leadership in the development of new local strategic priorities - 2022/23</u>		
Corporate Plan 2022-27 some targets still to be set The council should review and set the outstanding targets in the Corporate Plan in order to track performance and outcomes in a meaningful way (refer paragraph 18 of original report).	In progress: This has been partially completed as there are still 2 Performance Indicators awaiting targets within the Performance (formerly Corporate) Plan: - PI 1.7: Community Planning Partnership (CPP), increase the total number of Highland workforce trained in supporting people with mental health and well-being concerns. The actual numbers were reported in 2023/24, but the target has still to be agreed by the CPP. - PI 4.3 (ii): Number of Funding Opportunities aimed at Community Energy Projects. This was a new indicator for 2023/24 but the work on this has not progressed as quickly as planned. As part of our work in 2023/24, we noted seven performance indicators without targets. Management have explained that for five targets, no data is available (e.g. the LGBF average is the target). The remaining two indicators state they simply do not have a target. Action by: end June 2024	Closed - PI 1.7: Per the Performance report, page 11: <i>This indicator is for information only - Training is mainly provided externally and is difficult to predict availability and uptake.</i> The target needs to be agreed by the CPP and this has not yet happened. - PI 4.3: Per the Performance report, page 37: <i>The number of projects is lower than the previous year due to only one fund being opened in 2024/25. The focus was on closing off projects from previous years. There is no target, this is a monitoring indicator only.</i>
Views of citizens and communities reflected in the priorities and decisions taken by the council The council should increase awareness of its approach to	In progress: The review of Area Committees is complete and resulted in two committees merging. The Council's approach to participatory resourcing	In progress As reported in the 2024/25 BV3 Transformation report: <i>The council approved a Community Wealth Building Strategy in September 2024.</i>

Original recommendation	Prior year agreed actions	2024/25 progress update
participatory budgeting more widely so that citizens can be more involved in community decision-making (paragraph 42 of original report).	continues to evolve. Some local committees have directly devolved local car park income to the Community Councils / Community Trusts to allocate local funds and a participatory budgeting approach has been adopted as part of the whole family wellbeing programme. Overall, the intention is the agreement of Area Place Plans for each committee area, which set out the shared priorities for each community, will assist in targeting specific strands of funding, e.g. Community Regeneration Funds, based on the priorities agreed with the local community. This action is set out in the Corporate Performance Plan with the completion date of quarter 3 in 2025/26 i.e. by 31 March 2025.	<i>This sets out a people-centred approach to economic development. It includes an action plan aligned to the Delivery Plan.</i> <i>The council has a dedicated website, Highland Place Planning for community engagement for the area plans.</i> Out of the 11 area place plans: • 9 area plans have been completed • 1 area plan for Badenoch and Strathspey is due to be presented to the November committee • 1 area plan for Skye and Raasay has been in place since 2020/21 and is the current one in use.

Workforce Innovation: How councils are responding to workforce challenges - 2023/24

People Strategy to be updated The council needs to update its People Strategy to align with the new Corporate Workforce Planning Strategy and Action Plan reflecting the new structure of the council. It should be aligned to the Financial Strategy and take cognisance of the latest Medium Term Financial Plan (paragraphs 15-18 of original report).	Agreed action: This will be undertaken and the People Strategy will be reviewed to ensure that it aligns with the Medium Term Financial Plan 2024/25 to 2026/27 29 February 2024. This will then be submitted to the Corporate Resources Committee for approval on 5 December 2024. Note that this was already due to be undertaken as part of the new Delivery Plan. Responsible officer: Head of People Timing: 5 December 2024	Completed As reported in the 2024/25 BV3 Transformation report: <i>In December 2024, the council approved a new Corporate Workforce Planning Strategy 2025–27.</i> <i>In addition, it approved a Talent Strategy 2025–27 in March 2025.</i> <i>These are aligned to the Delivery Plan, with links to Delivery Plan projects and portfolios included in the action plans for both strategies.</i>
Alignment of strategic workforce planning documents	Agreed action: The workforce strategies will be reviewed to ensure that these align with the	Completed as above

Original recommendation	Prior year agreed actions	2024/25 progress update
As a priority, the council should review all the existing workforce strategies and supporting documents and ensure they are aligned. They should be communicated to staff and easily accessible (paragraph 20 of original report).	relevant supporting documents. These will then be published and communicated to staff. Responsible officer: Head of People Timing: 31 March 2025	
Service Workforce Plans to be updated Service workforce plans should be reviewed and updated to ensure that they reflect the current council structure, are linked to the council's Corporate Plan and include explicit narrative on how they are contributing to the wider Highland Council outcomes (paragraphs 21-23 of original report).	Agreed action: Service workforce plans will be updated and reviewed to ensure that these provide clear links to the Performance Plan (previously the Corporate Plan) and other relevant strategic documents including the Council Programme, Highland Outcome Improvement Plan and the new Delivery Plan. Responsible officer: Chief Officers Timing: 31 March 2025	Completed as above
Publication of council workforce data The council should ensure that it collects and reports on council-wide workforce data including data on the overall workforce profile data on turnover, vacancy rates, casual and temporary staff. These should be monitored and reported on regularly to assess workforce trends and risks (paragraphs 24-26 of original report).	Agreed action: The Council does collect this data (staff turnover, casual/ supply staff data) and will continue to do. This will now be monitored with the cost of agency staff being reported via the new financial system. Regular reports including workforce data will be provided to the relevant strategic committee. Responsible officer: Head of People Timing: 31 March 2025	Completed The latest update report was presented to the June 2025 Corporate Resources Committee. The report, "Corporate Cluster Workforce Action Plan" includes workforce data for the council. Dashboard reporting to service management teams was introduced in 2024/25. This is a new process and control in place. It is used primarily for internal monitoring of teams and associated workforce metrics. The council's papers and reports are readily available on the council's website.
Further development of Digital and ICT Strategies	Agreed action: Specific project milestones and measures will be defined	Completed

Original recommendation	Prior year agreed actions	2024/25 progress update
The Digital Strategy should identify outcomes to be achieved in advance of the implementation plans being developed by 2027. The remaining targets in the ICT Strategy should be developed to ensure there are measures for all the outcomes identified (paragraphs 39-41 of original report).	covering the next 2 years. Progress will be reported within the Data & Digital Solutions project within the new Delivery Plan. Responsible officer: Head of ICT & Digital Transformation Timing: 30 November 2024	As reported in the 2024/25 BV3 Transformation report: <i>The council's Digital Strategy was approved in September 2022 and therefore pre-dates the Operational Delivery Plan. It makes transformation a key focus of digital activity at the council.</i> <i>The Delivery Plan also includes digital projects. The council has considered how these complement the Digital Strategy Implementation Plan and incorporated some activities from the Digital Strategy Implementation Plan into the Delivery Plan.</i>
Digital savings to be quantified There should be more robust identification and quantification of digital savings and how these relate to workforce plans and savings (paragraphs 42-43 of original report).	Action: A series of costed business cases for digital projects will be produced. These business cases will show the potential savings and investment required for specific projects. These form part of the Data & Digital Solutions project referred to in recommendation regarding 'further development of IT strategies' above. Responsible officer: Head of ICT & Digital Transformation Timing: 30 November 2024	Completed / closed The Data and Digital Solutions project is now nearly completed. Financial summaries are in the reports to the Corporate Resources Committee and include a financial summary for each project, savings targets and expenditure to date (where known). The project was routinely reported to the Corporate Resources Committee and there is a tracked schedule of reporting.
Digital champions network The council should prioritise the implementation of a digital champions network to support the development of a digitally skilled workforce (paragraphs 48-49 of original report)..	Action: A revised model to support staff with digital skills will be implemented. This will be a combination of peer-to-peer support, creation of learning packages and a single resource hub. Responsible officer: Head of ICT & Digital Transformation Timing: 31 May 2025	Completed In December 2024 a report to the Corporate Resources Committee summarised the revised approach and model for supporting a digitally skilled workforce, the Digital Foundations Project. It set out a number of positive areas for action. In June 2025 a Delivery Plan Budget Monitoring & Progress report including an update on

Original recommendation	Prior year agreed actions	2024/25 progress update
		the Digital Foundations Project was presented to the Corporate Resources Committee. It highlighted that in the last quarter of 2024/25, the following have been introduced: • Digital Bites - a digital and data skills support network for all our people and Members • Improvement Network - a Viva Engage community for sharing news on improvements happening across the Council and elsewhere in local government • Improvement Hub – new communications site created to support improvement and performance across the Council. Each of the three areas above are monitored and metrics are reported. The council also held a ‘Digital Week’ in September 2025 which included different training sessions provided to all staff. These sessions have also been made available on Traineasy.
Formalise flexible working arrangements policy The council need to formalise and agree its flexible working arrangements policy to ensure staff are clear on expectations and requirements (paragraphs 51-54 of original report).	Action: Data will be collated to establish a baseline for staff working hybrid and flexible arrangements. A review will be undertaken of these arrangements (as set out in the hybrid working project) to ensure that these are aligned to the new Delivery Plan portfolio on re-configuring our asset base. The policy will then be formalised, agreed and then approved by the	Completed The Flexible Working Policy was presented to the June 2025 meeting of the Corporate Resources Committee. It replaces the previous flexible working and hybrid working policies. It aims to provide a consistent framework to support flexible working for the benefit of services and staff. It includes a section on

Original recommendation	Prior year agreed actions	2024/25 progress update
	Corporate Resources Committee. Responsible officer: Head of People Timing: 31 May 2025	homeworking outwith the Highland region. The covering paper to the committee also notes how the council engaged with staff, feedback results and research undertaken as part of the policy development.
Measuring impact: Monitoring and reporting on progress on workforce planning performance measures The council should ensure that quarterly service reporting on corporate workforce KPIs are consistent and include actual performance levels. Service workforce plans should identify targets and performance measures against action plans (paragraphs 89-91 of original report).	Action: Following on from the service workforce plans being agreed (per recommendation 3 above) including identification of relevant corporate KPIs, regular reports will be provided to the appropriate strategic committees. This will also include reporting on service specific measures identified from their action plans. The Programme's corporate measures and actions will also continue to be reported as part of the Performance Plan. Responsible officer: Head of People Timing: 30 September 2025	Completed The first annual corporate performance report was presented to members in Sept 2025, the next report will be the Benchmarking, Best Value and SPI report. Corporate KPIs are referred to as LPIs and these are monitored and reported. Quarterly performance reports are provided to each strategic committee and there is standard reporting to service committees on sickness absence levels and progress on ERDs (the council's performance appraisal system). A high level summary is also provided to the Corporate Resources Committee.
Measuring impact: Reporting progress against the People Strategy The council should produce action plans for the thematic areas in any future iterations of the People Strategy and carry out a comprehensive assessment of progress against their strategies (paragraphs 94-95 of original report).	Action: The revised People Strategy will include thematic action plans. Progress will be assessed and reported accordingly to the Corporate Resources Committee in December 2025. Responsible officer: Head of People Timing: 31 December 2025	In progress In March 2025 an update was provided to the Corporate Resources Committee stating that a data analyst had been appointed for 12 months working on the 'Workforce for the Future' portfolio. Workforce plans for services have been reviewed to identify thematic areas for action (CRC Dec 2024). The first annual update is not due until December 2025 and will be presented to the

Original recommendation	Prior year agreed actions	2024/25 progress update
		Corporate Resources Committee then.

Appendix 2: Summary of all misstatements

Details	Financial statements lines impacted	Statement of Comprehensive Net Expenditure (SoCNE)		Statement of Financial Position (SoFP)	
Adjusted misstatements		Dr £m	Cr £m	Dr £m	Cr £m
1. DRC asset valuation correction: to correct those assets valued using DRC instant build method					
	PPE: other land & buildings				244.9
	Unusable reserves (revaluation reserve)			244.9	
1.1. Depreciation adjustment corrections: to correct the depreciation overcharged to services due to impact of the DRC adjustment above					
	Surplus/deficit on provision of services		5.4		
	Unusable reserves			5.4	
2. Transition to IFRS 16 re PPP (service concession): to update the accounting treatment for service concessions (PPP/PFI) under IFRS 16					
	Short term creditors (PPP/PFI leases)		2.9		
	Long term liabilities (PPP/PFI leases)		27.5		
	General fund				2.4
	Unusable reserves			32.8	
Net impact on financial statements		0.0	35.8	283.1	247.3

Details	Financial statements lines impacted	Statement of Comprehensive Net Expenditure (SoCNE)	Statement of Financial Position (SoFP)
Unadjusted misstatements			
1. PPE classification error: between assets under construction (AUC) and council dwellings (CDs)			
	PPE: AUC		5.8
	PPE: CDs		5.8
2. Council dwelling desktop valuation: overstatement of council dwellings			
	PPE: CDs		2.8
	Unusable reserves		2.8
Unadjusted misstatements in disclosures			
1. Note 27c property, plant and equipment revaluations has been updated to correctly reflect Notes 27a and 27b. This is a presentational note and there was no impact on the accounts.			

Appendix 3: National and performance audit reports

Report name	Date published
Council Tax rises in Scotland	28 March 2025
Additional support for learning	27 February 2025
A review of Housing Benefit overpayments 2018/19 to 2021/22: A thematic study	20 February 2025
Sustainable transport	30 January 2025
Transparency, transformation and the sustainability of council services	28 January 2025
Local government in Scotland: Financial bulletin 2023/24	28 January 2025
Auditing climate change	7 January 2025
NHS in Scotland 2024: Finance and performance	3 December 2024
Public service reform in Scotland: how do we turn rhetoric into reality?	26 November 2024
Fiscal sustainability and reform in Scotland	21 November 2024
Alcohol and drug services	31 October 2024
Transformation in councils	1 October 2024
The National Fraud Initiative in Scotland 2024	15 August 2024
Local government budgets 2024/25	15 May 2024
Source: Audit Scotland website	

The Highland Council

2024/25 Annual Audit Report



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