

The Highland Council

Agenda Item	10
Report No	AC/13/26

Committee: Audit Committee

Date: 27 May 2026

Report Title: Draft 2025/26 Annual Governance Statement

Report By: Chief Officer – Corporate Finance

1. Purpose/Executive Summary

1.1 This report presents the draft 2025/26 Annual Governance Statement (AGS) to the Audit Committee for its review.

The AGS will form part of the Council's Annual Accounts, with those draft Accounts for 2025/26 due to be considered by Council on 25 June, prior to the statutory 30 June deadline.

2. Recommendations

2.1 Members are asked to:

- i. **Review** and **note** the draft 2025/26 Annual Governance Statement provided at **Appendix 1**. In doing so, consideration should be given to the CIPFA requirements set out at section 5.2.

3. Implications

3.1 There are no direct **Resource, Risk, Health and Safety** or **Gaelic** implications arising from this report

3.2 **Legal** – Whilst there is no legal requirement to comply with the CIPFA Audit Committee guidance, it is recognised as best practice. The draft Annual Governance Statement is also examined by the Council's External Auditors as part of their audit of the annual accounts, and they will consider whether the Council has complied with all areas of best practice.

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 an update report and therefore an impact assessment is not required.

5. CIPFA Audit Committee guidance (2022 edition)

5.1 The above CIPFA guidance introduced the requirement for the Audit Committee to review the Council's draft Annual Governance Statement (AGS). The guidance states that "the Audit Committee should play a key role in reviewing the AGS prior to its final approval." It also goes on to list the following key aspects that the Audit Committee should consider when reviewing the AGS:

- whether the statement is user friendly for a lay reader
- whether the statement focuses on evaluation, leading to a clear opinion of whether arrangements are fit for purpose and meet the principles of good governance
- whether the AGS is an accurate representation of arrangements, consistent with other information known to the committee (committee members should be able to recognise their own authority's strengths and weaknesses)
- whether it includes appropriate disclosures on conformance with specified codes and standards and is consistent with current CIPFA guidance
- whether the AGS is supported by an appropriate action plan to implement the required improvements and if this is robust.

5.2 To provide a meaningful review of the AGS, CIPFA state that "Audit Committee Members should be able to draw on their knowledge of the governance arrangements and on assurances they have received during the year." To assist Members, it may be useful to consider the content and assurances provided within the 3 annual reports on today's agenda, particularly the Chair's annual report.

Designation: Chief Officer – Corporate Finance

Date: 7 May 2026

Author: Rachel Macdonald, Principal Accountant

Background Papers: CIPFA Audit Committees (2022 edition)

Appendices:

Appendix 1 – Draft 2025/26 Annual Governance Statement

Annual Governance Statement

Aithris Riaghlachais Bhliadhna

The Draft Annual Governance Statement was considered by the Council's Audit Committee on 27 May 2026 in line with CIPFA guidance.

Scope of responsibility

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council has a statutory duty to make arrangements to secure Best Value under the Local Government in Scotland Act 2003.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions. This includes arrangements for the management of risk.

The Council has approved and adopted a [Local Code of Corporate Governance](#), which is consistent with the principles of the CIPFA/SOLACE framework 'Delivering Good Governance in Local Government'. The Code is available on our website.

The Local Code of Corporate Governance evidences the Council's commitment to achieving good governance and demonstrates how it complies with the governance standards recommended by CIPFA. The document is regularly reviewed and updated annually.

The purpose of the governance framework

The governance framework comprises the systems and processes, and cultures and values, by which the Council is directed and controlled, and the activities used to engage with and lead the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services. The Council's financial and management arrangements conform with the governance requirements of the CIPFA Statement on the role of the Chief Financial Officer in local government.

The system of internal control is a significant part of that framework and is designed to manage risk to an acceptable level, and provide reasonable, but not absolute, assurance that policies, aims and objectives can be delivered. The system of internal control is based on an ongoing process designed to identify and prioritise the risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place for the year ended 31 March 2026 and up to the date of approval of the Annual Accounts.

The governance framework

The Local Code of Corporate Governance was approved by the Audit Committee on 20 August 2025. The basis of the 2025/26 Local Code is the Framework and Guidance issued by CIPFA and SOLACE which identifies seven core principles, each with a number of sub-principles. The core principles are:

1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
2. Ensuring openness and comprehensive stakeholder engagement.
3. Defining outcomes in terms of sustainable economic, social and environmental benefits.
4. Determining the interventions necessary to optimise the achievement of the intended outcomes
5. Developing the authority's capacity including the capability of its leadership and the individuals within it.

6. Managing risks and performance through robust internal control and strong public financial management.
7. Implementing good practices in transparency, reporting and audit to deliver effective accountability.

The Council's corporate governance arrangements are subject to annual review by Internal Audit. No issues were identified and these arrangements are considered to be operating effectively.

Review of effectiveness

The Highland Council has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is adequate and effective in practice. The Chief Officer Legal and Corporate Governance acts as the Council's Monitoring Officer. This is a statutory appointment in terms of section 5 of the Local Government and Housing Act 1989 and he has the responsibility of ensuring the Council acts within its statutory powers and does not act in a manner that may amount to maladministration. He has primary responsibility for the Council's corporate governance including the proper conduct of all Council meetings, compliance with the Scheme of Delegation and Standing Orders (including annual review of both documents) and an ancillary role and various responsibilities within the ethical standards framework which include compliance with the Councillors' Code of Conduct. It is the responsibility of the Chief Officer Legal and Corporate Governance to:

- oversee the implementation of the Local Code of Corporate Governance and monitor its operation.
- review the operation of the Local Code of Corporate Governance in practice.
- report annually to the Council on compliance with the Local Code and recommend any changes required to maintain it and ensure its effectiveness.

In fulfilling these duties, the Chief Officer Legal and Corporate Governance has taken into account the results of reviews of internal control that have been carried out by Internal Audit. There are no current governance issues that require to be identified.

All Assistant Chief Executives have reviewed the arrangements in their cluster of services and reported on their assessment of the effectiveness of the control arrangements in place.

Formal meetings of the Council and its strategic committees have operated on a hybrid model since March 2022 and the practice is now well established. The Council ensures openness and transparency in decision making by ensuring all strategic meetings are open to the public and continue to be webcast. The recordings are available for one year. Recordings of all local Committees are uploaded to the Council's YouTube channel. Following a Council decision all Council and committee agendas and reports are circulated electronically to Members rather than on paper as well as being available to the public on the Council website.

A wide-ranging member training and development programme focussing on induction of new members but available to all members was put in place in May 2022 and has continued. In May 2023 following distribution and consideration of a survey of all Councillors it was agreed that a short life Members' Learning and Development Group be established. The recommendations from this Group were used to inform a report to Council in October 2023 setting out a future Members' Learning and Development Framework and Programme. A review of the Members' Learning and Development Framework and Programme input was reported to Council in December 2024 and again in March 2026. A refreshed Members' Learning and Development Framework and Members' Learning and Development Programme for 2025 were agreed. Looking ahead to May 2027 work has commenced in conjunction with the Improvement Service on preparing an induction and future training programme following the local government elections.

The Council re-established a Governance Review Working Group made up of a number of senior Members. The Group reports directly to Council and is undertaking a rolling programme of review of the Council's existing governance arrangements and, has made recommendations on matters such as changes to Standing Orders and the Scheme of Delegation. The Council has introduced and supported the implementation of an integrated impact assessment process for all reports and motions being considered at meetings of its Committees. Going forward the Steering Group will continue to meet,

review governance arrangements and, where appropriate, make recommendations for further revisions into 2026/27 as well as informing and supporting delivery of the Learning and Development Programme.

In December 2024 Council agreed to establish a Working Group to review the governance and funding arrangements of its Area Committees so that they may better serve the needs of their local communities. The Working Group has met on a number of occasions and intends to bring forward recommendations to a future Council in advance of May 2027.

The Internal Audit Service operates in accordance with the Global Internal Audit Standards (GIAS) in the UK Public Sector. This requires the Chief Audit Executive (Strategic Lead (Audit & Risk) to:

“... prepare an overall conclusion at least annually in support of wider governance reporting, mindful of any specific sector obligations or processes. This overall conclusion must encompass governance, risk management and control.”

“... report annually on the results of the quality assurance including progress against action plans to address instances of non-conformance.”

These requirements were met by the Internal Audit Annual Report 2025/26 being presented to the Audit Committee on 27/05/26. This report is also used to inform the Annual Governance Statement.

The GIAS require internal assessments to be undertaken in order to monitor conformance against the these. This assessment has been completed which shows that 13 of the 15 Principles have the opinion of “generally conforms” with 2 “partially conforms”. These opinions are set out in the GIAS, and it should be noted that generally conforms is the highest opinion that can be achieved. The 2 Principles with partial conformance are as follows together with the planned actions to address them:

- Principle 8 – Overseen by the Board
An External Quality Assessment is still to be completed.
- Principle 11 – Communicate Effectively
The Audit Manual needs to be updated to include particular requirements from the GIAS.

Whilst the two actions are necessary to achieve general conformance against the above principles, these have also been captured against other principles as it will improve conformance. However, this has not impacted upon their conformance opinion. An action plan has been prepared in order to address the areas of non-conformance, and the Audit Committee will be updated as this progresses.

During 2025/26, a total of 40 audit recommendations were made with a total of 54 individual management actions agreed to address these. Their status is as follows.

- 29 had been fully completed (54%)
- For the 25 remaining actions:
 - 14 (26%) were not yet due and
 - 11 (20%) had revised target dates.

This includes 12 high grade recommendations which had a number of agreed management actions arising from 4 audit reports. Further details are provided in the table below including the current status with the implementation.

Report Name	No. High	Action Status			Current Status
		Complete	Not yet due	Revised	
Review of Financial Arrangements in Primary Schools	1	1	0	0	
Children's Services Transitions	1	0	0	1	An effective method for early resolution of disputes including an escalation process should be agreed and implemented so any potential delays in transferring accommodation are communicated to senior managers as early as possible. In relation to operational disputes which result in increased risk to a service an escalation process should be co designed and implemented by Highland Council and NHSH that links to the risk register allowing for early communication to senior management. Meetings held with NHSH have taken place. The escalation procedure, scope and remit will be produced and taken to the Joint Oversight Group for sign off. (Original target date 31/12/25. Revised action date 30/04/26).
Human Resources - Learning and Development	2	0	2	0	<p>(1) Formal linkages between the Corporate Risk Register and Service Cluster Risk Registers should be established, and current service risks reviewed to ensure alignment and escalation of significant workforce risks. Service Cluster Risk Registers should be updated in PRMS to reflect revised Service clusters and risks, using the new risk scoring system and ensuring each risk has clear ownership. Registers should then be subject to regular monitoring to confirm that mitigating actions remain effective and up to date. A reminder will be issued to Services on the risk management process and officer's role in the process including:</p> <p>A) Review risk registers to align to new service clusters (Action complete) B) Update PRMS C) Risks outlined in new framework and format.</p> <p>Service risks will be reviewed by the appropriate committee along with quarterly reviews of the Service Plan work (Quarterly Performance & Revenue Reports) and linkages made from the identified service risks Service Corporate Risk register will be reviewed to reflect escalation of service risks. (Original target date 31/05/26).</p> <p>(2) Succession planning should be formally rolled out across all services as part of the workforce planning cycle. This should include clear timelines,</p>

					responsibilities, and monitoring arrangements to confirm that succession plans are developed, maintained, and aligned with organisational workforce needs. A succession planning toolkit had been developed but succession planning had not yet been fully implemented across the Council. (Original target date 30/06/26).
Investigation into harbour's operations - control weaknesses	8	7	1	0	Management should ensure there are robust arrangements in place to measure and record fuel stocks using accurately calibrated dipsticks for fuel measurement. Management should ensure all fuel sales are accurately recorded using the required forms. Regular reconciliations should be undertaken to verify fuel delivered, fuel sold, and fuel stock held. Any variances identified should be investigated in a timely manner and reported to Service Management and Finance for action as necessary. The action was followed up and subsumed in new action plan as part of a new report from another review.
Totals	12	8	3	1	

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There are no particular trends identified from the high-grade recommendations with regard to the above and these are not considered sufficiently material to impact upon the audit opinion provided within section 2.12 of the Internal Audit Annual Report.

The self-assessment exercise was revisited in order to assess the extent of the compliance with the CIPFA Code. There is one action identified which relates to the need to undertake fraud risk assessments. This will be progressed during 2026/27, and the Audit Committee updated on progress. It is considered that this action will further enhance the Council's fraud prevention arrangements and does not change the previous assessment that we fully comply with the Code.

The Council's Counter Fraud Policy was also updated to incorporate the new offence, of the "Failure to Prevent Fraud" under the Economic Crime and Transparency Act 2023, which came into effect on 01/09/25.

Commentary on group bodies significant governance issues

Inverness and Nairn Common Good Funds

- No significant governance issues were identified.

Highland and Western Isles Valuation Joint Board

- No significant governance issues were identified.

Highland and Islands Transport Partnership

- No significant governance issues were identified.

High Life Highland

- No significant governance issues were identified.

D&E Coaches Ltd

- The Council acquired the full shareholding of D&E Coaches Ltd on 31 January 2025 and the Company is reflected within the Council's Group Accounts. At this stage D&E continues to operate independently with their own governance in place with two Council appointed Directors. Highland Council is not aware of any identified significant governance issues

Conclusion

Our annual governance statement summarises the Council's governance arrangements and affirms our commitment that they are reviewed regularly and remain appropriate for the activities and delivery of services by the Council and its Group. Subject to the above assurances, the development and implementation of the audit recommendations and, based on the evidence contained in this statement, we are satisfied that the arrangements continue to provide assurance, are adequate and are operating effectively.

Raymond Bremner
Leader of the Council

Derek Brown
Chief Executive