Agenda Item	**6a**
Report No	**AC/22/26**

THE HIGHLAND COUNCIL

Committee: **Audit Committee**

Date: **11 November 2026**

Report Title: **Audited Accounts and Annual Audit Report 2025/26**

Report By: **Chief Officer Corporate Finance (Section 95 Officer)**

1. Purpose/Executive Summary

1.1 This report presents the audited accounts of The Highland Council for financial year 2025/26 following conclusion of the audit process. The report also explains the impact of any changes to the Accounts made during the audit process, and in turn summarises any key matters and recommendations from the auditor's report.

1.2 The report from Audit Scotland is positive overall, and concludes that "*All audit opinions stated that the annual accounts were free from material misstatement.*" This covering report also confirms that there was no change to the Council's revenue/resources position and out-turn for the year arising from the audit process. Any changes made to the Accounts, whether presentational, disclosures or financial in nature, are as summarised in this report with more comprehensive reporting in the Audit Scotland report.

1.3 This report also provides an overview of the Section 101 objection process as set out in the Audit Scotland report. 2025/26 was a quite exceptional year with over 300 inspection questions and requests for information received by the Council from a number of persons, and arising from which a number of objections were made by members of the public. This resulted in significant additional workload for Council staff and External Audit, with an increased audit fee as a result. Despite Council staff being subject to this additional work and the Council facing an increased audit fee, it is important to highlight to members that following due consideration by Audit Scotland, the auditor, concluded in both objection cases that *"No material misstatements were identified".* It is welcome to note therefore that the objections were not upheld and no change to the Council's accounts has been required or has been made as a result of any objections.

2. Recommendations

2.1 Members are asked to:

i. Approve the audited accounts for signature;
ii. Consider and note the report to those charged with governance on the 2025/26 accounts;
iii. Agree that the letter of representation be signed by the Chief Officer Corporate Finance (Section 95 Officer);
iv. Scrutinise, consider and note the annual audit report findings, in particular any key audit matters and recommendations;
v. Note that the Council has been advised that there are plans across Scotland, to extend current external audit appointments, which had been due to conclude 2026/27, to be extended through to the 2028/29 audit.

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 2026. Changes from the unaudited annual accounts presented in June are noted in section 6 below with there being no change to the Council's revenue or resources position as a result of the audit process. As noted within this report, as a result of additional audit work related to Section 101 objections, and other audit work, an additional audit fee of £25,000 has arisen.

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 2025/26 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.

https://www.highland.gov.uk/downloads/file/7884/highland-council-audited-accounts-2025-2026

6. Audit Findings and the Effect of Any Audit Changes

6.1 There have been 2 notable changes to the Accounts and/or Group Accounts arising from the audit, which are described further below. None of which has an effect to the net revenue out-turn or resources position of the Council and the level of usable reserves.

- Restatement to the 2024/25 Group Accounts for a correction to the consolidation of D&E Coaches upon purchase to remove double counting of Highland Council's investment in them. This resulted in the creation of an intangible asset of £1,489k representing goodwill and a net reduction in group reserves of £4,614k. This is a consolidation adjustment only on the Group Accounts and has no effect on the reserve position of the single entity Highland Council Accounts.
- Correction in indexation factors being used for Depreciated Replacement Cost (DRC) assets resulting in an increase in Other Land and Buildings long term assets and unusable Revaluation Reserve of £59.7m.

6.2 There are 4 adjustments to the disclosures to the Accounts arising from the audit which are described further below and do not directly effect the main statements or balances in the accounts.

- Narrative update to note 38 related parties disclosure to highlight the non-return of disclosure returns from some Councilors.
- Update to total external audit fee in note 36 from £556k to £581k to reflect additional audit fee in relation to additional work in relation to S101 objection process and PPE balances and disclosures.
- Correction to overstatement in capital commitment balance for Nairn Academy in note 39 from £15.6m to £12.8m in capital commitments note 39.
- Correction to overstatement in future minimum lease payments receivable in leases note 41 from £227.9m to £126.4m.

6.3 There are 2 unadjusted errors as a result of the audit process. With these described further within the Audit Scotland report.

- Full year's depreciation was not calculated on assets transfer from the long term assets under construction asset class to an operational asset class totaling £4.2m.
- Write off was not carried out for a soft loan dated from 2007 for £1.4m and will be carried out in 2026/27 resulting in reductions in long term debtors and the unusable Capital Adjustment Account.

6.4 The report from Audit Scotland sets out other findings and recommendations, and management response and actions.

6.5 Any 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:

- Updates to accounting policies in relation to new guidance on indexation of plant, property and equipment.
- Various formatting and grammatical items picked up as part of the audit.

6.6 The completion of the audited accounts for 2025/26 represents a significant milestone in relation to the Council's core financial governance and reporting requirements, and it is therefore welcome that in relation to the core audit findings, and the Section 101 objection process, no material misstatement has been identified.

7. Section 101 Objections

7.1 Each year to comply with regulations, the Council arranges the publication of an inspection notice advising the public of the completion of the Council's unaudited annual accounts, that the Accounts and associated records are available for inspection, and advising through the notice of the process whereby persons can object to the Council's annual accounts.

7.2 The objection process is as laid out in Section 101 of the Local Government (Scotland) Act 1973. In summary, a person may object where they consider there is a "material misstatement" in the Council's Annual Accounts. The process is for an objection to be made to the External Auditor, who may offer the person a hearing and External Audit (Audit Scotland) will then undertake any information gathering as they consider appropriate, and conclude their findings in relation to the objection. Once the auditor has concluded their work and advise their findings to the objector and the Council, that concludes the process. There is no further appeal or other stages in the process.

7.3 The Council's prior experience is there has not been any inspection requests arising in recent years, nor any objections, and therefore to receive requests of such significant volume and complexity, was out of the ordinary. For context, across a number of persons who submitted inspection requests, there were in excess of 300 specific questions or information requests, each of which was often very lengthy and complex in nature. All of which had to be assessed during the narrow window of 15 working days covered by the inspection notice and regulations. A number of inspection requests and questions were rejected as described further below. Members may also be aware there appeared to be a social-media led effort by some persons to encourage others to use the Section 101 process, which was evident by a number of carbon copy type requests being received by the Council. There has also been some targeting and criticism of Council officers on social media, regarding the matters on which objections were lodged. The Section 101 process is specifically related to the Council's Annual Accounts, and is not intended to act as, or replace, existing customer complaint or Freedom of Information processes.

7.4 The Council made arrangements for one person to inspect information and records that were considered relevant to their request, falling within the regulations and the Council's 2025/26 Annual Accounts. A significant number of requests were rejected by Officers, including where they were considered to have no relevance to the Council's Annual Accounts. A very significant officer effort took place to assess the requests received, gather information for inspection, and to make arrangements to facilitate an inspection, which was offered over multiple dates and time, in order to

comply with the Regulations. Despite having made such arrangements, the person who was offered an inspection did not take up this opportunity, resulting in significant abortive officer effort. Despite not attending the offered inspection visits, nonetheless the person made objections to the external auditor which proceeded to hearing.

7.5 As noted in the Audit Scotland report, two objectors had individual face to face hearings with the Auditor. The Council provided information and response to Audit Scotland in relation to any requests received. As noted in the Audit Scotland report, ultimately the objector's concerns were not upheld and the audit finding was there was "no material misstatement" within the Council's Annual Accounts.

7.6 It is very welcome that no material misstatement was identified and therefore through the rigorous audit process, and the Section 101 process, members and the public have assurance around the Council's accounting processes and the Annual Accounts as presented.

7.7 The right of a person to inspect, and where relevant to object, to the Council's Accounts is an important regulatory requirement which the Council has and will continue to support and comply with. It is unfortunate that in 2025/26 the Council has been faced with an exceptional and at times unnecessary workload arising from some specific inspection requests and objections. In the opinion of this Chief Officer, there have been persons who have sought to misuse the Section 101 process. Unfortunately this has been at a financial cost to the tax payer, with an additional audit fee of £25,000 arising from the Section 101 process and other audit work.

Designation: Chief Officer - Corporate Finance (Section 95

Officer)

Date: 29 October 2026

Author: Brian Porter, Chief Officer – Corporate Finance

(Section 95 Officer)

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11 November 2026

The Audit Committee

The Highland Council
Audit of the 2025/26 annual accounts

Independent Auditor's Report

1. The audit work on the 2025/26 annual accounts is now substantially complete. Subject to our final review of the revised set of annual accounts, I anticipate being able to issue unmodified audit opinions in the Independent Auditor's Report on 11 November 2026, following approval of the annual accounts by the Audit Committee, and receipt of the signed letter of representation. 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)), I am required to 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. I present for the Audit Committee's consideration my draft Annual Audit Report on the 2025/26 audit. The section headed "Significant findings and key audit matters" sets out the issues identified in respect of the annual accounts, including those that I am required to report to you.

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

6. There are two uncorrected misstatements to report above the reporting threshold but significantly below materiality. Full details of the corrected and uncorrected errors are included in Appendix B of the Annual Audit Report.

Other ISA (UK) matters

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

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

8. Any issues that I have identified from my audit in relation to other ISA (UK) matters that I am 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

9. As part of the completion of the audit, I am seeking 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.

10. A draft letter of representations is attached at Appendix B. This alongside the annual accounts will be signed using DocuSign following the Audit Committee meeting on 11 November 2026. This takes place 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 2026 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 2025/26 (the 2025/26 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 2026 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 2025/26 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 was 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 the 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 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 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 and 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) the Section 95 Officer will reproduce this on the council's letterhead

11 November 2026

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

The Highland Council
Annual accounts 2025/26

Dear Claire

This representation letter is provided in connection with your audit of the annual accounts of The Highland Council and its group, hereafter referred to as the Council, for the year ended 31 March 2026 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.

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 2026.

General

I have fulfilled my responsibilities for the preparation of the 2025/26 annual accounts as set out in your 2025/26 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.

I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2025/26

(2025/26 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.

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 2026 and the transactions for 2025/26.

Accounting Policies and Estimates

All material accounting policies applied are as shown in the note included in the financial statements. The accounting policies are determined by the 2025/26 Code, where applicable. Where the 2025/26 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.

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 2025/26 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

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

All assets at 31 March 2026 of which I am aware have been reported in the financial statements.

All assets as at 31 March 2026 have been valued and / or indexed in line with the accounting polices around asset valuations.

I carried out an assessment at 31 March 2026 as to whether there is any indication that an asset may be impaired and have recognised any impairment losses identified in the financial statements.

I have provided you with all information of which I am aware regarding any valuation exercises carried out after 31 March 2026.

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

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

Liabilities

All liabilities at 31 March 2026 of which I am aware have been reported in the financial statements.

Provisions have been recognised in the financial statements for all liabilities of uncertain timing or amount at 31 March 2026 of which I am aware where the conditions specified in IAS 37, as adapted by the 2025/26 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 2026. 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.

Provisions recognised in previous years have been reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2026, or to reflect material changes in the assumptions underlying the calculations of the provisions.

The accrual recognised in the financial statements for annual leave untaken by 31 March 2026 has been estimated on a reasonable basis.

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

There are no significant contingent liabilities, other than those disclosed in Note 46 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 2025/26 Code.

Litigation and Claims

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 2025/26 Code.

Fraud

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.

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

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

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 2025/26 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

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

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

I confirm the Council has undertaken a review of the system of internal control during 2025/26 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.

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 2026 which require to be reflected in the Annual Governance Statement or annual accounts.

Group Accounts

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 2025/26 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

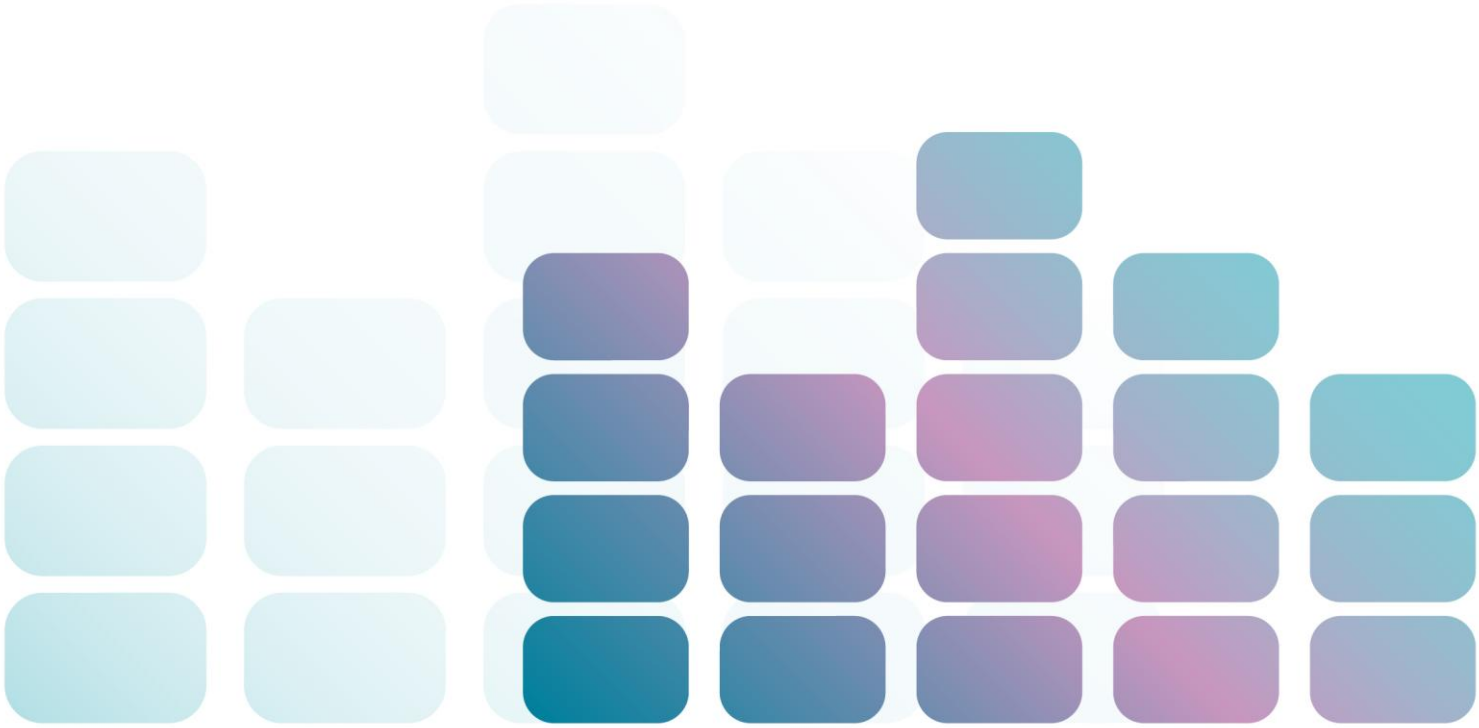
All events subsequent to 31 March 2026 for which IAS 10, as adopted by the 2025/26 Code, requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Section 95 Officer

The Highland Council

2025/26 Annual Audit Report



AUDIT SCOTLAND

Prepared for The Highland Council and the Controller of Audit
November 2026

Contents

Summary of audit opinions and conclusions	3
Introduction	5
Audit scope, responsibilities, and fee	7
Audit of the annual accounts	10
Wider scope audit	24
Best Value audit	37
Appendix 1: Action plan 2025/26	44
Appendix 2: Summary of misstatements	56
Appendix 3: National and performance audit reports	58

Accessibility

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

Summary of audit opinions and conclusions

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.

Wider scope audit

3 The council has effective and appropriate financial management arrangements in place. The reported £13.9 million General Fund overspend reflects significant demand-led service pressures experienced during the year rather than weaknesses in financial management arrangements.

4 Financial sustainability remains a significant challenge. Although the council has reduced projected budget gaps and its reliance on non-earmarked reserves, substantial savings and transformation activity will be required to address future financial pressures, particularly within Adult Social Care.

5 The council continues to have appropriate and effective arrangements to support its vision, leadership and governance.

6 The council has appropriate arrangements in place for its use of resources to improve outcomes, with clear links between performance management, transformation activity and financial sustainability.

Best Value

7 The council has effective arrangements in place for securing Best Value and has embedded fairness and equality across the organisation. However, further work is required to improve completion rates for mandatory Equality, Diversity and Inclusion training.

8 There are effective and appropriate arrangements in place for preparing and publishing statutory performance information however more could be done to compare against similar local authorities.

9 The Best Value thematic report on asset management prescribed by the Accounts Commission reported that the council has effective asset management arrangements, supported by a clear strategic framework that aligns assets with service, financial and climate objectives supported by effective governance and accountability arrangements.

Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2025/26 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. As reported in the Annual Audit Plan, 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 or the rest of the audit team. No non-audit services were provided.

Extension of the current audit appointment

4. Audit Scotland are currently planning to extend the appointment of the auditor through to the 2028/29 audit. The Auditor General for Scotland (AGS) and the Accounts Commission (the Commission) have approved in principle extensions of all current public audit appointments for an additional two audit years. The decision has been taken in the context of the large-scale proposals for public sector reform recently announced through the Scottish Government's Programme for Government and supporting announcements. These are likely to result in significant changes to the Scottish public bodies landscape.

5. The AGS and Commission believe extending the current appointments will provide the most stability and support during a period of significant uncertainty for many public bodies, and also represents the best value for money at this time.

Acknowledgements

6. 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, responsibilities, and fee

Scope of the audit

7. 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

8. 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

9. 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.

10. 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.

11. 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

12. 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.

Audit Fee

13. The audit fee for the 2025/26 audit was reported in the Annual Audit Plan and was set at £556,290.

14. An additional audit fee has been charged in the current year to reflect the extra time, resources and costs incurred in relation to the Section 101 objection process and the audit of property, plant and equipment balances and disclosures. These matters required significantly more audit input than anticipated within the standard annual audit engagement.

15. The preparation, review and management of the Section 101 objection process required substantial additional audit work beyond the audit plan. In addition, the audit of property, plant and equipment balances required extended engagement with officers and additional time to obtain, assess

and evaluate supporting working papers and audit evidence. This resulted in increased audit effort and senior-level review to conclude on the amounts and disclosures included within the financial statements.

16. Accordingly, an additional fee of £25,000 has been applied to recover the costs attributable to this unplanned work. The total audit fee for 2025/26 is therefore £581,290 (2024/25: £533,160).

Audit outputs and completion

17. The target date for issuing audit outputs and completion of the audit is set by the Accounts Commission. In setting the target date, consideration is given to the statutory date for approving the annual accounts, which is 30 September 2026 for local government bodies.

18. As outlined in the Annual Audit Plan, the audit team did not plan to meet the Accounts Commission target date of 30 September 2026. Consistent with the Accounts Commission's expectation that audit quality takes precedence over delivery timetables, Audit Scotland has prioritised the completion of audits based on risk, available resources and wider audit requirements across the local government portfolio. The audit team therefore planned to complete the audit and issue audit outputs by the later date of 11 November 2026.

19. We recognise the importance of restoring local government audits to the Accounts Commission target timetable. Audit Scotland is continuing to work across the local government audit sector to support a return to timely audit delivery while maintaining audit quality. We will work closely with officers throughout the 2026/27 audit to support the efficient delivery of the audit, including early engagement on significant matters, timely provision of working papers and supporting evidence, and agreeing governance and committee timetables that facilitate timely audit completion.

National performance audit reporting

20. The Auditor General for Scotland and the Accounts Commission regularly publish performance audit reports. These cover a range of matters which may be of interest to the council and the Audit Committee. 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 for a true and fair view were processed by the council.

Audit opinions on the annual accounts

21. The council and its group's annual accounts were approved by the Audit Committee on 11 November 2026 and certified by the appointed auditor thereafter. The Independent Auditor's Report is included in the council's annual accounts, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.

Audit timetable

22. The unaudited annual accounts and all working papers were received on 25 June 2026 after approval at full council on the same day. This is in accordance with the agreed audit timetable.

Materiality

23. 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.

24. The concept of 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.

25. 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 per Exhibit 1.

Exhibit 1
2025/26 Materiality levels for the council and its group

Materiality	Council	Group
Materiality: Set at 2% of gross expenditure	£22.3 million	£22.7 million
Performance materiality: Set at 75% 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.	£15.6 million	£15.9 million
Reporting threshold: Set at 5% of materiality.	£1.0 million	£1.0 million

Source: Audit Scotland

Significant findings and key audit matters

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

27. 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.

28. 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.

29. 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
Property valuation records and review arrangements	The issues identified did not result in a material misstatement of land and buildings

Significant findings and key audit matters	Outcome
The council's property valuations were prepared by the internal valuer. During our audit, we noted that the valuation exercise was primarily supported through working spreadsheets and supporting records, with no formal valuation report setting out key assumptions, judgements and methodologies. We also identified inconsistencies between property information held within valuation records and council asset records, including differences in gross internal areas for some properties. Explanations were available for the differences identified and our audit work did not identify a material misstatement. However, the findings highlight the need to strengthen documentation and review arrangements, particularly during the current period of transition within the property service.	balances. However, weaknesses in the documentation, review and application of elements of the valuation process required extensive additional audit procedures to obtain sufficient appropriate audit evidence. **Recommendation 1** The council should strengthen governance arrangements over the property valuation process. This should include ensuring that key valuation assumptions and judgements are formally documented, property records are regularly reconciled to valuation information, and valuation outputs are subject to effective management review and challenge before being reflected in the financial statements.
Application and documentation of valuation judgements Our audit identified a number of areas where valuation judgements and assumptions were not consistently evidenced or applied across the asset portfolio. In particular, we identified weaknesses in the approach used to assess whether modern equivalent asset (MEA) adjustments were required for school buildings. The methodology applied did not consistently evidence consideration of circumstances where pupil rolls differed from design capacity. While adjustments may be considered where occupancy levels are below capacity, there was limited evidence that sustained periods of demand above design capacity were assessed to determine whether a larger replacement asset would be required. In addition, the rationale supporting decisions on whether an MEA adjustment was required was not consistently documented. As a result, it was not always possible to demonstrate that a consistent approach had been applied across the school estate.	We obtained sufficient appropriate audit evidence to conclude that property, plant and equipment balances were not materially misstated. While testing identified both overstatements and understatements within individual asset valuations, the net projected impact was below audit materiality and no adjustment was required. **Recommendation 2** The council should strengthen arrangements for applying and documenting valuation judgements. In particular, it should ensure that assessments of MEA requirements are supported by evidence of school capacity and occupancy trends, that the basis for significant valuation decisions is documented, and that depreciation adjustments are applied consistently in line with the council's agreed valuation methodology and condition assessments.

Significant findings and key audit matters	Outcome
We also identified inconsistencies in the application of depreciation adjustments within depreciated replacement cost (DRC) valuations. Depreciation applied to individual assets was not always consistent with the council's documented approach for reflecting asset condition. This increases the risk that valuations are not prepared on a consistent basis across the asset portfolio.	
Indexation of assets The 2025/26 financial year is the first year in which the CIPFA Code has required indexation to be applied to property valuations. In response, the council adopted an asset-type specific approach to calculating indexation adjustments across its property portfolio. Officers were able to explain the methodology used, including how movements in indices between 31 March 2025 and 31 March 2026 had been derived. However, the underlying 31 March indexation data used in the calculation could not be independently corroborated during the audit, as evidence supporting the source of the indices was not available for review. In addition, the rationale for adopting this approach, including the key assumptions and judgements applied, was not formally documented. The methodology applied was more granular than approaches commonly adopted elsewhere in the local government sector. As a result, there is an increased need for robust documentation, audit trails and management review to support the reasonableness of the indexation adjustments applied.	We undertook additional audit procedures, including benchmarking the overall impact of the indexation adjustments against trends observed in comparable local authorities. Based on the work performed, we concluded that the impact of the Building Cost Information Service (BCIS) indexation data applied to property, plant and equipment (PPE) valuations for depreciated replacement cost (DRC) assets was material. Following discussions with the council's valuer, officers reviewed and recalculated the indexation adjustments, resulting in an agreed increase of £59.7 million in PPE during 2025/26. The adjustment has no impact on the council's general fund balance or cash position, with the movement reflected in the balance sheet through an increase in PPE and corresponding movements in unusable reserves (the revaluation reserve). The adjustment also increased the council's total comprehensive income and expenditure from £52.7 million to £112.4 million. However, this increase relates to an unrealised revaluation gain on council assets and does not represent additional income available to spend to support service delivery. The recalculation of asset valuations will require the council to review and update its fixed asset register to ensure it remains consistent with the revised valuations. We have therefore made a recommendation to strengthen arrangements for maintaining and updating asset records following valuation changes.

Significant findings and key audit matters	Outcome
	Recommendation 3 The council should strengthen the documentation and evidencing of indexation adjustments applied to property valuations. This should include retaining evidence supporting the source of indices used, documenting key assumptions and methodologies. Appendix 2 includes the details of the adjustment to the accounts.

Source: Audit Scotland

Qualitative aspects of accounting practices

30. 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

31. The appropriateness of accounting policies adopted by the council was assessed as part of the audit. Policies 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 2025/26 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Accounting estimates

32. Accounting estimates are used in a number of areas in the council's financial statements, including the valuation of land and buildings assets and the valuation of the pension balance. 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:

- Areas for improvement were identified in the documentation and evidencing of certain valuation assumptions and methodologies. However, the methods, assumptions and data used to make the accounting estimates were considered reasonable and did not result in a material misstatement of the financial statements.
- There was no evidence of management bias in making the accounting estimates.

33. 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 .

Disclosures in the financial statements

34. The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional detail provided in areas of greater estimation uncertainty and judgement, including financial instruments, pension liabilities and leases. While the disclosures meet reporting requirements, and improvements have been made in the 2025/26 accounts, there remains scope to further enhance the accessibility, readability and usability of the annual accounts, in line with the prior-year recommendation.

Declarations of interest

35. The council's related party disclosure process relies on all elected members and senior officers submitting annual declarations, including nil returns where no interests exist. There were 16 members including three senior members who failed to return a declaration in 2025/26, despite this being a mandatory requirement. This creates a risk that related party transactions or balances involving those individuals have not been identified and disclosed within the financial statements.

Recommendation 4

The council should strengthen its processes for obtaining and reviewing declarations of interest to ensure the completeness of related party disclosures.

Group audit

36. The council prepares group financial statements comprising seven components. The council is the parent entity and the audit work performed on the components is summarised in Exhibit 3.

Exhibit 3
Summary of audit work on the group's components

Group component	Auditor and audit work required	Summary of audit work performed
The Highland Council	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 reported in Exhibit 2.

Group component	Auditor and audit work required	Summary of audit work performed
D&E Coaches (100% subsidiary)	Leipur & Summers Analytical procedures at the group level	No significant issues were identified.
High Life Highland (100% subsidiary)	Saffery LLP 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 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 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

37. 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.

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

Significant matters discussed with management

39. All significant matters identified during the audit and discussed with the council's management have been reported in this Annual Audit Report.

Annual Governance Statement

40. In 2025/26, the CIPFA/SOLACE Good Governance Framework was updated through the publication of an Addendum. While the Framework continues to recommend that local authorities adopt a Local Code of Governance (the Code), the Addendum strengthens this requirement by specifying that the Code should clearly demonstrate how governance principles are embedded in practice. This includes ensuring that the Local Code:

- Clearly aligns to the principles of the Good Governance Framework;
- Is reviewed regularly to reflect changes within the authority and the wider operating environment;
- Identifies the arrangements in place to achieve each governance principle; and
- Incorporates organisational values and behaviours alongside governance processes.

41. Our review found that the council's Annual Governance Statement complies with the core legislative and governance requirements of the Good Governance Framework and the 2025/26 Addendum. However, opportunities exist to enhance disclosures to enhance disclosures in a number of areas, including financial sustainability, corporate risk management, Best Value, cyber and information governance, and climate governance.

Recommendation 5

The council should review the content of its Annual Governance Statement against the enhanced disclosure expectations set out in the 2025/26 Addendum to the Good Governance Framework and consider opportunities to strengthen reporting in the areas identified above.

Audit adjustments

42. Audit testing identified a number of misstatements requiring adjustment to the financial statements. These related to an error in the consolidation of D&E coaches within the group accounts, an adjustment to property, plant and equipment arising from the application of incorrect indexation factors and a disclosure error in the capital commitments note.

43. We also identified two uncorrected misstatements above the reporting threshold. These relate to a full year's depreciation not being charged when assets were transferred from Assets Under Construction and the write-off of a landbanking loan.

44. The council held approximately £71 million of landbanking loans and similar arrangements within long-term debtors as at 31 March 2026. Audit testing identified one loan with an outstanding balance of £1.42 million that remained unpaid despite the original repayment term having expired. We also experienced delays in obtaining supporting loan documentation, indicating weaknesses in arrangements for maintaining and accessing records.

Recommendation 6

The council should undertake a review of outstanding landbanking loans to assess recoverability, ensure appropriate accounting treatment, and strengthen arrangements for maintaining and accessing supporting loan documentation.

45. In relation to this loan, the matter was considered by the Housing and Property Committee in May 2025. Management has indicated that any necessary adjustments will be made during the 2026/27 financial year. Management assessed the impact of these matters and concluded that they were not material to the financial statements, either individually or in aggregate.

46. The audit team considered the value, nature and circumstances of the misstatement and concluded that it was not material to the financial statements and did not affect the audit opinion.

47. While auditors are required to request correction of all misstatements above the reporting threshold, management has elected not to adjust the financial statements for this item. The Audit Committee, as those charged with governance, is asked to consider the nature and impact of the uncorrected misstatement and whether it agrees with management's decision.

48. Details of the corrected and uncorrected misstatements are provided in Appendix 2.

Statutory override for infrastructure assets

49. The statutory override relating to valuation of infrastructure assets is due to end on 31 March 2027. Due to practical difficulties in applying component accounting for the recognition and derecognition of replaced components of infrastructure assets, most local authorities have been unable to comply with the requirement to assess the net book value of a replaced component of an infrastructure asset and have taken a network approach to the measurement of such assets, treating the amount of the replaced component as having no value.

50. The temporary statutory override was introduced in August 2022, to allow time for the CIPFA / LASAAC Local Authority Accounting Code

Board to conclude the development of a permanent solution, with work ongoing in this area.

Whole of Government Accounts (WGA) return

51. The council is part of the WGA boundary and therefore prepares a return that is used by HM Treasury to prepare the WGA. 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 was 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

52. 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	Planned audit response	Outcome of audit work
Significant risk of material misstatement to the financial statements		
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: • Evaluated the design and implementation of controls over journal entry processing. • Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Tested journals entries, focusing on those that were assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end. • Evaluated significant transactions outside the normal course of business.	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. • No significant issues were identified from transactions outside the normal course of business.

Risk of material misstatement	Planned audit response	Outcome of audit work
	• Assessed the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assessed changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.	• The arrangements in place for identifying and disclosing related party relationships and transactions were generally adequate, although opportunities exist to strengthen compliance with declaration requirements. • No significant issues were identified with changes to methods and underlying assumptions used to prepare accounting estimates and there was no evidence of management bias. **Conclusion:** No evidence of fraud caused by management override of controls.
Valuation of property, plant and equipment The council held £3.1 billion of property, plant, and equipment (PPE) at 31 March 2025, of which £1.6 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, and changes in the assumptions can result in material changes to valuations.	The audit team: • Evaluated the design and implementation of controls over the valuation process. • Reviewed the information provided to the valuer and assessed this for completeness and accuracy. • Evaluated the competence, capabilities, and objectivity of the valuer. • Obtained an understanding of management's involvement in the valuation process and assessed to see if appropriate oversight had occurred. • Reviewed the appropriateness of the key data and assumptions used in the 2025/26 valuation process, and challenged these where required.	Audit work performed found: • The appointed valuer had sufficient competence, capability and objectivity to undertake the valuation exercise. • Property records were generally up to date; however, a small number of inconsistencies were identified between council asset records and valuation records. • Opportunities were identified to strengthen governance, management review and quality assurance arrangements within the valuation process, including the documentation of key assumptions,

Risk of material misstatement	Planned audit response	Outcome of audit work
Also new for 2025/26, CIPFA/LASAAC has updated the Code of Practice to reflect HM Treasury's reforms to public-sector asset valuations. Under the revised approach, local authorities will now move to quinquennial (five-yearly) full valuations, with annual indexation applied in the intervening years to ensure asset values remain materially accurate. There is an increased risk of material misstatement due to greater reliance on management judgement and estimation, particularly in selecting appropriate indices and determining when additional valuations are necessary in between formal valuations.	• Reviewed the indices applied by management to assets not subject to valuation in 2025/26 and assessed if these were reasonable and correctly applied.	methodologies and valuation judgements. • Improvements are required to the documentation and consistent application of certain elements of the valuation methodology, including assessment of modern equivalent asset adjustments, depreciation factors applied within depreciated replacement cost valuations, and the evidencing of the indexation approach introduced in 2025/26. • The introduction of indexation under the revised Code required significant management judgement. Further work is required to strengthen the documentation, evidencing and review of the methodology adopted. **Conclusion:** We concluded that the valuation of property, plant and equipment is not materially misstated. Recommendations have been made to strengthen governance, documentation and quality assurance arrangements supporting the valuation process (Exhibit 2).
Other areas of audit focus		
Estimation of the pension balance The pension valuation requires the use of an actuarial methodology based on a range of assumptions including financial and demographic assumptions. Small movements in these	The audit team: • Evaluated the competence, capabilities, and objectivity of the actuary. • Reviewed the information provided to the actuary and assessed this for completeness and accuracy.	Audit work performed found: • The information provided to the actuary was accurate and complete. • The actuary had sufficient competence, capability, and objectivity to perform their work.

Risk of material misstatement	Planned audit response	Outcome of audit work
can result in material changes to valuations as was the case in the last three financial years.	• Reviewed the appropriateness of the key data and assumptions used by management for the estimation of the pension balance, and challenged these where required. • Audit Scotland uses PwC as an auditor's expert who informed the planned audit procedures outlined above. The audit team reviewed the information provided by PwC and reflected this in the planned audit procedures where required.	• The data and assumptions used in the estimation process were appropriate. • The information provided by PwC was reviewed with no issues arising. **Conclusion:** The estimation of the pension balance is not materially misstated.

Source: Audit Scotland

Section 101 objection

53. The council complied with the requirements of the Local Authority Accounts (Scotland) Regulations 2014 in relation to public inspection of the accounts.

54. Two individuals submitted seven objections under Section 101 of the Local Government (Scotland) Act 1973. We met with the individuals, reviewed the evidence provided and undertook appropriate audit procedures in response to the matters raised.

- **Annual Governance Statement:** Three objections related to disclosures within the Annual Governance Statement, including governance arrangements for Highland and Western Isles Valuation Joint Board, internal audit compliance with the Global Internal Audit Standards, and the council's risk management arrangements. Based on our audit work and understanding of the council's governance arrangements, we concluded that the Annual Governance Statement complies with relevant guidance and is not materially misstated.

- **Contingent liabilities:** Two objections related to whether contingent liability disclosures were required in relation to fire safety risks at overnight motorhome schemes, GDPR compliance, and clawback conditions associated with grant funding for the Inverness and Cromarty Firth Green Freeport. Our review identified no financial obligations that required recognition or disclosure as

contingent liabilities within the financial statements. No material misstatements were identified.

- **VAT treatment:** One objection related to the VAT treatment of a specific income stream. The value of income associated with this matter is significantly below audit materiality. Based on the information available to us, any potential VAT liability would not result in a material misstatement of the financial statements and does not affect our audit conclusions.

- **Management Commentary:** One objection related to disclosures concerning the Inverness and Cromarty Firth Green Freeport within the Management Commentary. We considered whether these disclosures were materially consistent with our understanding of the council's activities and with relevant council reports and approved documentation. Based on this work, we concluded that the Management Commentary is not materially misstated and that the Green Freeport disclosures are consistent with our understanding of the arrangements.

55. No issues were identified that required amendment to the planned audit approach, our audit opinion, or the conclusions set out in this report.

Prior year recommendations

56. There were three recommendations made in the 2024/25 Annual Audit Report relating to the financial audit of the annual accounts. Progress against these and the five previous Best Value recommendations from the thematic reviews are included in Appendix 1.

57. Overall, the council has made some progress in implementing the agreed prior year audit recommendations.

Wider scope audit

Conclusions

The council has effective and appropriate financial management arrangements in place. The reported £13.9 million General Fund overspend reflects significant demand-led service pressures experienced during the year rather than weaknesses in financial management arrangements.

Financial sustainability remains a significant challenge. Although the council has reduced projected budget gaps and its reliance on non-earmarked reserves, substantial savings and transformation activity will be required to address future financial pressures, particularly within Adult Social Care.

The council continues to have appropriate and effective arrangements to support its vision, leadership and governance.

The council has appropriate arrangements in place for its use of resources to improve outcomes, with clear links between performance management, transformation activity and financial sustainability.

Audit approach to wider scope

Wider scope

58. As reported in the Annual Audit Plan, the wider scope audit areas are:

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

59. 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

60. The audit work performed on the arrangements the council has in place for securing sound financial management found that these were generally effective and appropriate. This judgement is evidenced by the council:

- having a system of internal control in place that is generally operating effectively. While our audit identified some control weaknesses, these were not considered significant and did not indicate any fundamental weakness in the council's arrangements for sound financial management.
- having established financial regulations, a scheme of delegation, and other key financial management procedures in place to support effective financial management. The council is currently undertaking a review and update of its financial regulations, which were last approved in 2021.
- having clear and up-to-date policies in place for preventing and detecting fraud and other irregularities, and participating in fraud prevention and detection activities such as the National Fraud Initiative (NFI).
- having established budget setting and budget monitoring arrangements to support financial planning and oversight throughout the year.
- having committee structures in place which provide oversight of the council's financial position, with financial performance monitored by service committees and overall financial performance overseen by the Corporate Resources Committee.

Financial performance reflects significant operational pressures, but budgeting and monitoring arrangements remain effective

61. The council reported a General Fund overspend of £13.9 million against a revised revenue budget of £837.4 million in 2025/26. The most significant overspends arose within Infrastructure, Environment and Economy, Communities and Place, and Health and Social Care services.

62. The year-end position reflects a combination of demand-led expenditure pressures experienced during the year. Key cost pressures included increased expenditure relating to looked after children, roads maintenance and storm damage, together with refit and breakdown costs associated with the Corran Ferry. Savings delivery shortfalls also contributed to the year-end position, including lower-than-anticipated savings made from larger climate change projects, lower values achieved for recyclable materials, and a reduction in Packaging Extended Producer Responsibility income.

63. Although the council reported an overspend for the year, the financial position should be viewed in the context of the significant operational and financial challenges faced by the council. The principal budget pressures arose from demand-led services and other factors that were difficult to predict or control. Financial performance was monitored throughout the year through established budget monitoring and reporting arrangements, enabling members to scrutinise performance and oversee actions to manage emerging pressures.

64. The Housing Revenue Account (HRA) achieved a balanced outturn, with expenditure of £75.9 million fully funded by income, demonstrating that the council maintained financial balance within its housing operations despite wider pressures across General Fund services. While the HRA remained financially balanced in 2025/26, its longer-term financial sustainability, including the management of debt levels and the development of longer-term financial plans, remains an important area of focus.

65. The council approved its reserves strategy in December 2023 and members receive regular updates on reserve levels and monitor compliance with the strategy. In 2025/26, the council did not comply with its reserves strategy, which requires reserves to be maintained at 3% of the annual revenue budget. The reserve balance fell below the approved 3% target and is currently 2.5%.

The council has reduced its budget gap and planned reliance on non-earmarked reserves, although reserves remain an important part of its financial strategy

66. Exhibit 5 sets out how the council has addressed projected budget gaps over the period 2023/24 to 2026/27. While the council continues to face significant financial challenges, the scale of the projected budget gap has reduced in recent years. The estimated budget gap reduced from £65.6 million in 2024/25 to £34.2 million in 2025/26 and is projected to reduce further to £23.4 million in 2026/27.

67. The council's approach to addressing budget gaps has also changed over the period. Planned use of non-earmarked reserves reduced from £23.3 million in 2023/24 and £9.9 million in 2024/25 to nil in both 2025/26 and 2026/27. This reflects a greater emphasis on recurring measures, including savings, income generation and council tax increases, to support financial sustainability.

68. Reserves continue to form an important part of the council's financial strategy. Total earmarked reserves reduced from £110.8 million at 31 March 2024 to £65.2 million at 31 March 2026. This includes the Budget Pressures and Investment Reserve, which reduced from £30.0 million to £18.2 million during 2025/26, reflecting its use in supporting budgetary pressures and strategic investment.

69. The council also continued to utilise Delivery Plan reserves to support transformation activity. During 2025/26, £8.6 million of expenditure was funded from Delivery Plan reserves, with a balance of £12.2 million remaining at 31 March 2026.

70. The council has established arrangements to monitor the delivery and benefits of investment funded through the Delivery Plan reserves. As discussed in the Use of Resources section, progress against transformation activity, savings delivery and expected returns on investment is reported through the Operational Delivery Plan, providing members with oversight of whether planned benefits are being achieved and supporting decisions on future investment priorities.

Exhibit 5

Key financial information

Budget setting	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Budget gap	54.2	65.6	34.2	23.4
Planned to be met via:				
• Savings and flexibilities	22.2	31.3	7.9	13.8
• Use of reserves	23.3	9.9	-	-
• Increase of income	-	6.5	6.3	1.5
• Additional council tax	5.4	-	10.5	8.1
• Other	3.3	17.8	9.5	-
Actual				
Savings delivered	18.0	22.2	12.3	-
Reserves				
Use of / (contribution to) reserves[1]	23.3	22.7	27.9	-

[1] The use of reserves figure includes the planned use of non-earmarked reserves approved through the budget, together with any in-year surplus or deficit that affected the balance of non-earmarked reserves. It excludes the use of earmarked reserves for their specified purposes. Noting that in 2025/26 £21.9m of reserves were repurposed in year.

Budget setting	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Total usable reserves carried forward	201.8	157.5	133.7	
General Fund				
• Earmarked	110.8	93.7	65.2	--
• Uncommitted	47.3	27.0	20.9	

Source: The Highland Council 2025/26 annual accounts and Committee papers

The council's uncommitted reserves have reduced below its target level, reducing financial flexibility

71. The council approved its reserves strategy in December 2023. The strategy sets a target for uncommitted General Fund reserves of 3 per cent of the annual revenue budget. The Audit Committee receives regular updates on reserve levels and monitors compliance with the strategy.

72. The council did not plan to use non-earmarked reserves to support the 2025/26 revenue budget. As outlined above, earmarked reserves continued to be used to support specific budget pressures and investment in transformation and savings initiatives, consistent with the council's wider financial strategy.

73. Exhibit 5 shows during 2025/26, the council utilised £27.9 million of reserves to support budget initiatives. This included £17.0 million of previously approved reserve usage, comprising £5.0 million to support Adult Social Care pressures and £12.0 million of funding that will be carried forward to support budget pressures in 2026/27. A further £10.9 million was required to support the council's net deficit position for the year. In addition, the council repurposed £21.9 million of earmarked reserves during the year to support its financial position.

74. The combined effect of these reserve movements was a net reduction of £6.0 million in the General Fund reserve during 2025/26. As a result, uncommitted General Fund reserves reduced to £20.9 million at 31 March 2026, equivalent to 2.5 per cent of the council's annual revenue budget.

75. The council therefore did not comply with its reserves strategy during 2025/26, with uncommitted reserve levels remaining below the approved 3 per cent target. While the council continues to maintain a level of uncommitted reserves and has reduced its reliance on non-earmarked reserves to support annual budget setting, the lower reserve balance reduces the council's financial flexibility and resilience in responding to future financial pressures and unforeseen events.

Change in senior management

76. The council faces a period of significant leadership transition with the planned retirement of its long-serving Section 95 Officer at the end of 2026. Audit Scotland has previously highlighted the importance of the Chief Financial Officer role in providing strategic financial leadership, supporting sound decision-making and promoting long-term financial sustainability. The Section 95 Officer has played a key role in developing and implementing the council's financial strategy, reserves management arrangements and transformation programmes. Given the council's continuing financial challenges and significant programme of change, the departure of a long-serving postholder creates a risk of reduced organisational capacity and the loss of valuable organisational knowledge and experience.

77. Recruitment for the Section 95 Officer post commenced in July 2026, well in advance of the planned retirement of the current postholder. This provides the council with an opportunity to implement effective succession arrangements and minimise the risk of disruption during the transition period.

78. The council should ensure that appropriate transition arrangements are in place, including a structured handover process and effective knowledge transfer arrangements. This will help maintain continuity of financial leadership and oversight, preserve organisational knowledge and support delivery of the council's strategic and financial objectives during a period of significant change.

Systems of internal control

79. From our review of the design and implementation of systems of internal control (including IT controls) relevant to our audit approach, we did not identify any significant weaknesses in the design of key controls which would increase the risk of a material misstatement in the financial statements. However, we identified a small number of areas where controls were not operating consistently as intended or where audit trails could be strengthened. These findings primarily relate to the operation of control activities, the timeliness of control reviews and the retention of evidence supporting user access reviews as set out in Exhibit 6.

Exhibit 6

Key findings from review of key controls

Audit findings	Risk
Review of bank reconciliations Monthly bank reconciliations were completed for all council bank accounts; however, management review was not always completed in a timely manner. The latest reviewed reconciliation for the general	Delays in reviewing bank reconciliations increase the risk that errors, omissions or unusual reconciling items are not identified and addressed on a timely basis

Audit findings	Risk
income account was October 2025 and was not reviewed until January 2026. Review of the reconciliation tracker identified similar delays for a number of other council bank accounts, indicating that the control was not operating as designed.	
Payroll exception reporting The payroll exception reporting control generates a high volume of exceptions due to the thresholds currently applied. For the month reviewed, approximately 600 exceptions were identified. Due to the volume of exceptions, only a small sample of transactions was reviewed. The council should consider whether exception reporting thresholds can be refined to focus on higher-risk or unusual transactions and enable more comprehensive review.	Excessive volumes of exceptions reduce the effectiveness of the control and increase the risk that unusual or erroneous payroll payments are not identified.
User access reviews The council undertakes regular user access reviews across key systems including CareFirst, Civica and the Non-Domestic Rates/Council Tax system. However, evidence retained to demonstrate that identified access issues have been resolved could be strengthened. For CareFirst and the Non-Domestic Rates/Council Tax system, limited evidence was available to demonstrate completion of remedial actions arising from quarterly reviews. For Civica, arrangements for the ongoing review of leavers' access should be formalised following the planned full user access review.	Insufficient evidence of access amendments reduces assurance that inappropriate user access is identified, removed and monitored promptly. This increases the risk of unauthorised access to systems and data.

Recommendation 7

The council should strengthen the operation and documentation of key controls by ensuring that management reviews are completed on a timely basis, control activities remain proportionate and effective, and sufficient evidence is retained to demonstrate that identified issues have been appropriately reviewed and resolved.

Financial Sustainability

Medium-term financial planning arrangements remain appropriate, but significant financial challenges remain

80. The council continues to have appropriate arrangements in place for medium-term financial planning and budget setting. The updated Medium-Term Financial Plan demonstrates an understanding of the financial challenges facing the council and reflects ongoing efforts to identify recurring savings, redesign services and manage cost pressures.

81. The council approved a balanced budget of £868.0 million for 2026/27, supported by £23.4 million of savings proposals, financial flexibilities and a 7 per cent increase in council tax. The updated financial outlook also shows a reduction in the projected budget gap reported in previous years. While this reflects progress in identifying savings and refining financial assumptions, a cumulative funding gap of £5.7 million remains across 2027/28 and 2028/29.

82. The budget acknowledges that significant financial challenges remain. In particular, continuing inflationary pressures, pay awards and demand-led pressures within Adult Social Care continue to present substantial financial risks. Forecast overspends within Adult Social Care remain significant. The council, alongside NHS Highland, has committed additional recurring and non-recurring funding to support service sustainability, transformation and cost recovery.

83. The council's budget strategy continues to rely on the delivery of substantial savings and service redesign initiatives. The council has identified a number of actions intended to support financial management and budget oversight, including a Budget Review Group and the development of a standardised approach to documenting significant budget activity. It will be important for the council to demonstrate that these arrangements are operating effectively and support the delivery of planned savings.

84. The council's reserves strategy remains focused on supporting investment, transformation and service redesign. During 2026/27, the council reviewed a number of earmarked reserves and returned funds to general reserves to maintain compliance with its reserves policy. Reserves continue to play an important role in supporting transformation activity and managing financial risks, particularly within Adult Social Care.

85. Overall, we concluded that the council continues to have appropriate arrangements in place for financial planning and budget setting. The projected budget gap has reduced since prior years; however, significant financial challenges remain. Continued focus will be required to deliver planned savings, respond to demand-led pressures and maintain long-term financial sustainability.

Borrowing and financing costs will require continued monitoring as capital investment plans progress

86. The affordability of the council's capital programme and asset management plans was considered in detail as part of our 2025/26 Best Value thematic review of asset management. A summary of our findings is included at Exhibit 8, with the full Asset Management report presented separately.

87. The Highland Investment Plan remains a significant long-term investment programme. As a result, the council's borrowing has increased from £972.5 million in 2020/21 to £1.3 billion at 31 March 2025. While the council has incorporated affordability considerations into its capital planning arrangements, the scale of borrowing and associated financing costs continues to require careful monitoring as the programme progresses.

88. The council has recognised the need to regularly review affordability assumptions and borrowing limits as part of its medium-term financial planning and treasury management arrangements.

Significant financial pressures continue to drive adult social care transformation and review of integration arrangements

89. We reported in our 2024/25 Annual Audit Report that further work would be required by the council and NHS Highland to increase the pace of adult social care transformation and address growing financial pressures.

90. The financial sustainability of adult social care services continues to present a significant risk. Cost pressures have increased markedly in recent years, driven by inflation, workforce costs and provider sustainability challenges. The financial position is further compounded by an overspend of £21.8 million reported in 2025/26.

91. In line with the Integration Scheme, where an overspend occurs, partner bodies are expected to work together to agree an action plan to address the deficit. The 2025/26 overspend was managed through a combination of £10.0 million one-off support from the Scottish Government, an £11.0 million contribution from NHS Highland and a £5.0 million contribution from the council.

92. Looking ahead, the 2026/27 financial plan identified a funding gap of £27.9 million. While opportunities have been identified to reduce growth assumptions by £4.2 million and a cost containment plan has been developed with a target reduction of £6.6 million, NHS Highland has reported that a significant residual funding gap is expected to remain. This reinforces the need for sustainable transformation and longer-term reform of adult social care delivery arrangements.

93. The council has made significant financial commitments to support adult social care sustainability and transformation. This includes establishing a £20.0 million reserve to support cost recovery and transformation activity across 2024/25 and 2025/26. To date, £12.8 million has been utilised, including £1.8 million on transformation initiatives. A further £7.0 million of support was included within the council's 2026/27 financial plan, resulting in a forecast reserve balance of £14.2 million available to support ongoing transformation and financial sustainability activity.

94. Against this backdrop, the council and NHS Highland commenced a review of their integration arrangements during 2025. The review is intended to determine the most effective future model for delivering health and social care services and includes consideration of whether the current lead agency model remains the most appropriate arrangement.

95. The current arrangements have operated since 2015 under an Integration Scheme, with the council leading children's services and NHS Highland leading adult health and social care services. A joint strategic steering group was established to oversee the review, which is being undertaken in three phases: assessment of existing arrangements; appraisal of future options and their implications; and evaluation of preferred arrangements and implementation requirements.

96. Following completion of Phase 1, two options were approved for further consideration: maintaining the lead agency model, with potential improvements to current arrangements, or moving to a body corporate model. Phase 2 includes detailed consideration of governance, finance, workforce and service delivery implications, alongside engagement with staff, stakeholders, communities and partners.

97. An update on the integration review, including the Phase 2 options appraisal, was presented to the Joint Monitoring Committee in September 2026. However, in light of the significant changes to health and social care recently set out in the Programme for Government, both the council and NHS Highland agreed that further work on the review should be paused until there is greater clarity on future integration arrangements. As a result, planned stakeholder engagement has been postponed, although consultation on the draft Highland Outcome Improvement Plan will proceed as scheduled for October 2026.

98. Work undertaken to date has helped establish the governance, resources and programme arrangements required to support transformation and address the underlying financial sustainability challenges facing adult social care services. However, detailed delivery plans demonstrating how recurring savings will be achieved and how remaining transformation funding will be deployed were still under development at the date of our audit.

Vision, Leadership and Governance

99. Our audit work on the council's governance arrangements found these to be generally effective and appropriate. This judgement is evidenced by the council:

- having a clear strategic framework through *Our Future Highland 2022-2027*, which sets out the council's vision and key priorities and is supported by a Delivery Plan. Progress against delivery is regularly monitored and reported to members. We comment further on performance monitoring and reporting arrangements in the Use of Resources section of this report.

- maintaining an established governance framework, including the Highland Council, Audit Committee and other member committees, which provide oversight of strategy, performance, risk management and decision-making. Based on our attendance at committee meetings and review of committee papers, we concluded that members received relevant and timely information to support effective scrutiny and informed decision-making.

- maintaining appropriate risk management arrangements, supported by regular reporting of strategic risks to members throughout the year.

- providing appropriate member development and training arrangements. During 2025/26, members received training covering areas including audit and assurance, risk management, counter fraud arrangements and the role of external audit. The council also uses a CIPFA self-assessment exercise to support Audit Committee work programming and future training requirements.

- maintaining an effective internal audit function which forms an important part of the council's assurance framework. In the 2025/26 Annual Audit Report, the Chief Audit Executive concluded that reasonable assurance could be placed on the adequacy and effectiveness of the council's arrangements for governance, risk management and internal control.

The Programme for Government could result in significant reform affecting local authorities and health and social care delivery

100. The new Programme for Government announced in September 2026 focuses on improving outcomes and addressing national challenges with wide ranging proposed reform.

101. The Scottish Government’s Programme for Government 2026-31 (the Programme) focuses on eradicating child poverty, growing the economy, tackling the climate emergency, and delivering a strong NHS and public services. Within health and social care, it prioritises reducing waiting times, improving access to care, and shifting more services from

hospitals into community settings to support prevention and independent living.

102. The Programme proposes modernisation and significant reform including replacing the current 14 territorial health boards with two strategic health boards. For local authorities, the Programme signals potential reform of health and social care governance and delivery arrangements and reducing duplication and increasing efficiency in the delivery of public services.

103. While the direction of travel is towards greater integration, prevention and community-based care, the full implications for local authorities remain uncertain. Greater clarity is expected in the coming months as the Scottish Government undertakes planned consultation and engagement on the future of social care and local governance.

Use of Resources to Improve Outcomes

104. Our audit work found that the council has appropriate arrangements in place to support the effective use of resources to improve outcomes. This judgement is evidenced by the council:

- having a clear strategic framework through Our Future Highland 2022-2027, supported by the Performance Plan and Operational Delivery Plan (ODP), which together set out the council's priorities, intended outcomes, performance measures and improvement activity
- monitoring progress against strategic priorities through a combination of annual and quarterly performance reporting, Operational Delivery Plan reporting and committee scrutiny arrangements, providing members with oversight of performance, delivery of improvement activity and emerging risks
- using performance information, benchmarking data and outcome measures to monitor progress and identify areas requiring improvement. The Annual Corporate Performance Report includes comparison against national and family-group comparators, providing transparency over areas of strong performance and areas where further improvement is required
- maintaining a clear link between strategic priorities, transformation activity and financial sustainability. The Operational Delivery Plan brings together the commitments within Our Future Highland and the council's medium-term financial plans, helping demonstrate how service transformation and improvement activity contribute to long-term sustainability
- operating project and programme management arrangements through the Performance and Risk Management System (PRMS),

enabling delivery plans, milestones, risks, costs and benefits to be monitored and reported to members.

The Operational Delivery Plan supports performance improvement and financial sustainability

105. The council's Operational Delivery Plan is a particular strength within its performance and improvement arrangements. The Plan provides a clear line of sight between strategic priorities, transformation activity, service redesign and financial sustainability, enabling elected members to monitor both operational delivery and the financial benefits associated with transformation activity.

106. The 2025/26 ODP Annual Progress Report demonstrates a mature approach to performance monitoring by reporting not only progress against projects and milestones, but also the financial return expected from investment in transformation activity.

107. The council reported forecast savings delivery of £12.3 million against an annual target of £20.4 million (60 per cent) including Adult Social Care projects and £9.7 million against a target of £13.4 million (72 per cent) excluding Adult Social Care. The £12.3 million reported through the Operational Delivery Plan includes approximately £4.1 million of additional income generation, with the remaining £8.2 million arising from savings, efficiencies and cost avoidance measures.

108. Whilst some programmes and projects experienced slippage during the year, this was identified through the council's monitoring arrangements and reflected in subsequent budget decisions, demonstrating active management of delivery risks.

109. The report also includes analysis of forecast return on investment across individual portfolios. Total forecast expenditure of £7.6 million is expected to generate forecast savings and additional income of £12.3 million, equating to £1.61 of savings for every £1 invested. Returns vary across portfolios, ranging from £0.80 per £1 invested within Person Centred Solutions to £13.14 per £1 invested within Income Generation. This provides members with visibility over the value being generated through transformation activity and supports informed decisions on future investment priorities.

110. The council also reported that £20.9 million of investment funding remains available to support future transformation activity. The combination of programme monitoring, milestone tracking, benefits realisation and return-on-investment reporting provides a strong framework for assessing whether resources are being used effectively to improve outcomes and support long-term financial sustainability.

Best Value audit

Conclusion

The council has effective arrangements in place for securing Best Value and has embedded fairness and equality across the organisation. However, further work is required to improve completion rates for mandatory Equality, Diversity and Inclusion training.

The council has effective and appropriate arrangements in place for preparing and publishing Statutory Performance Information.

The Best Value thematic report on asset management prescribed by the Accounts Commission reported that the council has effective asset management arrangements, supported by a clear strategic framework that aligns assets with service, financial and climate objectives supported by effective governance and accountability arrangements.

Audit approach to Best Value

111. 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 in accordance with statutory guidance, including follow up of findings previously reported in relation to Best Value.

112. 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.

Conclusions on Best Value

The Council's arrangements and performance in meeting Best Value and community planning duties were appropriate

113. The audit work performed on the arrangements the council has in place for securing Best Value and its community planning arrangements found these were effective and appropriate. This judgement is evidenced by:

- the council having well established and effective governance arrangements in place, with Best Value being a key aspect of the governance arrangements.
- the arrangements the council has in place around the four wider scope audit areas, which are effective and appropriate, contribute to it being able to secure Best Value.

Themes prescribed by the Accounts Commission

114. As previously outlined, the Accounts Commission reports nationally on thematic aspects of councils approaches to, and performance in, meeting their Best Value duties. The thematic review for 2025/26 is on the subject of asset management and involves considering how councils are managing their assets to ensure high-quality services while also responding to challenges around financial sustainability and climate change.

115. Conclusions and judgements on the thematic review have been reported in a separate Management Report to the Audit Committee in November 2026. The 2025/26 Best Value thematic review focused on asset management and assessed how effectively councils manage their assets to support their corporate objectives and address challenges relating to financial sustainability and climate change.

116. The findings, conclusions and judgements from the review are set out in a separate Management Report presented to the Audit Committee on 11 November 2026. A summary of the key messages in the 2025/26 Best Value thematic report are outlined below in Exhibit 7.

117. The review identified three improvement actions, which have been incorporated into the Improvement Plan. These recommend that the council:

- Strengthens performance reporting arrangements;
- Complete its condition survey programme and;
- Improve the accessibility and transparency of Community Asset Transfer (CAT) documentation.

118. Officers have agreed to these improvements and progress will be followed up and reported on as part of our 2026/27 annual audit.

Exhibit 7

Best Value thematic work – Asset management - Key messages

1. Highland Council demonstrates an effective approach to its asset management. The strategic approach is outlined in its 2026 Strategic Asset Management Plan. This gives consideration to the changing needs of its population and new ways of working and also sets out how it will support the council to meet its net zero emission commitments.

2. There is clear strategic alignment between the Strategic Asset Management Plan, service-level asset management plans and the capital investment programme. The Asset Management Framework also supports the delivery of the council's strategic objectives.

3. There is clear alignment between the council's Highland Investment Plan (HIP) and its asset management plans. The council has clearly considered affordability in its plans, with the HIP focusing on saving activity.

4. The council has sufficiently considered the affordability of its capital programme and asset management plans. This is evidenced via its "ratio of financing costs to net revenue stream." The Treasury Management Strategy Statement notes that the general and the housing revenue funds are below the cap set by the council, although both are higher than the Scottish average. The council has recognised the need for a revised and lower cap; with interim caps agreed on the Housing Revenue Account and non-treasury investment opportunities.

5. A proactive approach to managing and mitigating significant building safety risks related to Reinforced Autoclaved Aerated Concrete (RAAC) has been undertaken.

6. The council has a reported backlog of property maintenance, with the risk rated amber on the corporate risk register. Management reported that their approach to addressing the backlog is still in progress, with tailored solutions being developed and due to be reported to members in Q4 2026/27. It is not yet possible to measure the progress against the backlog maintenance until condition surveys are completed. Condition surveys have been undertaken for 70 per cent of the sites and the cycle of surveys is due to be complete by the end of 2026/27.

7. The council's reporting and monitoring arrangements would benefit from some improvements to tracking and reporting to ensure transparency and enable effective decision making. The council has, in general, demonstrated continuous improvement over the last three years against relevant Local Government Benchmarking Framework indicators however it remains below the national and family group (Group 1) averages.

8. The council works collaboratively with partners to manage and deliver shared assets locally. It has a clear approach to engaging with communities on asset management planning and can demonstrate how it has worked with communities to inform its decision making in relation to assets.

9. The council has a clear approach for supporting Community Asset Transfer (CAT) requests. While transparency could be improved by ensuring CAT request key documentation is available on-line and ensuring guidance remains up to date, the approach has been fully complied with.

Source: Best Value thematic work – Asset management

Statutory performance information (SPI) and service performance

119. The Accounts Commission issued a new Statutory Performance Information Direction (the Direction) in 2024 which applies in 2025/26 for the first time. Complying with the Direction is fundamental to councils fulfilling their duty to secure Best Value. The Direction expects indicators from the Local Government Benchmarking Framework (LGBF) be used as the primary means of facilitating comparisons. The LGBF may be used alongside other local measures. However, councils should be transparent as to why specific measures have been chosen where they have not used LGBF indicators.

120. Auditors have a statutory duty to satisfy themselves that the council has made proper arrangements for preparing and publishing SPI in accordance with the Direction. The arrangements the council has in place for preparing and publishing SPI were assessed by considering:

- Whether information reported allowed comparison of performance between councils and over time.
- The indicators it uses for reporting and whether it maximises use of the Local Government Benchmarking Framework (LGBF) indicators (and explaining the rationale when the LGBF is not used).
- Whether information reported was balanced, timely, and accessible.
- Whether information reported covered the four key areas set out in the Schedule to the Direction.

121. We reviewed the council's Annual Corporate Performance Report 2025/26 and found that it provides sufficient information to assess the council's performance over time through year-on-year performance data and trend analysis.

122. The report provides opportunities to compare performance with other councils through the use of LGBF rankings, family-group comparators and national benchmarks. However, the report does not provide a comprehensive comparison between other individual, similar councils (such as budget size, urban/rural classification, and demographic or socioeconomic characteristics).

123. Overall our audit work found that the arrangements the council has in place for preparing and publishing SPI and complying with the Direction were effective and appropriate but the report could benefit from more comparison between similar local authorities.

Recommendation 8

Management should consider increasing the use of comparator information, including family-group councils, Scottish averages and LGBF rankings within future Annual Corporate Performance Reports. This would improve transparency and provide stakeholders with greater context to assess the council's relative performance and progress against similar local authorities.

Local Government Benchmarking Framework

124. The Accounts Commission also requires auditors to report a summary of the LGBF indicators the council has reported as shown in Exhibit 8.

Exhibit 8

Summary of LGBF indicators the council has reported

	Cost indicators %	Performance indicators %	Satisfaction indicators %	All indicators %
Movement in last year				
Improved	50%	37%	45%	40%
Stayed the same	5%	22%	9%	17%
Declined	45%	41%	45%	42%
Movement since base year				
Improved	55%	58%	9%	53%
Stayed the same	5%	10%	0%	8%
Declined	40%	31%	91%	39%
Indicators in the top two quartiles				
Most recent year	50%	28%	64%	36%
Base year	55%	52%	18%	49%

Source: Improvement Service LGBF at 24 August 2026

125. The council's performance information presents a mixed picture. While over half of indicators have improved since the baseline year, performance in the most recent year shows less consistent progress, with

42 per cent of indicators deteriorating. Performance also varies significantly across service areas, with 36 per cent of indicators currently ranked within the top two quartiles nationally.

126. The council's Annual Corporate Performance Report highlights notable strengths in areas including educational attainment, positive destinations for school leavers, benefits administration and environmental services, while identifying ongoing challenges in areas such as employability, some adult social care measures, road condition indicators and attainment gaps for children and young people from deprived backgrounds. Overall, the council demonstrates a clear understanding of both its strengths and the areas where further improvement activity is required, supported by regular benchmarking against other Scottish local authorities.

Fairness and equality

127. Fairness and equality is identified as a cross-cutting Best Value theme where an organisation should demonstrate that consideration of equality issues is embedded in its vision and strategic direction and throughout all of its work. As reported in the Annual Audit Plan, specific work covering the 'fairness and equality' Best Value characteristic was carried out as part of the 2025/26 audit.

128. The Equality Act 2010, Section 149 (Public Sector Equality Duty) sets out the duties that apply specifically to public sector bodies. Subsection (1) requires organisations to have due regard to the need to:

- Eliminate discrimination, harassment, and victimisation
- Advance equality of opportunity
- Foster good relations between different groups

129. These duties apply in relation to the nine protected characteristics defined in the Act. Our review found that the council complies with the Equality Act 2010, embedding equality across workforce policies, training, governance structures, and impact assessment processes as summarised below.

130. The council demonstrates clear and consistent compliance with its duties under Section 149 of the Equality Act 2010. As an employer, it maintains a strong policy framework aimed at preventing discrimination and promoting an inclusive workplace, supported by staff training modules, wellbeing initiatives and regular monitoring of workforce data, including representation and the gender pay gap.

131. Through its Equality Mainstreaming & Outcomes (EMO) reporting, the council demonstrates that equality considerations are embedded across service delivery, community engagement and strategic planning. Key corporate plans (including the Delivery Plan, People Strategy and

Highland Outcome Improvement Plan) set out actions to advance equality and support vulnerable groups across the region.

132. The equality impact assessment process introduced in July 2024 ensures that all strategic decisions are screened for potential impacts on protected characteristics and socio economic disadvantage. Published assessments demonstrate appropriate identification of risks, consideration of mitigations, and transparency around engagement.

133. Committee scrutiny provides ongoing oversight of equality-related performance, with relevant issues routinely discussed across service committees.

134. However, while the council has appropriate processes in place for staff awareness of their work and commitment surrounding equality, we noted that as of May 2026, only 56% of staff have completed the mandatory Equality, Diversity and Inclusion (EDI) training module. Further efforts are required to improve completion rates and ensure all staff complete mandatory EDI training within the required timeframe.

Recommendation 9

Management should strengthen monitoring and follow-up arrangements for mandatory EDI training to ensure completion rates improve and all staff undertake the training within the required timeframe.

135. Overall, HC has established robust processes and governance arrangements that demonstrate a commitment to fairness and equality while also identifying areas for continuous improvement. However, further steps are required to ensure all staff are fully trained.

Progress against previous Best Value findings and recommendations

136. Best Value findings and recommendations have been made in previous thematic Best Value reports and the Controller of Audit Report on the council's performance in meeting its Best Value duties.

137. Details of previous recommendations and progress the council is making against these can be seen in Appendix 1, with three of the four thematic recommendations made being implemented. Overall, the pace and depth of improvements resulting from the recommendations is positive.

Appendix 1: Action plan 2025/26

2025/26 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action / officer / timing
1. Strengthening property valuation documentation and review The property valuation process was supported primarily through working papers and spreadsheets rather than a formal valuation report. During the audit, a number of differences were identified between valuation records and council asset records, including property measurement data. The council was able to provide explanations and supporting evidence, however these required significant additional audit work and highlighted opportunities to improve the consistency and accessibility of valuation documentation. **Risk** Where key valuation information, assumptions and reconciliations are not fully documented and readily available, there is an increased risk of delays in supporting asset valuations and demonstrating that valuations have been prepared on a consistent basis.	The council should strengthen governance arrangements over the property valuation process. This should include ensuring that key valuation assumptions and judgements are formally documented, property records are regularly reconciled to valuation information, and valuation outputs are subject to effective management review and challenge before being reflected in the financial statements.	**Agreed** **Action** A formal property valuation framework and guidance will be developed and documented, to ensure that valuation methodologies, assumptions, reconciliations and review requirements are all clearly and consistently documented on individual valuations. Property records used for valuation purposes will be subject to periodic reconciliation with the council's asset register, and valuation outputs will be reviewed and evidenced prior to inclusion in the annual accounts to ensure consistency, transparency and a clear audit trail. **Responsible officer** Chief Officer – Property & Assets **Timing** 1 April 2027

Matter giving rise to recommendation	Recommendation	Agreed action / officer / timing
2. Application and documentation of valuation judgements Weaknesses were identified in the assessment of modern equivalent asset (MEA) adjustments for schools and inconsistencies in the application of depreciation adjustments within depreciated replacement cost valuations. Significant valuation decisions were not always consistently evidenced. **Risk** Inconsistent application and documentation of valuation judgements increases the risk that property valuations are not prepared on a consistent and supportable basis across the asset portfolio.	The council should strengthen arrangements for applying and documenting valuation judgements. In particular, it should ensure that assessments of MEA requirements are supported by evidence of school capacity and occupancy trends, that the basis for significant valuation decisions is documented, and that depreciation adjustments are applied consistently in line with the council's agreed valuation methodology and condition assessments.	**Agreed** **Action** The Estate Management team will strengthen documentation of key valuation judgements through the introduction of standardised procedures. This will include ensuring that each individual asset valuation clearly records the rationale for significant valuation decisions, and evidences consideration of school capacity and occupancy data where MEA assessments are required. Similarly, individual valuations will document the basis on which depreciation adjustments are applied, following the agreed valuation methodology and condition assessments. **Responsible officer** Chief Officer – Property & Assets **Timing** 1 April 2027
3. Indexation of assets The council adopted an asset-specific indexation methodology but evidence supporting the source of indices used could not be independently corroborated and key assumptions and methodologies were not formally documented. **Risk** Insufficient documentation and evidence supporting indexation adjustments	The council should strengthen the documentation and evidencing of indexation adjustments applied to property valuations. This should include retaining evidence supporting the source of indices used, documenting key assumptions and methodologies.	**Agreed** **Action** The Estate Management team will establish a documented indexation methodology for property valuations, including retention of supporting evidence for the source of indices applied, key assumptions and calculation methodologies. Management review procedures will be implemented to ensure

Matter giving rise to recommendation	Recommendation	Agreed action / officer / timing
increases the risk that asset valuations cannot be fully supported or subject to effective review and challenge.		indexation adjustments are appropriately evidenced, consistently applied and supported by a clear audit trail. **Responsible officer** Chief Officer – Property & Assets **Timing** 1 April 2027
4. Declarations of interest There were 16 members including three senior members who failed to return a declaration in 2025/26, despite this being a mandatory requirement, resulting in a risk that related party transactions and balances requiring disclosure have not been identified and included in the financial statements. **Risk** There is a risk that related party transactions or balances involving those individuals have not been identified and disclosed within the financial statements.	The council should strengthen its processes for obtaining and reviewing declarations of interest to ensure the completeness of related party disclosures.	**Agreed** **Action** The current process will be strengthened with additional follow-up requests (these would be in addition to existing follow-up and reminder arrangements). Consideration will also be given to any further steps or actions that might be necessary to support officers in following up non-responses from members. **Responsible officer** Chief Officer – Corporate Finance **Timing** 30 June 2027
5. Annual Governance Statement Disclosures The AGS complies with governance requirements, but disclosures could be enhanced in areas including financial sustainability, corporate risk management, Best Value, cyber and information governance, and climate governance.	The council should review the content of its Annual Governance Statement against the enhanced disclosure expectations set out in the 2025/26 Addendum to the Good Governance Framework and consider opportunities to strengthen reporting in the areas identified.	**Agreed** **Action** The Addendum will be reviewed and consideration given to enhancing the information provided in the 2026/27 AGS. This will require the Chief Officer to liaise with a number of different officers in the council in order to obtain the additional information

Matter giving rise to recommendation	Recommendation	Agreed action / officer / timing
Risk Governance reporting may not fully reflect evolving good practice and disclosure expectations set out in the 2025/26 Addendum to the Good Governance Framework.		highlighted in the audit recommendation. **Responsible officer** Chief Officer – Legal and Corporate Governance **Timing** 1 May 2027
6. Management of long-term debtors An outstanding landbanking loan originally advanced in 2007/08 with a five-year repayment term, remained unpaid at 31 March 2026. In addition, weaknesses in record management arrangements were identified, with supporting loan agreements not always being readily accessible to support effective monitoring and review. **Risk** There is a risk that long-term debtor balances are not appropriately monitored, reviewed, or supported by adequate documentation, which could result in amounts being incorrectly recognised in the financial statements, including potential overstatement of debtors where balances may no longer be recoverable. Weaknesses in record management arrangements may also limit effective oversight and impede timely review of outstanding loans.	The council should undertake a review of outstanding landbanking loans to assess recoverability, ensure appropriate accounting treatment, and strengthen arrangements for maintaining and accessing supporting loan documentation.	**Agreed** **Action** The council in recent months has already implemented a number of actions to improve and enhance monitoring of such loans, and this will continue to support the 2026/27 Annual Accounts closure process and ongoing management of loans going forward. **Responsible officer** Chief Officer – Corporate Finance and Chief Officer – Housing and Communities. **Timing** 31 March 2027

Matter giving rise to recommendation	Recommendation	Agreed action / officer / timing
7. Key controls Delays were identified in management review of bank reconciliations, payroll exception reports generated excessive volumes of exceptions, and evidence supporting user access reviews and follow-up actions could be strengthened. **Risk** Weaknesses in the operation and documentation of key controls increase the risk that errors, unusual transactions or inappropriate system access are not identified and addressed promptly.	The council should strengthen the operation and documentation of key controls by ensuring that management reviews are completed on a timely basis, control activities remain proportionate and effective, and sufficient evidence is retained to demonstrate that identified issues have been appropriately reviewed and resolved.	**Agreed** **Action 1** Review exception reporting thresholds for payroll to allow meaningful and proportionate control activity. **Responsible officer** Chief Officer – HR & Communications **Timing** 1 February 2026 **Action 2** Management review of all bank recs will be conducted on a monthly cycle aligned with the reconciliation process. **Responsible officer** Chief Officer – Corporate Finance **Timing** 31 March 2027 **Action 3** Business Solutions will review the user access review arrangements relevant to the systems within the scope of the audit, including the evidence retained to demonstrate that access reviews have been completed and that identified exceptions have been appropriately followed up and resolved. **Responsible officer** Chief Officer – Business Solutions **Timing** 31 March 2027

Matter giving rise to recommendation	Recommendation	Agreed action / officer / timing
8. Statutory Performance Information reporting The Annual Corporate Performance Report allows performance assessment and benchmarking, but could make greater use of comparisons with similar local authorities. **Risk** Without sufficient comparator information, stakeholders may find it more difficult to assess the council's performance relative to similar local authorities.	Management should consider increasing the use of comparator information, including family-group councils, Scottish averages and LGBF rankings within future Annual Corporate Performance Reports. This would improve transparency and provide stakeholders with greater context to assess the council's relative performance and progress against similar local authorities.	**Agreed** **Action** The council uses a range of performance indicators. Of the current 81 Statutory Performance Indicators (SPI's), 31 use the LGBV, with 23 of these featuring in the Performance Plan. The proposed management action would look to cover two aspects, pre and post local government elections: **Action 1:** The Annual Performance Report for 2026/27 will denote where PIs are on the LGBF and show where THC sits within the Family Group average and Scottish average. **Action 2:** In developing the new Administration Programme and Performance Plan for the period following the 2027 Local Government Elections, the council will explore further opportunities to utilise the LGBF indicators as a means of demonstrating and tracking progress against agreed programme outcomes and commitments. Timeframe to be aligned with development of the programme for the administration. **Responsible officer** Chief Officer – Business Solutions **Timing** 30 September 2027

Matter giving rise to recommendation	Recommendation	Agreed action / officer / timing
9. Equality, Diversity and Inclusion (EDI) training We noted that only 56% of staff had completed the council's mandatory EDI training. **Risk** Staff may not have sufficient awareness of equality responsibilities, increasing the risk of inconsistent practice and non-compliance with equality obligations.	Management should strengthen monitoring and follow-up arrangements for mandatory EDI training to ensure completion rates improve and all staff undertake the training within the required timeframe.	**Agreed** **Action** Implement Mandatory Training Improvement Programme **Responsible officer** Chief Officer – HR & Communications **Timing** 1 May 2027

Follow-up of prior year (2024/25) financial audit recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	2025/26 Progress update
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.	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:** 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	**Ongoing** Management updated the structure of the Management Commentary to improve readability and reduce duplication, and deferred graphic design enhancements until completion of the audited accounts to allow additional time for presentation. It is noted that no particular new audit matters arising, pertaining to the 2025/26 Management Commentary, have been identified. Audit will engage with the incoming Section 95 Officer during the planning and review of future accounts, providing feedback and challenge to support improvements in the clarity, accessibility and presentation of the annual report and accounts.

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	2025/26 Progress update
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.	**Agreed date:** June 2026	
2. Update to the fixed asset register (FAR) The council need to ensure the FAR is accurate and correctly reflects the value of individual assets.	The council need to review the individual assets valued on 'instant build' method to ensure they are updated to remove the contingency and reflect the correct valuation. **Accepted:** Details of agreed action: The individual assets values have been recalculated without the contingency element and the fixed asset register will reflect these values moving forward. **Responsible officer:** Chief Officer Corporate Finance **Agreed date:** June 2026	**Completed** The fixed asset register changes were corrected as part of 2025/26 financial year end, and with appropriate asset valuations reflected at individual asset level for the 2025/26 Accounts.
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:** 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, SLACAIG 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.	**In progress** Glasgow City Council has been tasked with undertaking Highland's EQA. Their Head of Audit & Inspection has been in touch with the Strategic Lead, and they have agreed that the review will be undertaken during November. Once the EQA has been completed and the final report received this will be presented to the next available meeting of the Audit Committee. **Responsible officer** Strategic Lead (Audit and Risk) **Target date** 31 March 2027

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	2025/26 Progress update
	Responsible officer: Strategic Lead (Audit and Risk) **Agreed date:** by 31 March 2027 (at the latest)	

Progress against previous Best Value and Controller of Audit findings and recommendations

Original recommendation	Prior year agreed actions	2025/26 progress update
Best Value: The Highland Council - April 2025 (Controller of Audit report)		
Commission expectation #5 Context: 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% compared to the Scottish average of 5.8%. 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. Recommendation: Transparency around the outcome of periodic reviews of the Capital Plan (i.e. easily accessible reports and clarity on any required action to be taken).	Ongoing: 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. The consolidated HIP is aligned with funding and affordability parameters agreed by the council in March 2025.	The Highland Investment Plan (HIP) continues to operate within Capital and Treasury Limits agreed by the council on an annual basis, and based on assessment and reporting on the prudence, affordability and sustainability of those plans. The council's Treasury Management Annual Report for 2025/26 was considered by members in August 2026 and confirmed that relevant ratio of borrowing costs indicators remain within the council's agreed caps, and for both HRA and General Fund / HIP were in fact slightly below the forecast indicator level. The council continues to keep all relevant plans under ongoing review. The most recent substantive report to council on the HIP was June 2026 which set out updated budgets and costs for the Plan, and despite significant pressures on costs and inflation, continued to operate within the funding envelope agreed by the council.

Original recommendation	Prior year agreed actions	2025/26 progress update
		In August 2026 the council also agreed an updated HRA capital plan covering 2027-2032 to ensure longer term planning was in place. The council welcomed Audit Scotland's Best Value thematic report on Asset Management issued in August 2026, which recognised that the council *"has sufficiently considered affordability of its capital programme and that the HIP aims to ensure that public investment is affordable and sustainable."*
BV3: Transformation: how councils are redesigning and delivering more efficient services to achieve planned outcomes (August 2025)		
Adult social care transformation The council should work at pace with NHS Highland to develop plans to demonstrate how it will deliver its £9.6 million projected recurring savings from adult social care transformation. In doing so, it should plan how it will use the remaining balance on its earmarked reserves to support this (pages 11-13 of original report).	Agreed. This will be subject to ongoing discussions during the year. Progress on delivery of savings will continue to be reported in the normal manner to the committees. **Responsible Officer / target:** Assistant Chief Executive People/ Chief Officer Integrated People Services March 2026	**Ongoing** The council, in partnership with NHS Highland, is progressing savings plans totalling £31 million across five workstreams to address Adult Social Care financial pressures. An update was considered by the Joint Monitoring Committee on 24 September. We have reported progress against this recommendation under the Financial Sustainability section – paragraphs 89-98) and we will continue to monitor the development and implementation of these plans as part of our ongoing audit work. **Responsible officer** Assistant Chief Executive People/ Chief Officer Integrated People Services

Original recommendation	Prior year agreed actions	2025/26 progress update
Slippage in the delivery of savings The council should include commentary on any overarching reasons for slippage in Delivery Plan savings in its reporting to the Full Council. Risk Reasons for slippage in the delivery of savings are not made clear to elected members (pages 10-11 of original report).	Progress on Delivery Plan savings are also reported to their respective Strategic Committees who hold responsibility for their delivery. In addition, an annual report is also presented to council giving full oversight of the Delivery Plans progress. The report to council in May 2025 was the first annual report and it is expected that this will evolve and improve over time. The next annual report to council will include details of any overarching reasons where these are applicable. **Responsible Officer / target:** Assistant Chief Executive Corporate/ Chief Officer Business Solutions By May 2026	**Completed** Progress against the Operational Delivery Plan, including savings delivery, was reported to council through the annual report and regular updates to Strategic Committees. In response to savings slippage contributing to year-end overspends, improvements were introduced including enhanced budget monitoring reports requiring services to set out corrective actions, and the development of recovery plans for key service areas facing financial pressures. In addition, the council approved new financial strategies for each Chief Officer and Service in March 2026 to improve accountability, reporting, and oversight of budget performance, savings delivery, and mitigating actions, with implementation commencing during 2026/27.
BV2: Workforce innovation: How councils are responding to workforce challenges (September 2024)		
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).	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	**Completed** The council has developed detailed action plans for the thematic areas within the People Strategy and associated Talent Strategy, including actions, targets, timescales and responsible officers. The June 2026 update to the CRC provides a structured assessment of progress against strategic objectives, with performance information and status

Original recommendation	Prior year agreed actions	2025/26 progress update
	Corporate Resources Committee then.	updates demonstrating ongoing monitoring and evaluation of delivery.
BV1: Leadership in the development of new local strategic priorities (January 2024)		
Views of citizens and communities reflected in the priorities and decisions taken by the council The council should increase awareness of its approach to participatory budgeting more widely so that citizens can be more involved in community decision-making (paragraph 42 of original report).	As reported in the 2024/25 BV3 Transformation report: The council approved a Community Wealth Building Strategy in September 2024. This sets out a people-centred approach to economic development. It includes an action plan aligned to the Delivery Plan. The council has a dedicated website, Highland Place Planning for community engagement for the area plans. 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.	**Completed** The area plan for Badenoch and Strathspey was agreed by members of the committee in November 2025. The council has continued to strengthen its approach to engagement and participation, including approving a new Participation and Engagement Strategy and accompanying Action Plan. Progress includes the introduction of the Engage Highland platform to support public engagement and participatory budgeting activities, as well as ongoing development of Area Place Plans, with regular reporting on progress and community involvement.

Appendix 2: Summary of misstatements

Details	Comprehensive Income and Expenditure Statement (CIES)		Balance Sheet	
Corrected misstatements above reporting threshold	**Dr**	**Cr**	**Dr**	**Cr**
	£000	**£000**	**£000**	**£000**
1. Error in the consolidation of D&E coaches in group accounts				
Share capital			4,614	
Intangible assets			1,489	
Long-term investments				(6,103)
2. DRC indexation correction				
Property, plant and equipment			59,712	
Unusable reserves (revaluation reserve)				(59,712)
Other comprehensive net expenditure (surplus on revaluation of PPE)		(59,712)		
Net impact on financial statements	**-----**	**(59,712)**	**65,815**	**(65,815)**
Audit adjustments in disclosures				

3. Related parties

Note 38 discloses the material transactions with related parties. Note 38 was amended during the audit to disclose the fact that there are missing submissions from councillors, including three senior members.

Details	Comprehensive Income and Expenditure Statement (CIES)	Balance Sheet
4. External audit fee		
Note 36 discloses the external audit costs. An additional audit fee has been charged in the current year to reflect the extra time, resources and costs incurred in relation to the Section 101 objection process and the audit of property, plant and equipment balances and disclosures. The disclosure was understated by £25,000 and has been adjusted to reflect the updated 2025/26 external audit fee.		
5. Capital Commitments		
Note 39 discloses an outstanding capital commitment of £15.6 million for the Nairn Academy project. Based on the contract value of £61.1 million and evidence that £48.3 million of work had been completed by 31 March 2026, the remaining commitment is approximately £12.8 million. The disclosure is therefore overstated by around £2.8 million.		
6. Leases		
Note 41 reported future minimum lease payments receivable of £227.9 million, however, supporting records demonstrated that the correct balance was £126.4 million. Management subsequently adjusted the disclosure to reduce the amount reported by £101.5 million.		

Uncorrected misstatements above reporting threshold	**Dr**	**Cr**	**Dr**	**Cr**
	£000	**£000**	**£000**	**£000**
7. Full years depreciation was not charged on transfer from Assets Under construction				
Property, Plant and Equipment				(4,200)
Accumulated Depreciation			4,200	
8. Long term debtor not written off (soft loan)				
Long term debtors		(1,419)		
Unusable reserves (Capital Adjustment Account)	1,419			
Net impact on financial statements	**1,419**	**(1,419)**	**4,200**	**(4,200)**

Source: Audit Scotland

Appendix 3: National and performance audit reports

Report name	Date published
The National Fraud Initiative in Scotland 2026	August 2026
Local government budgets 2026/27	June 2026
Transforming the approach to climate change: Lessons from public audit	March 2026
Annual Assurance and Risks Report: A review of 2024/25 local government audits in Scotland	March 2026
Integration Joint Boards: Finance bulletin 2024/25	February 2026
The Scottish Budget 2026/27: Supplement to the Financial bulletin 2024/25	February 2026
Local Government in Scotland: Financial bulletin 2024/25	January 2026
Administration of Scottish income tax 2024/25	January 2026
Community health and social care: Performance 2025	January 2026
Delayed discharges: A symptom of the challenges facing health and social care	January 2026
NHS in Scotland 2025: Finance and performance	December 2025
Financial sustainability and taxes	November 2025
Local government performance: Spotlight on culture and leisure services	October 2025
Improving care experience: Delivering The Promise	October 2025
Flooding in communities: Moving towards flood resilience	August 2025
Local government budgets 2025/26	May 2025
NHS in Scotland: Spotlight on governance	May 2025

The Highland Council

2025/26 Annual Audit Report

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