

FINANCE REPORT - Report by Chief Executive

Summary

The purpose of this report is to update Directors on the financial performance of High Life Highland for the financial year 2023/24 and other relevant matters.

It is recommended that Directors note:

- i. the draft year-end outturn, subject to further analysis and audit for 2023/24, reports a deficit of £167k;
- ii. the projected level of reserves;
- iii. the Audit Strategy report;
- iv. no breaches of internal controls have been reported in the past quarter;
- v. the update on the manual pay cheque issue;
- vi. no data breaches reportable to the Information Commissioner have been reported in the past quarter
- vii. the update on Fraud Prevention training;
- viii. the update on annual insurance cover; and
- ix. the Scheme of Delegation amendments.

1. Business Plan Contribution

1.1 High Life Highland's (HLH) purpose is Making Life Better. The HLH Business Plan contains eleven Business Outcomes which support the delivery of this purpose, and this report supports the highlighted outcomes in the Business Plan:

1. Seek to continuously improve standards of health and safety.
2. Commit to the Scottish Government's zero carbon targets and maintain the highest standards in environmental compliance.
3. Use research and market analysis to develop and improve services to meet customer needs.
4. Increase employee satisfaction, engagement and development to improve staff recruitment and retention.
- 5. Improve the financial sustainability of the company.**
6. Value and strengthen the relationship with THC.
7. Develop and deliver the HLH Corporate Programme and seek to attract capital investment.
8. Use research and market analysis to develop and deliver proactive marketing and promotion of HLH and its services.
9. Initiate and implement an ICT digital transformation strategy across the charity.
10. Develop and strengthen relationships with customers, key stakeholders and partners.
11. Deliver targeted programmes which support and enhance the physical and mental health and wellbeing of the population and which contribute to the prevention agenda.

2. Background

- 2.1 Directors receive regular reports detailing the financial performance of the charity and its trading company.

3. Financial Performance for the Financial Year 2023/24

- 3.1 The management accounts, subject to further analysis and audit, for the financial year 2023/24 have been prepared. HLH's consolidated financial performance for the year is summarised in **Appendix A**. The results for the period are further split by the 9 business categories in **Appendix B** and by cost category (income, staff costs and other costs) at **Appendix C**. Commentary on the performance of each service is provided in **Appendix D**. The net position is a deficit of £167k.
- 3.2 The net deficit of £167k represents an improvement of £318k on the previously reported forecast for the year due to leisure income including admissions, lettings, and coached activities being significantly higher than anticipated in conjunction with further savings in staffing costs through vacancy management. In addition, the impact of the implementation of pay modelling was lower than anticipated. This has been partially offset by operating costs being higher than forecast including a £35k increase in the cost of insurance.
- 3.3 The 2023/24 revenue budget included £3m of financial support from Highland Council. With the improved year-end position, this amount has been reduced to £2.57m with the intention that HLH expends its unrestricted reserves.

4. HLH Reserves

- 4.1 Including transfers at the end of 2023/24 HLH reserves are made up of the following elements:
- i. Restricted Reserves of £730k made up of early or pre-payment of funds from partners for future work. These are ring-fenced funds for specific projects and cannot be used for the routine work of the charity;
 - ii. Designated Reserves of £140k transferred into HLH from Inverness Leisure Ltd for capital works;
 - iii. Designated Reserves of £300k for Pay Modelling Backpay; and
 - iv. Unrestricted Reserves – The year-end deficit will utilise £167k of the existing £195k balance leaving a small reserve of £28k at 31 March 2024.

5. Audit Strategy Report

- 5.1 Attached at **Appendix E** is the Audit Strategy report prepared by Saffery's for the 2023/24 financial audit detailing:
- Audit scope and materiality
 - Audit approach
 - Key audit risks
 - Consideration of fraud
 - Auditor independence and objectivity
 - Fees
 - Other audit matters

6. Internal Controls

- 6.1 There have been no breaches of internal control in this quarter.
- 6.2 Directors will recall the audit issue raised by external auditors at the Board Meeting of 31 August regarding the issue of manual pay cheques where over 200 employees were being paid by manual cheque due to a bank mandate not being submitted.
- 6.3 A list of the employees was provided by The Highland Council's Payroll Section and work is well underway to move all of these employees to e-payments and ensure all new employees are set up this way. At the time of writing this report 47 remain outstanding and we are continuing work to reduce this further.

7. Data Breaches

- 7.1 There have been no data breaches reportable to the Information Commissioner in the last quarter.

8. Director attendance at Finance and Audit Committee

- 8.1 At the annual review and appraisal workshop in October 2021 the Board reconfirmed that all Directors should attend and contribute to one meeting per annum of the Finance and Audit Committee to allow a fuller understanding of the detailed scrutiny undertaken of the work of HLH, this to be reported to the HLH Board at the first meeting of the financial year. For 2023/24 all current Directors have attended a minimum of one meeting apart from 4 Board Members, who are aware and will attend a meeting as soon as diaries allow.
- 8.2 The proposed recommendation to add this to the Directors role profile will be brought to the August Board meeting as part of the biannual independent Director retiral item.

9. Fraud Prevention Training

- 9.1 Following a request at the November Finance and Audit Committee meeting to cascade iHASCO fraud prevention training, courses were allocated to budget holders at the end of January. 125 staff have now completed this training, with 17 budget holders still to complete.

10. Annual Review of Insurance Cover

- 10.1 Following our insurers increase in premiums by 40% for financial year 2024/25, cover for the year has yet to be agreed with negotiations being undertaken on behalf of HLH by Highland Council. In the meantime, insurance cover is being agreed on a monthly basis. A further update will be provided at the meeting

11. Scheme of Delegation

- 11.1 Following a request at the March 2023 HLH Board meeting to put in stronger parameters, the highlighted amendment below has now been included.

"The Chief Executive is empowered to take emergency/urgent action on behalf of

*the Board in matters which would normally have been considered by the Board itself but where no meeting of the Board is available for that purpose. **Where it is not possible to convene an emergency meeting of the Board, on all such occasions, he/she shall consult first with the Chair, or in his/her absence the Vice Chair, before taking action and shall seek endorsement of the action at the next Board meeting whilst in the meantime also reporting the action to Directors as quickly as practically possible.***

11.2 Procurement threshold limits have also been updated for 2024 changing the monetary level for approval from £189,330 over a four year period to £179,087 excluding VAT.

11.3 The updated Scheme of Delegation is included at **Appendix F**.

12. Implications

12.1 Risk Implications – there are no new risk implications associated with the recommendations of this report.

12.2 Equality Implications – there are no new equality implications associated with the recommendations of this report.

12.3 Legal Implications – there are no new legal implications associated with the recommendations of this report.

12.4 Resource Implications – there are no new resource implications associated with the recommendations of this report.

Recommendation

It is recommended that Directors note:

- i. the draft year-end outturn, subject to further analysis and audit for 2023/24, reports a deficit of £167k;
- ii. the projected level of reserves;
- iii. the Audit Strategy report;
- iv. no breaches of internal controls have been reported in the past quarter;
- v. the update on the manual pay cheque issue;
- vi. no data breaches reportable to the Information Commissioner have been reported in the past quarter
- vii. the update on Fraud Prevention training;
- viii. the update on annual insurance cover; and
- ix. the Scheme of Delegation amendments.

Designation: Chief Executive

Date 31 May 2024

Author: Neil Johnston, Head of Finance

2023/24 Draft Summary Results – Consolidated

APPENDIX A

	Budget	Actual (YTD)	Variance (Year End)
Income	34,256,743	33,981,867	(274,876)
Staff Costs	(28,547,397)	(28,305,313)	242,084
Other Costs	(5,709,346)	(5,843,905)	(134,559)
Surplus/(Deficit)	0	(167,351)	(167,351)

Variance by Service

APPENDIX B

	Budget	Actuals YTD	Variance (Year End)
Adult	(691,777)	(675,274)	16,503
Archives	(750,110)	(711,057)	39,053
Facilities	(4,076,766)	(4,244,451)	(167,685)
Libraries	(3,622,335)	(3,387,404)	234,931
Management	(3,123,100)	(3,044,825)	78,275
Museums & Galleries	(1,005,684)	(995,115)	10,569
Music Tuition	(1,664,832)	(1,702,595)	(37,763)
Rangers	(465,589)	(460,482)	5,107
Sports	(637,596)	(639,474)	(1,878)
Youthwork	(1,849,298)	(1,766,666)	82,632
Service Fee	14,887,087	14,887,087	0
HC Financial Support	3,000,000	2,572,905	(427,095)
Surplus/(Deficit)	0	(167,351)	(167,351)

Variance by Category

APPENDIX C

	Income (£)			Staff Costs (£)			Other Costs (£)		
	Budget	Actual (YTD)	Variance (Year End)	Budget	Actual (YTD)	Variance (Year End)	Budget	Actual (YTD)	Variance (Year End)
Adult	120,582	137,952	17,370	(757,890)	(756,789)	1,101	(54,469)	(56,437)	(1,968)
Archives	294,345	278,250	(16,095)	(999,525)	(950,461)	49,064	(44,930)	(38,846)	6,084
Facilities	11,439,083	11,518,174	79,091	(12,716,111)	(12,923,558)	(207,447)	(2,799,738)	(2,839,067)	(39,329)
Libraries	36,344	61,207	24,863	(3,116,151)	(2,929,558)	186,593	(542,528)	(519,053)	23,475
Management	477,775	470,466	(7,309)	(2,550,272)	(2,374,323)	175,949	(1,050,603)	(1,140,968)	(90,365)
Museums & Galleries	900,638	915,525	14,887	(1,347,264)	(1,348,159)	(895)	(559,058)	(562,481)	(3,423)
Music Tuition	1,748,801	1,743,441	(5,360)	(3,000,277)	(3,038,568)	(38,291)	(413,356)	(407,468)	5,888
Rangers	91,784	93,909	2,125	(512,253)	(528,917)	(16,664)	(45,120)	(25,474)	19,646
Sports	1,152,912	1,180,694	27,782	(1,682,237)	(1,726,021)	(43,784)	(108,271)	(94,147)	14,124
Youthwork	107,392	122,257	14,865	(1,865,417)	(1,728,959)	136,458	(91,273)	(159,964)	(68,691)
Service Fee	14,887,087	14,887,087	0	0	0	0			0
HC Financial Support	3,000,000	2,572,905	(427,095)	0	0	0	0	0	0
Surplus/ (Deficit)	34,256,743	33,981,867	(274,876)	(28,547,397)	(28,305,313)	242,084	(5,709,346)	(5,843,905)	(134,559)

Commentary by Service

APPENDIX D

	Variance (Year End)	Notes
Adult	16,503	Positive variance to budget due to additional income from ESOL courses
Archives	39,053	Above budget pay award mitigated through vacancy management including maternity leave. Income target for room hire unachievable following reduction in lets and lower than anticipated conservation income. 24/25 Budget includes provision for cost of 23/24 pay award.
Facilities	(167,685)	Income target achieved. Staffing Costs over budget due to the above inflation pay award partly mitigated through vacancy management.
Libraries	234,931	Positive projected variance to budget due to significant savings in Staff Costs through vacancy management. 24/25 Budget includes provision for cost of 23/24 pay award.
Management	78,275	Above budget pay award mitigated through vacancies in Business Support, Marketing, ICT and Human Resources offsetting Other Costs pressure including £35k increase in insurance premium. 24/25 Budget includes provision for cost of 23/24 pay award and increase in Other Costs.
Museums & Galleries	10,569	Income target exceeded, additional staff costs due to above budget pay award mitigated by savings through vacancy management. 24/25 Budget includes provision for cost of 23/24 pay award.
Music Tuition	(37,763)	Projected overspend in Staff Costs due to above budget pay award mitigated by vacancy management savings. 24/25 Budget includes provision for cost of 23/24 pay award.
Rangers	5,107	Pressure from above budget pay award partly mitigated through savings in Other Costs. Income target exceeded following sale of outdoor activities equipment but bunkhouse income £10k below target. Management working to improve uptake in the new financial year. 24/25 Budget includes provision for cost of 23/24 pay award.
Sports	(1,878)	Savings in Other Costs and additional income from Summer Activities and Coaching mitigating overspend in staffing costs due to above budget pay award. 24/25 Budget includes provision for cost of 23/24 pay award
Youthwork	82,632	Positive variance to budget due to staff savings including vacancy management and auxiliary staff costs. Management working to ensure auxiliary staffing budgets for sessional work are fully utilised in the new financial year.
Service Fee	0	On budget

HC Financial Support	(427,095)	Reduced requirement for additional financial support from Highland Council due to improved financial position and utilisation of £195k unrestricted reserves.
Surplus/(Deficit)	(167,351)	

HIGH LIFE HIGHLAND

SCHEDULE OF MATTERS RESERVED TO THE BOARD AND SCHEME OF DELEGATION TO OFFICERS (updated May 2024 para 3.1 and procurement approval thresholds)

Introduction

This document sets out the powers reserved to the Board of High Life Highland and the powers which may be delegated to the Chief Executive and it should be referred to as the “Scheme of Delegation”.

It should be noted that the Board of High Life Highland remains accountable for all of its functions, even those delegated to the Chief Executive, and would therefore expect to receive information about the exercise of delegated functions to enable it to maintain a monitoring role.

The Board will review the effectiveness of the Scheme every two years and make amendments as required.

Role of the Chief Executive

The Chief Executive is the accountable officer of High Life Highland and is responsible and accountable to the Board for discharging the functions specified in the Service Delivery Contract.

The Chief Executive has authority over all other employees so far as is necessary for efficient management and for carrying out High Life Highland’s functions.

In discharging the functions of High Life Highland the Chief Executive may use whatever means considered appropriate. He/she must act within the law, the Financial Regulations and any Code of Practice adopted by the Board from time to time and have regard to the approved Business Plan and Service Delivery Contract with The Highland Council.

The Scheme of Delegation

1. Matters reserved for Board approval

1.1 Governance

1.1.1 The following matters are reserved to the Board:-

- i. Appointment of the Chair and Vice Chair
- ii. Appointment of Solicitors for High Life Highland
- iii. Appointment of the Company Secretary
- iv. Review and approval of Standing Orders and the Scheme of Delegation
- v. Approval of arrangements for dealing with complaints
- vi. Approval of all High Life Highland Policies
- vii. Approval of the timetable for Policy Review
- viii. Approval of the Freedom of Information Publication Scheme
- ix. Approval of the organisation's response to public consultations
- x. Approval for proposals on litigation against or on behalf of High Life Highland that risk the reputation or financial vitality of High Life Highland
- xi. Establishment and dissolution of committees with the exception of those detailed in the Memorandum and Articles of Association
- xii. Approval of procedures for the evaluation of the effectiveness of the Board
- xiii. Review of the Register of Interests for Directors and staff
- xiv. Approval of the Directors and staff Code of Conduct and Guidance for the acceptance of Gifts and Hospitality

1.1.2 The Chief Executive is responsible for all other governance matters (with the exception of 1.1.3), specifically:-

- i. Acting as the Board's accountable officer
- ii. Implementation of the governance schemes and policies as agreed by the Board and review as per agreed timetable.
- iii. Managing High Life Highland's operational buildings
- iv. Undertaking the review of internal controls and publication of a governance statement
- v. Ensuring that the performance of High Life Highland across The Highland Council area in relation to agreed standards is reported appropriately
- vi. Approval of proposals for action on litigation against or on behalf of High Life Highland and informing the Board at the earliest opportunity.

1.1.3 The Company Secretary is responsible for governance matters, as follows:-

- i. Recording and reporting on the Board's governance arrangements
- ii. To ensure proper governance documentation are in place e.g Register of Interests
- iii. To ensure the Company complies with required standards of corporate governance and can demonstrate open and transparent decision making and to advise the Board on such matters
- iv. To ensure all appropriate returns are made to Companies House
- v. To ensure proper administrative arrangements are in place to record meetings of the Board and Committees as detailed in the Memorandum and Articles of Association.

1.2 Strategy, plans and budgets

1.2.1 The following matters are reserved to the Board:-

- i. Definition of the Company's vision, mission, aims and objectives
- ii. Ownership of the Business Plan
- iii. Approval of the annual revenue and capital budget
- iv. Monitoring of performance and budget and strategic priorities
- v. Approval of the organisation's policies and procedures for the management of risk
- vi. Approval of business cases requiring additional revenue and/or capital resources above approved budgets

1.2.2 The Chief Executive is responsible for all other strategy, planning and budgeting matters, specifically:-

- i. Preparation of the annual budget and controlling income and expenditure
- ii. Ensuring appropriate systems are in operation for planning, monitoring, evaluating and reviewing performance for all service areas
- iii. Preparation and effective and efficient delivery of the Business Plan
- iv. Advising the Board on strategic issues
- v. Undertaking a review of risks and maintenance of the risk register
- vi. Making long term assessments of resources, needs and commitments and to co-ordinate advice on forward planning
- vii. Advising the Board on general policy and to ensure that all proposals are consistent with policy
- viii. Ensuring that the Board's policies and programmes are implemented, both at an area wide and local level
- ix. Acting as a policy advisor to The Highland Council on matters relevant to the work of High Life Highland

1.3 Staffing

1.3.1 The following matters are reserved to the Board:-

- i. Appointment, appraisal and dismissal of the Chief Executive, where applicable
- ii. Approval of all High Life Highland Policies.
- iii. Approval of any organisation restructuring which involves any voluntary or compulsory redundancy

1.3.2 The Chief Executive is responsible for all other staffing matters, specifically:-

- i. The engaging and deployment of all staff in accordance with the appointments procedure provided that there is no increase in agreed staffing levels unless contained within agreed budgets
- ii. Managing High Life Highland's staff effectively having regard to statutory responsibilities including Health and Safety
- iii. Implementation of the policies and procedures as agreed by the Board
- iv. Organisational restructuring which does not involve voluntary or compulsory redundancy
- v. Setting of terms and conditions of employment

1.4 Financial arrangements

1.4.1 The following matters are reserved to the Board:-

- i. Approval of the appointment of a banker
- ii. Approval of the writing-off of any debt in excess of £5K
- iii. Approval of outline and final business case for capital investment
- iv. Approval of all High Life Highland Policies
- v. Approval of the Financial Regulations and Contract Standing Orders
- vi. Any other matter that is of significant financial or reputational risk to the Board or any material issue of principle

1.4.2 The Chief Executive is responsible for all other financial matters, specifically:-

- i. Authorisation of cheques and transfers in accordance with Board approved bank Mandates as updated from time to time
- ii. Ensuring that financial management conforms to the Company's Financial Regulations and Contract Standing Orders
- iii. Implementation of the credit control policy
- iv. Maintenance of petty cash funds
- v. Collection of income and payment of expenditure
- vi. Implementation of the policies and procedures as agreed by the Board
- vii. Ensuring steps are taken to safeguard assets of the organisation
- viii. Ensuring that capital expenditure is planned and monitored continually so that High Life Highland's plans are actioned, including the prompt implementation of associated revenue elements
- ix. Ensuring expenditure is planned and monitored continually so that it is within approved estimates and meeting the outcome of the Business Plan

1.5 Procurement

1.5.1 The following matters are reserved to the Board:-

- i. Approval of all High Life Highland Policy
- ii. Approval of any award of a contract/tender *which exceeds* the UK Find a Tender level **(2024 - £179,087 exc. VAT)**
- iii. In the case of a need to approve any award of a contract/tender *which exceeds* the UK Find a Tender level **(2024 - £179,087 exc. VAT) outwith** the Board meeting schedule, approval is delegated to a minimum of two office bearers (i.e. Chair, Vice Chair of the Board, Chair of the Finance and Audit Committee) in conjunction with the Chief Executive.

1.5.2 The Chief Executive is responsible for all other purchasing matters, specifically:-

- i. Approval of any award of a contract/tender *up to* the UK Find a Tender level **(2024 - £179,087 exc. VAT)**
- ii. Authorising contracts/appointments which have been approved by the Board
- iii. Implementation of the policy and procedures agreed by the Board.

1.5.3 In the case of a tender approved by the Chief Executive in excess of £25K and which was not the lowest priced tender received, a report on the selection process should be made to the Board.

1.6 Income generation

1.6.1 The following matters are reserved to the Board

- i. Approval of all capital fund raising and associated income generation programmes

1.6.2 The Chief Executive is responsible for all other income generation matters, specifically:-

- i. Generating income growth opportunities for High Life Highland, presenting such proposals to the Board where there may be an associated financial or reputational risk to the company

1.7 Auditing and reporting

1.7.1 The following matters are reserved to the Board

- i. Approval of the annual report and audited financial statements
- ii. Appointment of internal auditor
- iii. Approval of the terms of reference and membership of the Finance and Audit Committee

1.7.2 The Chief Executive is responsible for all other auditing and reporting matters, specifically:-

- i. All responsibilities required of the accountable officer
- ii. Preparation of the annual report and financial statements
- iii. Preparation of the annual governance statement

1.8 Management of properties new to HLH or the return of property to owner

1.8.1 The following matters are reserved to the Board:-

- i. Approval of the commencement of management or acquisition of property in the ownership of bodies other than The Highland Council
- ii. The ceasing of management or disposal of property, approval of revised staffing arrangements and return of property to owners

1.8.2 The Chief Executive is responsible for all other property matters, specifically:-

- i. Approval of the commencement of management of property in the ownership of The Highland Council with the transfer of property being reported to the Board for information
- ii. The ceasing of management of property, approval of revised staffing arrangements and return of property to The Highland Council

2. Delegation of authority

2.1 In addition, the following matters are delegated to the Board's Committees, each of which will report to the Board:-

- i. The Finance and Audit Committee is responsible for those issues outlined in Articles 111-113 of the Memorandum and Articles of Association
- ii. The Nominations Committee is responsible for those issues outlined in Articles 114-117 of the Memorandum and Articles of Association
- iii. The Chief Executive's Performance Review Committee is responsible for (a) agreeing the annual performance objectives and targets for the Chief Executive; (b) agreeing an annual Personal Development Plan with the Chief Executive; (c) reviewing performance against the agreed objectives and targets with the Chief Executive, at least twice a year; and (d) considering if the Board should use an external independent facilitator to establish a performance management scheme in future.

2.2 The Chief Executive is not restricted from exercising his/her own delegation to his/her staff for any matter for which he/she is responsible. However, action taken under that authority must be taken in the name of the Chief Executive as relevant in that particular case and remains his/her responsibility.

2.3 The Chief Executive is accountable for the actions of all officers and volunteers taken on to assist the Company in meeting its aims and objectives.

3. Emergency/Urgent decisions

3.1 The Chief Executive is empowered to take emergency/urgent action on behalf of the Board in matters which would normally have been considered by the Board itself but where no meeting of the Board is available for that purpose. **Where it is not possible to convene an emergency meeting of the Board**, on all such occasions, he/she shall consult first with the Chair, or in his/her absence the Vice Chair, before taking action and shall seek endorsement of the action at the next Board meeting whilst in the meantime also reporting the action to Directors as quickly as practically possible.

High Life Highland (Group)

Audit strategy report to the
Trustees

For the year ended 31 March 2024

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The matters raised in this report are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and, in particular, we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

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Executive summary

We are pleased to present, in this document, details of our proposed audit plan for High Life Highland ('the Group') for the year ended 31 March 2024. This document has been prepared for the Trustees of High Life Highland in accordance with the provisions of International Standard on Auditing (UK) 260 *Communication with Those Charged with Governance*. This report addresses the following matters:

“
We look forward
to working with
you again.

”

Audit team

Audit scope and materiality

We will conduct our audit in accordance with International Standards on Auditing ('ISAs') (UK) as adopted by the Financial Reporting Council ('FRC'). We will provide details of our respective responsibilities in relation to the financial statement audit.

Our overall objective as auditor is to obtain reasonable assurance that the financial statements as a whole are free from material misstatement. We consider a misstatement to be material where it could reasonably be expected to influence the economic decisions of users of the financial statements. We have determined group materiality to be £365,000 based upon professional judgement. Further details of this calculation are set out in the Audit scope and materiality section.

Audit approach

We will undertake our work on your financial statements in four key stages:

- Planning
- Interim - Control Evaluation
- Final - Substantive Procedures
- Completion

This document sets out the timing, summary of procedures and significant outputs at each stage.



Key audit risks

We adopt a risk-based approach to the audit of the financial statements. This involves identification of key risks at the planning stage and determining an audit response to address these risks. We have identified the following significant risks where we intend to focus additional resource in providing our opinion on the financial statements:

- Risk of material misstatement arising from management override of controls
- Risk of material misstatement arising from revenue recognition
- Going concern risk
- Pension fund valuation

In addition, we have identified these other risks that we shall address as part of our audit procedures:

- Overpayments of staff costs

The audit planning process and risk assessment is an ongoing process and will be kept under review and updated if necessary should any new information come to our attention.

Consideration of fraud

Our responsibilities as auditors include obtaining reasonable assurance that the financial statements as a whole are free from material misstatement whether caused by fraud or error. We must make specific inquiries relating to fraud and explain in our audit report to what extent the audit was considered capable of detecting irregularities, including fraud.

Auditor independence and objectivity

We confirm our independence and objectivity responsibilities and detail the safeguards put in place to counter threats to our independence and objectivity.

Fees

We provide details of the assumptions used in calculating our proposed audit fee of £21,500 for the 2024 audit.



Other audit matters

We address other audit matters including:

- Timetable
- Our team

Audit scope and materiality



Audit scope

We are engaged to undertake the audit of the financial statements of the Group for the year ended 31 March 2024 as required by UK legislation.

Our audit will be conducted in accordance with ISAs (UK) as adopted by the FRC. The audit opinion we intend to issue will reflect the financial reporting framework adopted in the financial statements being UK GAAP including the Charities SORP.

Our responsibilities, as auditors, in relation to the audit of the financial statements for the year ended 31 March 2024 are set out in our engagement letter dated 20 March 2018.

There have been no changes to the engagement letter since the previous period.

Our responsibilities include forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Materiality

We have determined materiality in accordance with the principles set out in Appendix 1 as follows:

Materiality	Group	High Life Highland	High Life Highland Trading C.I.C.
Overall financial statement materiality	£365,000	£344,000	£22,000
Performance materiality	£328,500	£309,600	£19,800

Overall financial statement materiality has been calculated as 1% of turnover. This has been based upon year end forecasted results from the February budget monitoring reports.

We have set performance materiality at 90% of planning materiality.

Audit approach

Our audit approach can be divided into four key stages

Planning



Procedures

- Update our understanding of the business
- Perform risk assessment
- Identify potential changes in financial reporting requirements of the Group
- Identify key accounting estimates
- Determine planned audit approach
- Determine audit procedures
- Present audit plan to Trustees
- Ask you to provide a list of the related parties for each audited entity and the nature of the relationship with each party
- Obtain management's assessment of going concern

Communication

- Audit strategy report
- Attendance at audit planning meeting

Timing

April/May 2024

Control Evaluation

Procedures

- Assessment of business processes and controls. Emphasis on IT general controls & ISA (UK) 315



- Assessment of risk of misstatement and the planning of remaining audit procedures
- Control evaluation test work
- Communication with management to discuss final pre-audit matters
- Update detailed planning documentation

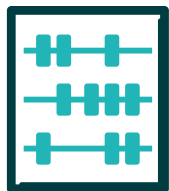
Communication

- Communications with management regarding final audit planning matters
- Our audit is not designed to provide assurances as to the overall effectiveness of the controls although we will report to management any recommendations on controls that we may have identified during the course of our audit

Timing

May 2024

Substantive testing



Procedures

- Perform substantive procedures
- Consider whether the audit evidence is sufficient and appropriate
- Review financial statements and disclosures
- Discuss key issues with management
- Going concern review including review of forecasts and disclosures

Communication

- Audit team on site
- Communication of key issues and preliminary audit findings

Timing

June/July 2024

Completion



Procedures

- Audit Committee meeting or audit finalisation meeting to discuss final issues
- Post balance sheet events review
- Obtain management representation letter
- Issue audit opinion
- Debrief on audit process and discuss points forward for following year
- Issue final management letter

Communication

- Attendance at Audit Committee meeting and audit finalisation meeting
- Audit closing report to Trustees

Timing

July/August 2024

Key audit risks

Significant risks are identified and assessed risks of material misstatement that, in our judgement, require special audit consideration

We have identified the following significant risks where we shall focus our attention during the course of the audit:



Risk of material misstatement arising from management override of controls

Description

ISA (UK) 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* identifies the risk of management override of controls to be significant in all audits.

Planned audit response

We will perform procedures including:



- Make inquiries of individuals involved in the financial reporting process
- Discuss with management how they identify transactions or other events that give rise to the need for accounting estimates
- Assess the appropriateness of journal entries testing a sample of such entries at the period end and consider the need for testing such entries through the period
- Review accounting estimates for susceptibility to misstatement due to management bias or fraud
- Perform a retrospective review of management judgements and assumptions relating to accounting estimates recorded in the prior year
- Evaluate the business rationale for significant transactions outside the normal course of business

Risk of material misstatement arising from revenue recognition



Description

ISA (UK) 240 further identifies revenue recognition as a presumed risk.

We consider there to be 6 income streams

- 1) Management fee
- 2) Service delivery
- 3) High Life Highland (Trading) C.I.C income
- 4) Restricted funds income
- 5) High Life membership scheme
- 6) Other income

We consider there to be 2 revenue recognition risks

- 1) Management fee – the risk that cut off is not correctly applied to the management fee at the year end
- 2) All other income streams – the risk that revenue is not recognised in the correct period

Planned audit response

We will perform procedures including:

In response to risk 1 we will perform procedures including:

- Vouch the management fee to agreement/invoice
- Perform cut off testing on invoices at the year end

In response to risk 2 we will perform procedures including:

- Perform cut off testing on sales around the year end
- Review the period over which revenue is recognised in the financial statements in relation to underlying agreements

Going concern risk

Description

At this time, the impact of the current challenging economic climate and the availability of funding from the Highland Council on the audit approach must be considered.

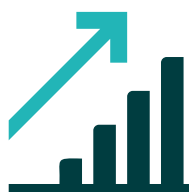
In preparing the financial statements the trustees are required to make a formal assessment of the Group's ability to continue as a going concern. In making that assessment the trustees must take into account all available information about the foreseeable future which is at least 12 months from the date of approval of the financial statements.

There may be uncertainties to this process for example, forecasting sales projections and cash recoveries under current economic conditions and the availability of financing. We will be required to consider the trustees' assessment of the appropriateness of preparing the financial statements on the going concern basis, the nature of disclosures in the financial statements and the impact of both on the audit opinion.

Planned audit response

In assessing the management's assessment of the going concern status of the Group procedures will be performed including:

- Reviewing detailed cash flow forecasts to support management's going concern assessment and management's sensitivity analysis under a range of scenarios
- Reconciling the opening forecast position to the latest management accounts
- Consideration of how the impact of the current economic climate and the availability of funding from the Highland Council has been factored into the forecasts including mitigating actions taken to reduce the impact and the timing of such measures



- Assessing the disclosures in the financial statements regarding the impact of the current economic climate and the availability of funding from the Highland Council and the appropriateness of preparing the financial statements of the Group on the going concern basis
- Consideration of the form of the audit opinion

Pension Fund Valuation

Description

We will liaise with your actuaries and your Highland Council pension contacts, to effectively audit the deficit or surplus in the pension scheme (which represents HLH's share of the deficit or surplus in the Highland Council Pension Scheme).

Planned audit response

We will perform procedures including:

- Agreeing the FRS 102 pension report disclosures into the financial statements
- Perform a review of the assumptions used for the year ended 31 March 2024
- Perform testing on the source data used for the year ended 31 March 2024

Additional audit risks

We have identified the following areas where there is a higher risk of material misstatement but they are not considered to be significant risks. We shall address these as part of our audit procedures as they will not require any additional, special audit consideration.



Overpayment of staff costs

Description

In the prior year we were made aware by Audit Scotland (the auditors of the Highland Council) that they had identified that manual cheques had been used to pay High Life Highland employees and there was also an issue identified regarding overpayments to leavers.

Planned audit response

We will perform procedures including:

- Discussion with management regarding the process in the year for handling the leavers process
- Testing on a sample of leavers in the year to 31 March 2024 to ensure they are correctly removed from the payroll system

Consideration of fraud



The responsibility for safeguarding the Group's assets and for the prevention and detection of irregularities and fraud rests with the directors. Nevertheless, we shall plan our audit to detect material misstatements in the financial statements or accounting records resulting from error or fraud.

We are required by ISA (UK) 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* to make certain inquiries regarding:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments
- Management's process for identifying and responding to the risks of fraud in the entity, including specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist
- Management's communications, if any, to those charged with governance regarding processes for identifying and responding to the risks of fraud in the entity
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour

We must also consider how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.

We will make inquiries of management and those charged with governance, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. In making this determination we will also make inquiries of management, or others within the entity as appropriate, who are responsible for dealing with allegations of fraud raised by employees or other parties.

We will ask you to provide the following written representations at the closing stages of the audit:

We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. We are not aware of any fraud or suspected fraud/We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:

- *Management;*
- *Employees who have significant roles in internal control; or*
- *Others where the fraud could have a material effect on the financial statements.*

We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Whilst through our assessment of internal controls we will already be aware of a number of processes which help reduce the risk of fraud, ISA (UK) 240 imposes the specific requirement that we make such inquiries, and we would be grateful of your understanding in this regard. We are also required to report to you any areas of fraud or error identified or suspected during our audit work. However, you should not rely on our audit work to disclose irregularities and fraud that may exist.

We are required under ISA (UK) 700 *Forming an Opinion and Reporting on Financial Statements*, to explain to what extent the audit was considered capable of detecting irregularities, including fraud. We will detail our specific procedures for identifying and assessing the risks relating to irregularities including fraud and our audit response to the risks identified.

Auditor independence and objectivity

Saffery LLP as a whole have complied with the FRC's Revised Ethical Standard 2019 and have taken measures to ensure that our independence and objectivity are not compromised.



Our considerations include the following:

- Fee income compared to our total income
- Significant outstanding fees
- Potential conflicts of interest
- Non-audit services provided by us to the Group
- Audit related services provided by us to the Group
- Implications of long association with the Group

The following is a summary of the services we have provided and the fees rendered during the past two years; we do not believe that the level of fees pose a threat to our independence and objectivity:

Services provided	Fees 2023 £	Fees 2022 £
Audit services		
- High Life Highland	18,100	14,000
- High Life Highland Trading C.I.C.	2,000	2,000
Accounts preparation services	2,200	2,000
Taxation compliance services	1,650	850
Other services	400	450
TOTAL FEES	24,350	19,300

We consider informed management ie the senior employee who has the authority and capability to make independent management judgements and decisions in relation to non-audit services to be Steve Walsh.

We have put the following safeguards in place to protect our independence and objectivity as auditors:

- A team separate to the audit team performs tax compliance work

- A team separate to the audit team performs accounts preparation

Fees

Our proposed fees for the year ended 31 March 2024, which include an inflationary increase of 7%, are as follows:

	Audit £	Corporate tax £	Accounts preparation £	Total 2024 £
Total fees for current year	21,500	1,750	2,350	25,600

Our fees were based on the following assumptions:

- Our fees are exclusive of VAT and disbursements
- The numbers presented for audit have been prepared in accordance with the relevant accounting standards and are not subject to adjustment except for corporation tax prepared by us
- No experts are required for complex matters needed to reflect accounting standards
- All relevant information and parties are available to us for the purposes of our audit and tax within the timeframe agreed and in the agreed form
- We find no significant deficiencies in controls which cause us to extend our planned audit procedures
- There will be no significant changes to the deadlines or reporting requirements

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee. Additional fees may be levied for either:

- Overruns on a time and cost basis where efficiency is impacted and the assumptions above are not met; or
- A disruption fee where we have to reschedule the audit dates at short notice



Timetable

The proposed timetable for the audit of the financial statements is:



Milestone	Event	Date	Responsibility
Onboarding			
	Set up Collaborate data portal	w/c 22/04/24	Saffery
Planning			
	Issue audit strategy document	03/05/24	Saffery
	Audit file available for audit planning	20/05/24	Saffery
Stocktake			
	Stocktakes	w/c 25/03/24	Client
Final			
	Information request list to be completed prior to audit starting	03/06/24	Client
	Start of fieldwork	03/06/24	Saffery
	End of fieldwork	28/06/24	Saffery
Completion			
	Closing meeting with management	w/c 22/07/24	Saffery/Client
	Approval of final figures	w/c 22/07/24	
	Accounts and audit report available for Audit Committee	02/08/24	Client
	Presentation of audit report to Audit Committee	12/08/24	Saffery
	Board approval of accounts	28/08/24	Client

Our team



Engagement Partner/Responsible Individual

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Appendix: Materiality

Concept and definition

The concept of materiality is fundamental to the preparation of the financial statements and the audit process. Our overall objective as auditor is to obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We consider a misstatement to be material where it could reasonably be expected to influence the economic decisions of the users of the financial statements.

We determine materiality based upon professional judgement taking into account our knowledge of the business, key audit risks and consideration of factors such as industry developments, financial stability and reporting requirements for the financial statements.

Materiality is used to:

- Determine the nature, timing and extent of audit procedures; and
- Evaluate the effect of misstatements.

Other materiality considerations

The concept of materiality applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

ISA (UK) 320 *Materiality in Planning and Performing an Audit* addresses the concept of materiality and explains it as misstatements, including omissions that are considered material where they individually, or in the aggregate, could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error, judged in the particular circumstances of its own omission or misstatement. Materiality provides a threshold or benchmark against which any errors or differences of opinion between management and ourselves can be evaluated.

As well as taking into account the size of misstatements in evaluating whether they are material, we also consider their nature, for example if a misstatement had an impact on:

- Narrative disclosure (eg accounting policies, going concern)
- Instances when greater precision is required (eg directors' remuneration, related party transactions)

Performance materiality

Performance materiality is the working level of materiality used throughout the audit and is set at a lower level than the planning materiality. We use performance materiality to reduce to a sufficiently low level the risk that the total of all the uncorrected and undetected misstatements will exceed the planning materiality level.

Whereas the planning materiality level is determined by reference to the financial statements and how misstatements at that level would impact the decisions of the users of the financial statements, performance materiality is determined by reference to the risk that misstatements might occur. This risk depends on a number of factors for example the control environment, history of misstatements occurring and the complexity of the financial reporting regime. The higher we assess the risk to be, the lower performance materiality will be as a proportion of planning materiality.

Reassessment of materiality

We regularly reassess the planning materiality level throughout the audit process to ensure it remains appropriate for the financial statements as a whole. Where appropriate, we will revise the planning materiality level which may result in the need for additional procedures. This may occur when there has been a change in circumstances during the audit or where new information comes to light which changes the draft figures significantly.

Unadjusted errors

In accordance with ISA (UK) 450 *Evaluation of Misstatements Identified during the Audit*, we will communicate all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.

Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.

We will obtain written representations from those charged with governance confirming that in their opinion these uncorrected misstatements are immaterial both individually and in aggregate, and that, in the context of the financial statements taken as a whole, no adjustments are required.