

# **High Life Highland**

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**Audit closing report to the Board of Directors**

**For the year ended 31 March 2022**

## High Life Highland (Group)

### Audit closing report to the Board of Directors for the year ended 31 March 2022

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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.*

**High Life Highland (Group)**  
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**1. Executive summary**

This report sets out the key matters arising from the work that we have carried out in respect of the financial statements of High Life Highland (Group) for the year ending 31 March 2022. This report addresses the following matters:

Description	
Audit status and approach	<p>Our audit has been carried out in accordance with International Standards on Auditing ('ISAs') (UK) as adopted by the Financial Reporting Council ('FRC'). The audit is complete subject to completion of work set out in this section.</p> <p>We anticipate issuing an unmodified audit opinion.</p>
Key audit risks	<p>As set out in our Audit strategy report we identified the following key risks where we expected to focus our audit work:</p> <ul style="list-style-type: none"> <li>• Risk of material misstatement arising from revenue recognition</li> <li>• Risk of material misstatement arising from management override of controls</li> <li>• Pension fund valuation</li> <li>• Going concern</li> </ul> <p>We set out in this section our conclusions regarding these key risks.</p>
Other significant audit and accounting matters	<p>We have also addressed the following additional matters upon which we will report:</p> <ul style="list-style-type: none"> <li>• Review of accounting policies</li> <li>• Changes to accounting policies</li> <li>• Accounting for and disclosure of significant and unusual transactions</li> <li>• Significant estimates and areas of judgement</li> <li>• Financial statement disclosures</li> </ul>

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Description	
Evaluation of misstatements	In accordance with ISA (UK) 450 Evaluation of misstatements identified during the audit we are required to report all misstatements in the draft financial statements which management have not corrected, other than those that are 'clearly trivial'. We consider the impact of any identified misstatements in the financial statement disclosures.
Accounting and internal control systems	We have documented and tested the internal control systems only to the extent that it is necessary for us to complete our audit work. Our work does not constitute a full test of the controls and is not designed to identify all deficiencies or issues that may exist. However, we highlight in this report any significant deficiencies that we have noted throughout the course of our audit.
Auditor independence and objectivity	We reconfirm our assessment of the threats to our independence and that we have complied with the requirements on objectivity and independence.
Looking forward	We consider: <ul style="list-style-type: none"><li>• Forthcoming changes to accounting and auditing standards</li><li>• Any other regulatory or legislative changes</li><li>• Planning for the next financial year</li><li>• Any other relevant issues that may affect your financial statements or business</li></ul>

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#### 2. Audit status and approach

##### 2.1 Outstanding matters

2.1.1 We have completed our audit, subject to the following outstanding matters:

- a. Review of going concern
- b. Post balance sheet review procedures
- c. Receipt of and review of final financial statements
- d. Receipt of management representation letter
- e. Approval of the financial statements

2.1.2 Subject to satisfactory completion of the remaining procedures we expect to issue an unmodified opinion on the financial statements of High Life Highland.

##### 2.2 Audit approach

2.2.1 We have completed our audit in accordance with ISAs (UK) as adopted by the FRC. Our audit work was carried out in accordance with our Audit strategy report as presented to you and in response to the perceived audit risks, and no reasons or issues were identified which required us to change our approach and no additional risks were identified.

2.2.2 In our Audit strategy report we presented detail on our approach to setting materiality.

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2.2.3 Planning materiality was calculated based on projected results for the year, and was revised upon receipt of the final financial statements:

Materiality	Planning (per audit strategy report)			Final		
	Group	High Life Highland	High Life Highland (Trading) CIC	Group	High Life Highland	High Life Highland (Trading) CIC
Overall financial statement materiality	£280,000	£267,000	£14,300	£280,000	£267,000	£14,300
Performance materiality	£253,000	£240,000	£12,900	£253,000	£240,000	£12,900

3. Key audit risks

3.1 Significant risks

During our audit planning we identified the following significant audit risks. Significant audit risks are identified and assessed risks of material misstatement that, in our judgement, require special audit consideration.

Risk	Description and audit approach
3.1.1 Going concern risk	<p>At this time, the impact of Coronavirus, Brexit and challenging economic conditions 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 funding. 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. In assessing the management’s assessment of the going concern status of the Group procedures were performed including:</p> <ul style="list-style-type: none"> <li>• Reviewed detailed cash flow forecasts to support the going concern assessment and stress testing the forecasts under a range of scenarios</li> <li>• Reconciled the opening forecast position to the latest management accounts</li> <li>• Consideration of how the impact of the current economic climate has been factored into the forecasts including mitigating actions taken to reduce the impact and the timing of such measures</li> <li>• Assessed the disclosures in the financial statements regarding the impact of Coronavirus and the appropriateness of preparing the financial statements of the Group on the going concern basis</li> <li>• Consideration of the form of the audit opinion</li> </ul>
<b>Conclusion</b>	
To be completed	

Risk	Description and audit approach
3.1.2 Risk of material misstatement arising from management override of controls	<p>Management override of controls and accounting records is a key consideration in all audits, and the risk of this is present in all entities. We have performed the following procedures including:</p> <ul style="list-style-type: none"><li>• Documented our considerations of how management override of controls could occur based upon our understanding of the business and observations of the internal control system</li><li>• Documented how management identify transactions and other events that give rise to the need for accounting estimates</li><li>• Performed testing of the appropriateness of journal entries. We have tested a sample of such entries at the period end and considered the need for testing such entries through the period</li><li>• Reviewed accounting estimates in the financial statements for statements for susceptibility to misstatement due to management bias or fraud</li><li>• Performed a retrospective review of management judgements and assumptions relating to accounting estimates recorded in the prior year</li><li>• Evaluated the business rationale for significant transactions outside the normal course of business</li></ul>
<b>Conclusion</b>	
We have not identified any material misstatement arising from management override of controls or the posting of journals.	



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Risk	Description and audit approach
3.1.3 Risk of material misstatement arising from revenue recognition	<p>Under ISA (UK) 240 <i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i> revenue recognition is a presumed risk.</p> <p>We consider there to be 6 income streams</p> <ol style="list-style-type: none"><li>1) Management fee</li><li>2) Service delivery</li><li>3) High Life Highland (Trading) C.I.C income</li><li>4) Restricted funds income</li><li>5) High Life membership scheme</li><li>6) Other income</li></ol> <p>We consider there to be 2 revenue recognition risks</p> <ol style="list-style-type: none"><li>1) Management fee – the risk that cut off is not correctly applied to the management fee at the year end</li><li>2) All other income streams – the risk that revenue is not recognised in the correct period</li></ol> <p>In response to risk 1 we performed the following procedures:</p> <ul style="list-style-type: none"><li>• Vouched the management fee to agreement/invoice</li><li>• Performed cut off testing on invoices at the year end</li></ul> <p>In response to risk 2 we performed the following procedures:</p> <ul style="list-style-type: none"><li>• Performed cut off testing on sales at the year end</li><li>• Reviewed the period over which revenue is recognised in the financial statements back to underlying agreements</li></ul>
<b>Conclusion</b>	
We have not identified any material misstatement arising from errors in revenue recognition.	

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Risk	Description and audit approach
3.1.4 Pension fund valuation	<p>To audit the deficit in the pension scheme (i.e. HLH's share of the deficit in the Highland Council Pension Scheme) we liaised with your Highland Council pension contacts and reviewed the FRS 102 pension report from your actuaries to effectively audit the deficit in the pension scheme (which represents HLH's share of the deficit in the Highland Council Pension Scheme).</p> <p>We performed the following procedures:</p> <ul style="list-style-type: none"><li>• reviewed the assumptions used for the year ended 31 March 2022</li><li>• tested the source data used for the year ended 31 March 2022</li><li>• agreed the FRS 102 pension report disclosures into the financial statements</li></ul>
Conclusion	
We have not identified any material misstatement arising from the pension fund valuation.	

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3.2 Other areas where there is a higher assessed risk of material misstatement

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 perform normal audit procedures on these areas as they will not require any additional, special audit consideration.

Risk	Description and audit approach
3.2.1 Risk of material misstatement arising from fund accounting	<p>We reviewed income in the year to ensure that restricted income is correctly identified and the process for allocating expenditure is robust. This is particularly relevant given that your unrestricted reserves are in deficit, albeit due to the pension scheme liability.</p> <p>We have performed the following procedures including:</p> <ul style="list-style-type: none"><li>• Perform a review of income streams to ensure that restricted income is correctly identified as such in the financial statements.</li></ul>
<b>Conclusion</b>	
We identified that the funding of £223,379 received from The Highland Council in relation to the Inverness Castle Development along with the associated costs should be allocated to restricted funds. We have proposed an adjustment to update this in the final version of the accounts for signing.	

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#### 4. Other significant audit and accounting matters

##### 4.1 Review of accounting policies

4.1.1 The financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice 'UK GAAP' including the Charities SORP. We have reviewed the accounting policies adopted by the company and have found them to be appropriate and applied consistently.

##### 4.2 Changes to accounting policies

4.2.1 There have been no changes to accounting policies since the previous period.

##### 4.3 Accounting for and disclosure of significant and unusual transactions

4.3.1 The only transaction to note is the receipt of the coronavirus job retention scheme income which is separately disclosed within income from charitable activities as per the prior year.

##### 4.4 Significant accounting estimates, areas of judgement and estimation uncertainty

4.4.1 The key source of estimation uncertainty is the pension liability.

##### 4.5 Financial statement disclosures

4.5.1 We have received a draft of the financial statements and we are currently completing our review. All significant presentational items identified during our review amended by management.

##### 4.6 Other matters

4.6.1 No matters to note.

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#### 5. Evaluation of misstatements

##### 5.1 Uncorrected misstatements

- 5.1.1 In accordance with ISA (UK) 450 *Evaluation of misstatements identified during the audit* we are required to report any misstatements identified during the course of our audit which have not yet been corrected by management other than those which are considered to be 'clearly trivial'. This includes misstatements in reported amounts, classification, presentation or disclosure of reported items whether due to fraud or error. We have identified the following misstatements. These will be adjusted in the final version of the financial statements.

	Balance sheet		P&L		Profit
	DR	CR	DR	CR	(Loss)
<b>High Life Highland</b>					
Being credit balances on the aged debtor's ledger	16,284	16,284	-	-	-
Reclassification of Inverness Castle Development Project as restricted funds.	223,379	223,379	223,379	223,379	-
	<b>239,663</b>	<b>239,663</b>	<b>223,379</b>	<b>223,379</b>	-

##### 5.2 Misstatements in disclosures

- 5.2.1 In accordance with ISA (UK) 450 *Evaluation of misstatements identified during the audit*, misstatements can arise in reported amounts, classification, presentation or disclosure of a financial statement item. Misstatements in disclosures may be clearly trivial whether taken individually or in aggregate, and whether judged by any criteria of size, nature or circumstances.

- 5.2.2 We have not identified any misstatements in disclosures.

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5.2.3 Corrected misstatements

5.2.4 We also report any material misstatements which have been corrected which we believe should be communicated to you to help you meet your governance responsibilities.

	Balance sheet		P&L		Profit
	DR	CR	DR	CR	(Loss)
<b>High Life Highland</b>					
Inclusion of Highland Council SLA for overheads as a donation	-	-	2,259,706	2,259,706	-
<b>High Life Highland (Trading)</b>					
Inclusion of corporate tax debtor recoverable from prior year	19,000	19,000	-	-	-
	<b>19,000</b>	<b>19,000</b>	<b>2,259,706</b>	<b>2,259,706</b>	<b>-</b>

## 6. Accounting and internal control systems

6.1 The objective of the audit is for us to express an opinion on the financial statements. The audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Throughout the course of our work we have identified the following deficiencies in internal control which we have concluded are of sufficient importance to merit being reported to you.

6.2 In accordance with the terms of our engagement, we have not provided a comprehensive statement of all issues which may exist in the accounting and internal control systems or of all improvements which may be made.

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6.3 In the table below, we have categorised the significant deficiencies identified in order to assist you in prioritising addressing them:

Grade	Definition	Number of audit observations	Number of audit observations	Number of audit observations	Number of audit observations	Number of audit observations
		2022	2021	2020	2019	2018
5	Very high-risk exposure – major concerns requiring immediate attention	-	-	-	-	-
4	High risk exposure – absence/failure of significant key controls	-	-	-	-	-
3	Moderate risk exposure – not all key control procedures are working effectively	-	-	-	-	-
2	Limited risk exposure – minor control procedures are not in place/not working effectively	1	1	4	4	6
1	Efficiency/housekeeping point	1	-	-	1	-
<b>Total number of points</b>		<b>2</b>	<b>1</b>	<b>4</b>	<b>5</b>	<b>6</b>
<b>Factor score (total of the number of points times their relative weighting)</b>		<b>3</b>	<b>2</b>	<b>8</b>	<b>9</b>	<b>12</b>

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6.4 We set out below the current year management letter points:

Issue	Recommendation	Management Response
<p>When performing testing on the High Life membership income, we were made aware that the monthly direct debit listing reports had been deleted for 3 of the months in the year.</p> <p><b>(Grade 1)</b></p>	<p>We recommend that appropriate back up procedures are put in place to mitigate against such loss of data.</p>	<p>Procedures have been implemented to ensure that the direct debit listing reports are retained and backed up securely.</p>
<p>We identified some instances during our income testing where income had been recorded as zero rated, when it should have been standard rated for VAT purposes.</p> <p>There is a risk that the group is in breach of VAT legislation.</p> <p><b>(Grade 2)</b></p>	<p>We recommend that income streams are reviewed regularly to ensure that the correct VAT rate is being applied.</p> <p>Due to VAT errors occurring in previous years we recommend the guide specifying the appropriate VAT treatment for each type of income, issued in previous years, is made available to the centres that raise their own invoices.</p>	<p>The VAT guide for staff will be reissued and additional training provided to ensure invoices are raised with the correct VAT treatment. In addition, transactions will be audited internally on a periodic basis by Finance.</p>



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6.5 The management letter point from the prior year and the current status is set out below:

Issue	Recommendation	Management Response
<p>Our income testing identified transactions totalling £37,552 posted in error by THC (The Highland Council) to the HLH ledger.</p> <p>There is a risk that there are THC transactions in HLH ledger.</p> <p><b>(Grade 2)</b></p>	<p>We recommend that procedures are put in place, for example reviews and reconciliations, to identify any erroneous entries in the HLH ledger.</p>	<p>Working with The Highland Council, procedures will be put in place to ensure income bank reconciliations are completed timeously and all errors corrected to ensure accurate recording of income.</p>

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#### 7. Auditor independence and objectivity

7.1 We have complied with the FRC's Revised Ethical Standard 2019 and all threats to our independence have been properly addressed through safeguards. We identified the following threats to you in our Audit strategy report:

Threat	Safeguards to mitigate those threats
Self-review and management threat arising from the preparation of the statutory financial statements.	A team separate to the audit team performs accounts preparation
Self-review and management threat arising from the provision of tax compliance services.	A team separate to the audit team performs tax compliance work

7.2 No additional facts or matters have arisen during the course of the audit that we wish to draw to your attention.

7.3 In accordance with the requirements of ISAs (UK) and to assist you in reviewing the nature and extent of audit and non-audit services provided by Saffery Champness LLP and its associates, we set out relevant matters:

7.4 The firm provides audit services to the group in accordance with the terms of our engagement letter dated 20 March 2018. We also provide non-audit services as follows:

- accounting assistance with the preparation of the annual accounts
- tax compliance

7.5 We confirm that, in our professional judgement, we are independent of the group and the objectivity of the audit engagement partner and audit staff is not impaired. We have considered the independence of the firm and partners, senior managers and managers conducting the audit.

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#### 8. Looking forward

##### 8.1 Audit and Accounting matters

##### 8.1.1 Revisions to ISA (UK) 315: Identifying and Assessing the Risks of Material Misstatement

Revisions to ISA (UK) 315: Identifying and Assessing the Risks of Material Misstatement will be effective for periods beginning on or after 15 December 2021.

The main changes include:

- Modernising and updating the standard for an evolving business environment including requiring the auditor to understand the use of IT in its business, the related risks and the system of internal control addressing such risks.
- Updating the standard for the increasing use of automated tools and techniques.
- Additional provisions to enhance the use of professional scepticism throughout the risk assessment process. It also introduces a 'stand back' requirement for the auditor to consider all audit evidence obtained during the risk assessment procedures including both corroborative and contradictory evidence.
- Introducing the concept of 'inherent risk factors' to assist the auditor in considering susceptibility of assertions about classes of transactions, account balances or disclosures to misstatement.
- Enhancing and clarifying requirements and application material relating to the auditor obtaining an understanding of the system of internal control. Additionally enhancing the documentation requirements for the auditor's work in evaluating the design of controls and determining whether those controls have been implemented.
- Documenting the spectrum of inherent risk, explaining the rationale behind the assessment of significance and placement on the scale.

<https://www.frc.org.uk/news/july-2020/frc-strengthens-auditing-standard-isa-315>

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8.1.2 Revisions to ISA (UK) 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

Revisions to ISA (UK) 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements will be effective for periods beginning on or after 15 December 2021.

This standard has been enhanced and may require us to perform additional procedures and/or make changes to our audit approach.

In particular, there is a greater focus on professional scepticism, meaning we must ensure that our audit procedures are not biased towards obtaining audit evidence that may be corroborative or excluding evidence that may be contradictory to the position presented to us.

The revisions also introduce a new requirement to make inquiries of your staff within the business who deal with allegations (if any) of fraud raised by employees or other parties.