HIGH LIFE HIGHLAND
REPORT TO BOARD OF DIRECTORS
18 June 2025

AGENDA ITEM
REPORT No HLH/ /25

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 financial year 2024/25 and other matters relevant to the remit of the Committee.

It is recommended that Directors:

i. note the draft year-end outturn, subject to further analysis and audit for 2024/25, reports a surplus of £546k;
ii. note the projected level of reserves;
iii. note the Audit Strategy report at **Appendix E**;
iv. note no breaches of internal controls have been reported in the past quarter;
v. note there have been no data breaches reportable to the Information Commissioner in the past quarter;
vi. note the internal audit report on HLH's Risk Management processes at **Appendix F**;
vii. agree to recommend to the Board that HLH maintains its current banking arrangements; and
viii. note that the charity remains Teckal compliant.

1. Strategic Contribution

1.1 High Life Highland's (HLH) purpose is **Making Life Better**. The HLH Strategy for 2025-2030, contains five strategic objectives which support the delivery of this purpose, and this report supports all of the outcomes in the strategy.

1. Delivery of affordable, accessible, and inclusive services across the region.
2. Maximise and grow our income to re-invest across our services.
3. Ensure a consistent high value of delivery across HLH services.
4. Commit to the net zero and sustainability agenda**.**
5. Efficient and effective service delivery through our people and processes.

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 2024/25

3.1 The management accounts, subject to further analysis and audit, for the financial year 2024/25 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 surplus of £546k.

3.2 The net surplus of £546k represents an improvement of £281k on the previously reported forecast for the year with the largest contributing factor being the improvement in the Staff Costs outturn. Further savings through vacancy and absence management have resulted in a £234k improvement across Libraries; Facilities; Museums and Galleries and Sport.

3.3 Income exceeded budget by £75k with ***high****life* income virtually on target earning £7.958m (99.6% of budget).

4. HLH Reserves

4.1 Including transfers at the end of 2024/25 HLH reserves are made up of the following elements:

i. Restricted Reserves of £357k 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; and
iii. Unrestricted Reserves – £1.09m of which £813k will be utilised in the 2025/26 revenue budget.

5. Audit Strategy Report

5.1 Attached at **Appendix E** is the Audit Strategy report prepared by Saffery's for the 2024/25 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.

7. Data Breaches

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

8. Internal Audit

8.1 The internal audit on HLH's Risk Management processes was completed in April 2025 with an audit opinion of **Reasonable Assurance.** The Head of Investment and Programme Management will present the report and resultant action plan included at **Appendix F.**

9. HLH Banking Arrangements

9.1 At the Finance and Audit Committee meeting of 10 February 2025, it was agreed that a report detailing the pros and cons of HLH having its own bank account be considered at the next Finance and Audit Committee before then being considered at the June Board meeting.

9.2 As background, in addition to providing use of its bank accounts, The Highland Council (THC) also provides HLH with a Payroll service and use of a serviced finance system including purchase ledger, treasury management, accounts receivable, debt recovery and credit cards. This is provided as part of the Service Delivery Contract (SDC) between HLH and THC at no cost. As these functions are integrated with THC's bank account, THC have confirmed HLH would be required to operate its own payroll service and finance systems should it choose a separate banking arrangement.

9.3 In addition to conforming with the recommendations from OSCR, the benefits of HLH operating its own bank account would include greater flexibility in operation, allowing HLH to choose its own payroll and finance system with the potential of better functionality and integration with other IT systems.

9.4 The primary disadvantage to HLH would be the loss of access to THC's payroll service and finance system and the associated economies of scale. These functions are currently provided as part of the recently agreed SDC. HLH lacks both the expertise and capacity for this and would require significant additional resources to set up an independent system and maintain these functions.

9.5 In addition, use of THC bank accounts removes any liquidity issues with no risk of cash shortages.

9.6 OSCR recommends that a charity should consider operating its own bank account as "*This means that it is much easier to monitor the income and expenditure of the charity and ensure that transactions related to the charity are properly identified. It also makes it easier for charity trustees to monitor the activities of the charity and the independent examiner or auditor to properly undertake their work".*

9.7 HLH transactions are properly identified within the existing system as evidenced by the audited financial statements. Operating a separate bank account would provide no improvement.

9.8 Taking these considerations into account and noting the operation of a separate bank account is a recommendation from OSCR rather than a requirement, it is recommended that HLH continue with its current banking arrangements.

10. Teckal Compliance – Annual Statement

10.1 Among other requirements, an Arm's Length Organisation such as HLH is "Teckal compliant" if at least 80% of the activity (turnover) of the Teckal company is for its public sector owners. This allows for up to 20% trading with third parties outside of their 'Teckal' contract.

10.2 The assessment confirms that 89% of HLH turnover for 2024/25 was generated as a result of work undertaken for THC.

11. Implications

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

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

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

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

Recommendation

It is recommended that Directors:

i. note the draft year-end outturn, subject to further analysis and audit for 2024/25, reports a surplus of £546k;
ii. note the projected level of reserves;
iii. note the Audit Strategy report at **Appendix E**;
iv. note no breaches of internal controls have been reported in the past quarter;
v. note there have been no data breaches reportable to the Information Commissioner in the past quarter;
vi. note the internal audit report on HLH's Risk Management processes at **Appendix F**;
vii. agree to recommend to the Board that HLH maintains its current banking arrangements; and
viii. note that the charity remains Teckal compliant.

Designation: Chief Executive

Date 6 June 2025

Author: Neil Johnston, Head of Finance

Consolidated 2024/25

APPENDIX A

	Budget	Actual (YTD)	Variance (Year End)
Income	35,342,162	35,416,812	74,650
Staff Costs	(29,399,814)	(28,966,259)	433,555
Other Costs	(5,942,348)	(5,904,835)	37,513
Surplus/(Deficit)	**0**	**545,718**	**545,718**

Variance by Sector **APPENDIX B**

	Budget	Actuals YTD	Variance (Year End)
Adult	(486,549)	(485,654)	895
Archives	(757,804)	(720,626)	37,178
Facilities	(3,986,967)	(3,954,651)	32,316
Libraries	(3,735,346)	(3,632,350)	102,996
Management	(3,283,408)	(3,096,195)	187,213
Museums & Galleries	(1,119,567)	(1,064,789)	54,778
Music Tuition	(2,963,393)	(2,930,199)	33,194
Rangers	(507,045)	(455,287)	51,758
Sports	(820,169)	(797,440)	22,729
Youthwork	(1,239,553)	(1,216,891)	22,662
Service Fee	16,135,801	16,135,801	0
HC Financial Support	2,764,000	2,764,000	0
Surplus/(Deficit)	**0**	**545,718**	**545,718**

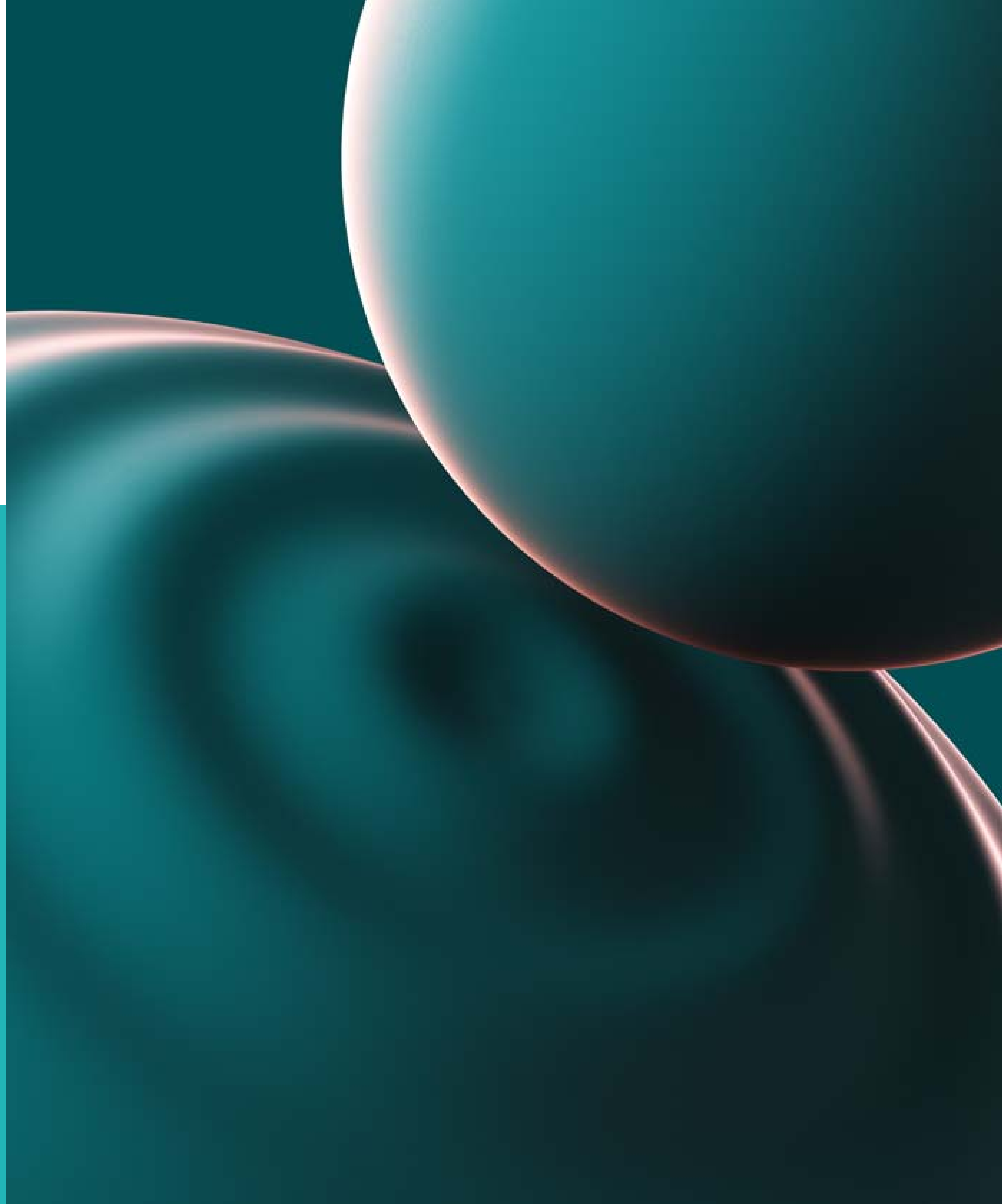
Variance by Category **APPENDIX C**

	Income (£)			Staff Costs (£)			Other Costs (£)		
	Budget	Actual (YTD)	Variance (Year End)	Budget	Actual (YTD)	Variance (Year End)	Budget	Actual (YTD)	Variance (Year End)
Adult	133,883	147,016	13,133	(559,019)	(572,740)	(13,721)	(61,413)	(59,931)	1,482
Archives	294,206	316,055	21,849	(1,009,288)	(1,002,783)	6,505	(42,722)	(33,898)	8,824
Facilities	12,521,448	12,571,927	50,479	(13,750,307)	(13,682,727)	67,580	(2,758,108)	(2,843,851)	(85,743)
Libraries	49,559	58,369	8,810	(3,242,377)	(3,134,764)	107,613	(542,528)	(555,955)	(13,427)
Management	492,078	476,773	(15,305)	(2,520,251)	(2,461,068)	59,183	(1,255,235)	(1,111,900)	143,335
Museums & Galleries	996,193	951,830	(44,363)	(1,499,850)	(1,386,134)	113,716	(615,910)	(630,485)	(14,575)
Music Tuition	593,801	629,365	35,564	(3,113,687)	(3,107,900)	5,787	(443,507)	(451,664)	(8,157)
Rangers	83,500	121,401	37,901	(545,425)	(541,499)	3,926	(45,120)	(35,189)	9,931
Sports	1,201,907	1,195,770	(6,137)	(1,903,405)	(1,885,672)	17,733	(118,671)	(107,538)	11,133
Youthwork	75,786	48,505	(27,281)	(1,256,205)	(1,190,972)	65,233	(59,134)	(74,424)	(15,290)
Service Fee	16,135,801	16,135,801	0	0	0	0			0
THC Financial Support	2,764,000	2,764,000	0	0	0	0			0
Surplus/ (Deficit)	**35,342,162**	**35,416,812**	**74,650**	**(29,399,814)**	**(28,966,259)**	**433,555**	**(5,942,348)**	**(5,904,835)**	**37,513**

Commentary by Service **APPENDIX D**

	Variance (Year End)	Notes
Adult	895	The service transferred to Highland Council on 1 December 2024 with 4/12 of the annual budget and a corresponding reduction in service fee.
Archives	37,178	Additional income from the Nucleus Archive contract re-negotiation in conjunction with savings in staffing and operating costs resulting in positive year end.
Facilities	32,316	Income target for the year exceeded by 0.4% with staff savings of £68k (0.5% of budget). Overspend in Other Costs due increase in utility charges and bank transaction fees.
Libraries	102,996	Positive year end due to savings in staffing costs through vacancy management
Management	187,213	£200k saving in insurance premium with additional savings through vacancies in Business Support.
Museums & Galleries	54,778	Income at Highland Folk Museum and North Coast Visitor Centre projected to be £59k below budget mitigated by savings in staffing and cost of sales.
Music Tuition	33,194	Income above target due to additional external funding from Scottish Schools Pipes and Drums Trust.
Rangers	51,758	Positive variance to budget due to additional income from sale of sports equipment and strong performance of bunkhouses.
Sports	22,729	Savings in staffing and Other Costs plus additional income from external grant funding.
Youthwork	22,662	The service transferred to Highland Council on 1 December 2024 with 4/12 of the annual budget and a corresponding reduction in service fee. Significant savings achieved through vacancy management and utilisation of external grant funding.
Service Fee	0	On budget
THC Financial Support	0	On budget
Surplus/(Deficit)	**545,718**	

Saffery



High Life Highland (Group)

Audit strategy report to the Trustees

For the year ended 31 March 2025

Contents

Executive summary	1
Audit scope and materiality	4
Audit approach	5
Key audit risks	8
Consideration of fraud	13
Auditor independence and objectivity	15
Fees	17
Timetable	18
Our team	19
Appendix: Materiality	20

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 2025. This document has been prepared for the Board of 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 materiality to be £350,000 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 agreed audit fee of £23,000 for the 2025 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 2025 as required by UK legislation.

- High Life Highland Limited
- High Life Highland (Trading) C.I.C.

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.

Our responsibilities, as auditors, in relation to the audit of the financial statements for the year ended 31 March 2025 are set out in our engagement letter dated 24 April 2025.

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	£350,000	£327,500	£22,400
Performance materiality	£315,000	£294,800	£20,200

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 Board of 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 2025

Control Evaluation

Procedures

- Assessment of the design and implementation 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
- Communication with management to discuss final pre-audit matters
- Update detailed planning documentation

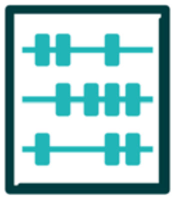
Communication

- 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 2025

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 2025

Completion

Procedures

- Audit Committee meeting and 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 Board of Trustees

Timing

July/August 2025

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

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 2025
- Perform testing on the source data used for the year ended 31 March 2025

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

During the 2023 audit 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. Following discussions with management we are aware that overpayments to leavers has still been an issue in the current year.

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 2025 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 2024 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 2024 £	Fees 2023 £
Audit services		
- High Life Highland	19,500	18,100
- High Life Highland Trading C.I.C.	2,000	2,000
Accounts preparation services	2,350	2,200
Taxation compliance services	1,750	1,650
Other services	-	400
TOTAL FEES	25,600	24,350

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 agreed fees for the year ended 31 March 2025 were set out in the schedule of rates per the audit tender letter dated 12 December 2024 as follows:

	Audit £	Corporate tax £	Accounts preparation £	Total 2025 £
Total fees for current year	**23,000**	**1,850**	**2,000**	**26,850**

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 will 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 28/04/25	Saffery
Planning			
	Issue audit strategy document	01/05/25	Saffery
	Audit file available for audit planning	19/05/25	Saffery
Stocktake			
	Stocktakes	w/c 24/03/25 w/c 31/03/25	Client
Final			
	Information request list to be completed prior to audit starting	09/06/25	Client
	Start of fieldwork	09/06/25	Saffery
	End of fieldwork	30/06/25	Saffery
Completion			
	Closing meeting with management	w/c 21/07/25	Saffery/Client
	Approval of final figures	w/c 21/07/25	
	Accounts and audit report available for Audit Committee	01/08/25	Client
	Presentation of audit report to Audit Committee	11/08/25	Saffery
	Board approval of accounts	03/09/25	Client

Our team

Engagement Partner/Responsible Individual

Eunice McAdam

Audit Partner

Inverness

T: +44 (0)1463 219 478
eunice.mcadam@saffery.com

Audit Senior Manager:

Amanda Webb

Audit Senior Manager

Inverness

T: +44 (0)1463 246 337
amanda.webb@saffery.com

Tax Partner

Hilary Clelland

Tax Partner

Inverness

T: +44 (0)1463 219 469
hilary.clelland@saffery.com

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.

APPENDIX F

The Highland Council
Comhairle na Gàidhealtachd

Internal Audit Final Report

High Life Highland

Risk Management

Description	Priority	No.
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	5
Minor issues that are not critical but managers should address.	Low	2

Audit Opinion

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Reasonable Assurance** can be given in that whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk

Distribution:
Chief Executive, HLH
Head of Investment & Programme Management, HLH
Head of Finance, HLH

Report Ref: HLH 2024-25
Draft Date: 25/03/25
Final Date: 14/04/25

1. Introduction

1.1 The audit examined how High Life Highland's (HLH) current risk management arrangements measured against the Institute of Internal Auditor's risk maturity assessment. This tool provides a framework to assess how an organisation identifies, measures and monitors risk. A risk can be defined as an event that affects an organisation's ability to achieve its objectives.

The maturity assessment rates an organisation's risk maturity on a 5-level scale defined as follows:

1. Risk Naive- No formal approach developed for risk management.
2. Risk aware- Scattered silo-based approach to risk management.
3. Risk defined- Strategy and policies in place and communicated. Risk appetite defined.
4. Risk managed- Enterprise approach to risk management developed and communicated.
5. Risk enabled- Risk management and internal controls fully embedded into the operations.

The different levels of maturity can be seen as a continuum. However, organisations can vary in their approach to maturity and may be at different stages of the scale for different parts of their operations.

1.2 HLH's current risk register was reviewed by the Finance and Audit Committee in November 2024. This listed 26 risks rated using a red, amber, green scoring system based on their likelihood and impact. 9 of these were rated as red (scoring 6 or below) therefore requiring a risk management plan to be in place. 2 of these 9 risks were examined in further detail to verify that the above framework was being effectively put into practice. HLH were in the process of developing a much more detailed interactive risk register which would be accessible to all employees allowing greater contributions and clear audit trails of the risk management process.

1.3 The audit did not examine risk registers held by external contractors for projects delivered to HLH on behalf of the Council, or health and safety risk assessments.

2. Main Findings

2.1 *There are adequate and effective risk management arrangements in place.*

This audit objective was partially achieved. Overall, the review against the maturity assessment rated HLH as progressing towards being 'risk defined'. The Head of Investment & Programme Management (HI&PM) was responsible for coordinating the risk management process so acted as key contact for all HLH officers which ensured regular review of risks and their mitigations. There was scope to make improvements which are outlined below.

Organisation objectives

The objectives have been defined within the Service Delivery Contract between the Council and HLH, and HLH's 5-year Business Plan. These have been approved by the Board, were presented for review at each Board meeting and communicated to all staff via the staff website. The Business Plan was being replaced with a single page strategy setting out HLH's objectives. Individual Service Plans were also being re-written to link to the strategic objectives with the intention to have operational plans for all service areas and cross cutting plans (for example on digital strategy). Ensuring clarity on strategy and objectives assists risk identification and management processes.

Governance, policy and guidance

The HLH risk management policy was abridged to a brief policy statement which said HLH would maintain and review a risk register and that '*The risk register will be based on robust systems for identifying, profiling, controlling and monitoring all significant strategic and operational risks'.* The main guidance was held in a separate document. This was also brief and neither set out the process or included explanation of the undernoted risk areas (See Action Plan M1):

- Roles and responsibilities
- Identification (including techniques to use)
- Profiling
- Definitions of terms such as inherent and residual risk or types of responses were not provided
- Types of risk
- Risk appetite statements
- Detailed explanation of risk impact and likelihood scores
- Risk responses to be used
- Outlining the arrangements for sub corporate risk e.g. service and project.

The guidance set out that the Finance and Audit Committee and the Board would review the risk register but the Articles of Associations and formal remit for this Committee did not set out their responsibilities in respect of risk management (See Action Plan M2).

Identification

There was evidence of risk identification. The HI&PM received communication from managers about areas that may constitute risk although this was done in an ad-hoc way via email so the audit trail of discussion around risk was not visible to all relevant officers (however this was being addressed with the introduction of a new interactive risk register). Finance and Audit Committee reports showed some evidence of horizon scanning although this was not explicitly linked to the business objectives. Operational management meeting minutes showed evidence of discussion of important issues notably health and safety, income and staffing levels although risk was not always a specific agenda item. No specific risk workshops were held (See Action Plan M3). There were no service risks below the corporate risks although there were individual project risk registers. Not all of the objectives in the Business Plan had related risks, for example net zero carbon targets and digital transformation have no associated risks recorded in the risk register. (See Action Plan M3).

Regular reports on risk to the Finance and Audit Committee referred to the Highland Council's Corporate Risk Management Group which *facilitates a process to notify the Council of risks on the HLH risk register which might have an impact on the Council.* However, the HI&PM had not been invited to these meetings for some time. This would also be an opportunity for HLH to be notified of Council risk(s) which may have an impact on HLH (See Action Plan L1).

Assessment

The guidance and updates to the Finance and Audit Committee clearly defined the risk scoring process. While there was reference to risks above the line where a risk management plan was in place, the level of risk HLH was prepared to tolerate (risk appetite) was not explicitly stated. Also, whilst scores had an explanation (e.g. "Critical", "minor impact" etc) there was no detailed description of what the likelihood and impact meant in terms of the potential implications arising from risks (i.e. risk impact scores). Risks scoring below 6 were deemed "above the line" and requiring risk management plans but it was not set out why this score had been chosen (See Action Plan M1). However, a review of the risks showed consistency in terms of scoring as those risks with serious financial implications or affecting HLH's ability to function as an entity were rated as critical, but marginal issues such as donations were given a lower rating. There was some inconsistency between the classifications e.g. Human Resources was a risk type, but the employee relations risk came under operations (See Action Plan M4).

The risk register: format, content and review.

All corporate risks had been collected into one register, and this was regularly reviewed by the HI&PM in conjunction with senior managers then presented to each meeting of the Finance and Audit Committee. Issues that may affect existing risks were highlighted in the updates to the risk register. However, there were not specific risk owners - the only owners named were the Senior Management Team or the Board and/or Trading Company (only the Chief Executive and Director of Corporate Performance were listed by role).

The risks on the register did not directly cite relevant objectives from the Business Plan, although overall it was possible to understand how some risks related to the Business Plan (for example financial sustainability was a priority and 8 risks mentioned financial risk).

All corporate risks with a residual score below 6 had a risk management plan in place and all risks on the register had mitigating actions. However, the mitigations did not have timescales. There were 12 risks below the line with residual impact scores of 'major impact' (most had inherent score of 'critical'). Given the potential severity there was scope to provide more detailed mitigations and review what corporate risks needed a full risk management plan, particularly around severe external threats. This would help the Board when seeking assurance that the mitigations in place are working effectively i.e. reducing the inherent risk (See Action Plan M4).

There was evidence of corporate risk register review in that risk scores and details of mitigations changed over time. Whilst the Finance and Audit Committee minutes showed some evidence of review these were not overly detailed so there was scope to more fully reflect the scrutiny that had taken place. Operational meeting minutes did sometimes reference risk but did not refer to specific corporate risks or the operational actions to mitigate these. There was an opportunity to further improve the oversight and review of risk management activity (See Action Plan M3).

1 risk on the register was not scored as it referred to individual project risk registers, so the Finance and Audit Committee did not have a way of comparing the impact and likelihood of project risks to corporate risks (See Action Plan M4).

Individual management awareness and training

There was no specific training on risk management although there was training on operational areas of high risk such as health & safety, fire and electrical. Officers were assigned training courses dependent on their roles. Risk management was not included in job descriptions (apart from the HI&PM). Risk management was not built into the current appraisal system. This made it difficult to assess whether management provided assurance on risk management. A survey of 10 managers showed an understanding of risk management terms however the consensus from managers was that risk management training would be useful (see Action Plan M5).

2.2 *The current key corporate risks are effectively managed.*

This audit objective was substantially achieved. The key risks reviewed were HLH01 capital investment and HLH02(& 2a) recruitment and retention issues, particularly seasonal staffing. These were longstanding risks and it was shown they had a significant impact on HLH's business objectives. Quantified justifications highlighting the impact on income supported the risk scoring.

For HLH02(& 2a) there was evidence of mitigations in place as regular reviews of the staffing establishment needs and attempts to recruit were undertaken. For HLH01 there were a limited set of mitigations as HLH had recorded a dependency on the Council's approval of business cases for investment. Mitigations were appropriate to the risks, although for HLH01 there had not been updates on the operational position (the narrative justifying the risk and listing mitigations) as references to reviews due to take place in 2023 and 2024 were included within the risk register reviewed by Finance and Audit Committee in November 2024. There was also no timescale included for when a capital programme review would take place allowing the risk to be fully re-assessed (See Action Plan L2).

3. Conclusion

HLH had adequate processes for risk management. The main scope for improvement was in further developing and documenting the risk management process. There was evidence of a good level of managers' awareness of the importance of risk management but scope to document this more formally. HLH were in the process of developing a much more detailed interactive risk register which would be accessible to all employees allowing greater contributions and clear audit trails of the risk management process. Developing this new register and implementing recommendations from this audit should further embed risk management into HLH's operations.

4. Action Plan

Ref	Priority	Finding	Recommendation	Management Response	Implementation: Responsible Officer	Implementation: Target Date
M1(A)	Medium	The policy and guidance on risk management did not link as appropriate and did not include the following information: 1. Roles and responsibilities. 2. Details of the process for risk identification, profiling or defining types of risk. 3. Definitions of terminology such as inherent and residual or types of responses. 4. There were no detailed risk impact statements showing material impact and likelihood. 5. There were no risk appetite statements. 6. Risk response options not set out. 7. Why the line had been set at a particular score.	The risk management policy should be reviewed to ensure it is comprehensive and references the risk management guidance as a requirement to support the policy. The guidance on risk management should be revised to set out the risk management process in more detail in particular setting out: 1. Roles and Responsibilities 2. Details of the process for risk identification, profiling or defining types of risk. 3. Definitions of terminology such as inherent and residual or types of responses. 4. Detailed risk impact statements showing material impact and likelihood. 5. Risk appetite statements. 6. Risk responses. 7. Explanation of why the line is set at a particular level.	The risk management policy will be reviewed with reference to all of these recommendations. The risk management policy will be reviewed with reference to detailing the specific roles and responsibilities for risk management. This will form part of the documentation review before the release of the new online system, linked in with the new training identified within this report. The risk management policy will be reviewed with reference to detailing the specific process for risk identification, profiling and definition as part of the role out for the new risk management programme. This setting score is an historical one. However, this is being reviewed as part of the new system implementation. The guidance notes supporting that are being written and when complete it will determine the above/below the line scores and explain how that has been determined.	Head of Investment & Programme Management, HLH	31/07/25

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	**Target Date**
M1(B)	Medium	The policy and guidance on risk management did not link as appropriate and did not include the following information: Outlining the arrangements for sub corporate risk e.g. service and project.	The risk management policy should be reviewed to ensure it is comprehensive and references the risk management guidance as a requirement to support the policy. The guidance on risk management should be revised to set out the risk management process in more detail in particular setting out the need for service risk and how these and project risks relate to Corporate risks.	Service / operational risks are to be captured within the new online risk management tool. This is currently under development, and we hope to conclude this no later than quarter 3, within the next Financial Year. This will allow for the necessary risk management training to also be rolled out as mentioned within the report.	Head of Investment & Programme Management, HLH	31/12/25
M2	Medium	The Articles of Associations and formal remit for Finance and Audit Committee did not set out responsibilities in respect of risk management.	Committee remits should be formally defined to clearly set out responsibilities in respect of risk management arrangements.	Appendix 1 will be amended to reflect the requirement for risk management within the remit of the Finance and Audit Committee.	Head of Investment & Programme Management, HLH	30/06/25
M3	Medium	There was scope to better document the identification of risks: 1. Horizon scanning was not explicitly linked to the business objectives.	1. Horizon scanning detailed in reports to Finance and Audit Committee should cite the relevant business objectives and corporate risks.	All future risks and horizon scanning within the new system will be directly linked to the five strategic objectives. Risks will also be able to be linked to more than one objective with the system able to filter by risk, score, type, descriptor category or objective. With immediate effect all future reports will reference horizon scanning risks against the appropriate strategic objectives.	Head of Investment & Programme Management, HLH	Complete
		2. Meeting minutes at both Committee and operational level did not provide detail of	2. Meeting minutes should provide greater detail of discussion and review of	The Head of Investment & Programme Management, HLH will ensure that the review of all future	Head of Investment & Programme	Complete

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
		all the discussion and review of risk that had taken place.	risks, and the guidance should provide an example of the detail to be provided.	minutes incorporates the appropriate increase in the level of detail. Guidance will have examples too.	Management, HLH	
		3. Not all of the objectives in the Business Plan had related risks identified.	3. All objectives in business and service plans should be risk assessed with the risks recorded even if this is scored as marginal/low.	This will be the case as part of the new system.	Head of Investment & Programme Management, HLH	31/12/25
M4	Medium	The risk register was detailed but was not comprehensive:	The register should be revised to include the following:	This will be actioned as follows:		
		1. There were no specific risk owners.	1. Specific risk owners.	Specific risk owners will be added to the new system, but the existing register meantime will be amended to add owners.	Head of Investment & Programme Management, HLH	30/04/25
		2. The risks on the register did not directly cite relevant objectives from the Business plan.	2. Directly relate risk to business/service objectives.	Strategic objectives will be part of the new system, meantime the existing register will be amended to add these.	Head of Investment & Programme Management, HLH	30/04/25
		3. Risk categories were not outlined and there were inconsistencies in classifying risks by category. There were no detailed risk impact statements explaining the different likelihood and impact levels to provide consistency in scoring.	3. Consistent application of defined risk categories with associated risk impact statements (consistent with those contained in the guidance as recommended in M1).	This will be dealt with as covered in the M1 response.	Head of Investment & Programme Management, HLH	31/07/25
		4. Within risk management plans, actions identified to further reduce risk did not have specific timescales or an explanation of how the mitigation reduced the risk.	4. Actions identified to further reduce risk should be clear and measurable with timescales.	Where available, times and dates will be added within the actions plans with immediate effect.	Head of Investment & Programme Management, HLH	Complete

Ref	Priority	Finding	Recommendation	Management Response	Implementation: Responsible Officer	Implementation: Target Date
		5. 12 risks below the line had an inherent and residual impact score of "major impact" but because they were below the line did not have risk management plans presented for review.	5. Risks with critical and major impact should have a risk management plan.	To provide greater visibility for risk reviews, risks with a major/ critical impact, will have a Risk Management Plan created to highlight the mitigation in place or ongoing.	Head of Investment & Programme Management, HLH	31/08/25
		6. One risk on the register was not scored as it referred to individual project risk registers, so the Finance and Audit Committee did not have a way of comparing the impact and likelihood of project risks to corporate risks.	6. The register should contain the scores of project risks.	This unscored risk relates to the Castle Project. It was entered onto the risk register more as a marker to highlight that it would eventually require risk management on the lead up to the facility being handed over. However, for future projects, a copy of the construction risk register will be attached to the F&A Committee papers, with any material concerns highlighted within the body of the paper.	Head of Investment & Programme Management, HLH	Complete
M5	Medium	1. There was no specific risk management training.	1. There should be specific risk management training (in particular outlining techniques for risk identification). This training should be undertaken by any HLH staff that have a responsibility for managing risk with steps taken by management to ensure staff do the training.	Risk management training will be built into the process for all requisite staff as part of the new online system	Head of Investment & Programme Management, HLH	31/12/25
		1. Risk management responsibility was not included in job descriptions or built into the appraisal system.	2. Responsibility for risk management should be built into job descriptions and the appraisal system.	Job descriptions and review within appraisal system will be discussed with the Head of Human Resources, HLH with the outcome implemented as part of the new risk management system roll out linked in with the new appraisal system.	Head of Human Resources, HLH	31/12/25

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	**Target Date**
L1	Low	HLH had not been invited to the Council's Corporate Risk Management Group recently (note this Group is being revamped), so there was scope to improve awareness of how HLH's objectives and risk were affected by the Highland Council and how Council risks may affect HLH.	HLH should improve communication with the Highland Council to better ensure a shared understanding of the impact of risks facing both organisations and enable reporting to senior management and Finance and Audit Committee.	The Highland Council has since amalgamated its risk and resilience meetings into one group. HLH have been invited to these new meetings and the first took place on 26 Mar 25. Head of Investment & Programme Management will attend all future meetings.	Head of Investment & Programme Management, HLH	Complete
L2	Low	For risk HLH01 there hadn't been updates on the operational position with references to reviews due to take place in 2023 and 2024 included within the risk register reviewed by Finance and Audit Committee in November 2024. No timescale was included for when a capital programme review would take place allowing the risk to be fully re-assessed.	The operational position on HLH01 should be updated to show outcomes of reviews dated 2023 and 2024 and to include a timescale for when the risk will be fully re-assessed.	There has been a delay in the provision of detail available from the Highland Council as to when or if the Capital Programme was to be reviewed, due to the review of the Highland Investment Plan and also the development of the PODs. A paper went to full council on 27 Mar 2025, detailing the levels of investment as part of the Highland Investment Plan. HLH/Community facilities featured prominently within the plans and the proposals were agreed. Therefore, the risk will be reviewed and amended down accordingly.	Head of Investment & Programme Management, HLH	Complete

Appendix 1

Remit and terms of reference of Finance and Audit Committee

The Articles of Association of High Life Highland state that the role of the Finance and Audit Committee is "to assist the Board of Directors in fulfilling its responsibilities with regard to the oversight of a) the company's financial statements and auditing and b) the company's system of internal control regarding finances, accounting and financial reporting and c) the company's risk register.

1. External Audit

The committee shall:

i) Apart from the initial appointment, consider and make recommendations to the Board in relation to the appointment, re-appointment and removal of the company's external auditor. The committee shall oversee the selection process for new auditors and if an auditor resigns the committee shall investigate the issues leading to this and decide whether any action is required

ii) oversee the relationship with the external auditor including (but not limited to)

   a. approval of their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted
   b. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit
   c. assessing annually their independence and objectivity taking into account relevant [UK] professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services
   d. satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the company (other than in the ordinary course of business)
   e. agreeing with the board a policy on the employment of former employees of the company's auditor, then monitoring the implementation of this policy
   f. monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the company compared to the overall fee income of the firm, office and partner and other related requirements
   g. assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures seeking to ensure co-ordination with the activities of the internal audit function

iii) meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit

iv) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement

v) review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
   a. a discussion of any major issues which arose during the audit
   b. any accounting and audit judgements
   c. levels of errors identified during the audit
   d. The committee shall also review the effectiveness of the audit

vi) review any representation letter(s) requested by the external auditor before they are signed by management

vii) review the management letter and management's response to the auditor's findings and recommendations

viii) develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter

2. Reporting responsibilities

i) The committee chairman shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities.

ii) The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.

iii) The committee shall compile a report to the shareholder on its activities to be included in the company's annual report.

3. Other matters

The committee shall

i) have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required

ii) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members

iii) give due consideration to laws and regulations, the provisions of the Combined Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules as appropriate

iv) be responsible for co-ordination of the internal and external auditors

v) oversee any investigation of activities which are within its terms of reference *and act for internal purposes as a court of the last resort*

vi) at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval

Remit and terms of reference - Finance and Audit Committee

The Articles of Association of High Life Highland state that the role of the Finance and Audit Committee is "to assist the Board of Directors in fulfilling its responsibilities with regard to the oversight of a) the company's financial statements and auditing and b) the company's system of internal control regarding finances, accounting and financial reporting, and c) the company's risk register.

1. External Audit

The committee shall:

i) Apart from the initial appointment, consider and make recommendations to the Board in relation to the appointment, re-appointment and removal of the company's external auditor. The committee shall oversee the selection process for new auditors and if an auditor resigns the committee shall investigate the issues leading to this and decide whether any action is required

ii) oversee the relationship with the external auditor including (but not limited to)

a. approval of their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted
b. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit
c. assessing annually their independence and objectivity taking into account relevant [UK] professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services
d. satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the company (other than in the ordinary course of business)
e. agreeing with the board a policy on the employment of former employees of the company's auditor, then monitoring the implementation of this policy
f. monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the company compared to the overall fee income of the firm, office and partner and other related requirements
g. assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures seeking to ensure co-ordination with the activities of the internal audit function

iii) meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit

iv) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement

v) review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
   a. a discussion of any major issues which arose during the audit
   b. any accounting and audit judgements
   c. levels of errors identified during the audit
   d. The committee shall also review the effectiveness of the audit

vi) review any representation letter(s) requested by the external auditor before they are signed by management

vii) review the management letter and management's response to the auditor's findings and recommendations

viii) develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter

2. Reporting responsibilities

i) The committee chairman shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities.

ii) The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.

iii) The committee shall compile a report to the shareholder on its activities to be included in the company's annual report.

3. Other matters

The committee shall

i) have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required

ii) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members

iii) give due consideration to laws and regulations, the provisions of the Combined Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules as appropriate

iv) be responsible for co-ordination of the internal and external auditors

v) oversee any investigation of activities which are within its terms of reference *and act for internal purposes as a court of the last resort*

vi) at least once a year, review its own performance, constitution and terms of reference, to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval