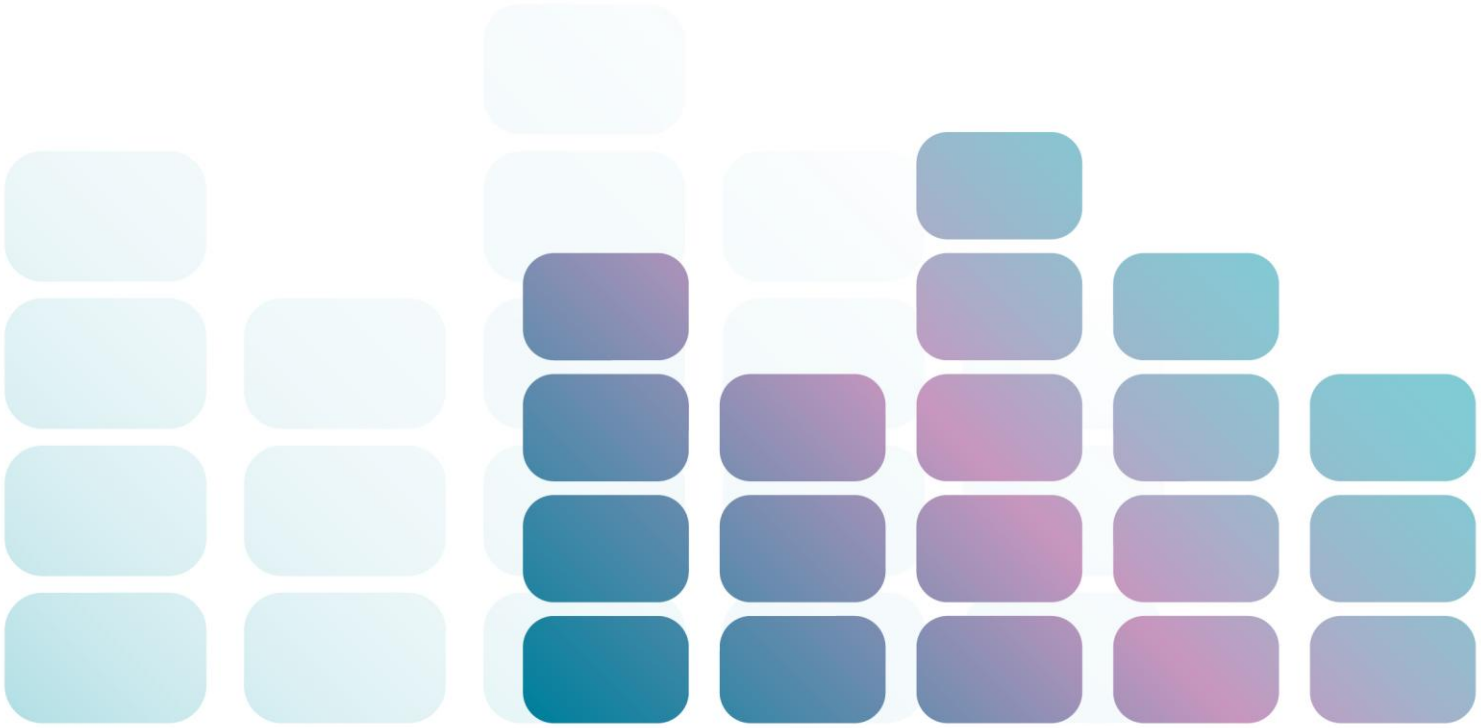
Highland Council (Section 106) Charitable Trust Funds

2025/26 Annual Audit Report



AUDIT SCOTLAND

Prepared for the Trustees of The Highland Council (Section 106) Charitable Trust Funds and the Controller of Audit

October 2026

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Key messages

Audit of the annual report and financial statements

1 All audit opinions stated that the Highland Council (Section 106) Charitable Trust Fund's annual report and financial statements were free from material misstatement.

2 There were no significant findings or key audit matters to report. All audit adjustments required to correct the financial statements were processed.

3 There are appropriate arrangements in place to ensure that resources are used appropriately and that expenditure is aligned to the charitable objectives and Section 106 obligations.

Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2025/26 audit of the Highland Council (Section 106) Charitable Trust Funds annual report and financial statements and the wider scope areas specified in the Code of Audit Practice.

2. The Annual Audit Report is addressed to the trustees of the Highland Council (Section 106) Charitable Trust Funds, hereafter referred to as 'the Trust'. The Trust includes those set out in Exhibit 1:

Exhibit 1
The Highland Council (Section 106) Charitable Trust Funds

Charitable trust	Charity Number
The Highland Council Charitable Trusts (HCCT)	SCO25079
The Highland Charities Trust (HCT)	SCO44714

Source: Office of the Scottish Charity Regulator (OSCR)

3. The Annual Audit Report is also addressed to the Controller of Audit, and will be published on Audit Scotland's website in due course.

Extension of the current audit appointment

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

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

Appointed auditor and independence

6. Esther Scoburgh of Audit Scotland, has been appointed as external auditor of the Trust for the period from 2024/25 until 2026/27. As reported in the Annual Audit Plan, the audit team are independent of the Trust in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team from the Trust, including no provision of non-audit services.

Acknowledgements

7. We would like to thank the staff, particularly those involved in preparation of the annual report and financial statements, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the audit appointment.

Audit scope and responsibilities

Scope of the audit

8. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they properly present the receipts and payments and are free from material misstatement.
- An opinion on statutory other information published with the financial statements and in the Trustees' annual report and financial statements.
- Conclusions on the Trusts' arrangements in relation to Financial sustainability and securing Best Value.
- Provision of this Annual Audit Report.

Responsibilities and reporting

9. The Code of Audit Practice sets out the respective responsibilities of the Trust and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

10. The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information reported within the annual report and financial statements and concluding on the Trusts' arrangements in place for the financial sustainability and Best Value.

11. The matters reported in the Annual Audit Report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve the Trust from its responsibilities outlined below.

The Trust's responsibilities

12. The Trust has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and

regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of a Trustees' annual report and financial statements that properly present the receipts and payments and other specified information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.

Audit fee

13. The audit fee for the 2025/26 audit was reported in the Annual Audit Plan and was set at £3,000 (2024/25: £2,000). There have been no developments that impact on planned audit work required, therefore the audit fee reported in the Annual Audit Plan remains unchanged.

Audit of the annual report and financial statements

Main judgements

All audit opinions stated that the Trust's annual report and financial statements were free from material misstatement.

There were no significant findings or key audit matters to report. All audit adjustments required to correct the financial statements were processed by the trusts.

Audit opinions on the annual report and financial statements

14. The Trust's annual report and financial statements were certified by the appointed auditor on 11 November 2026 following the Audit Committee. The Independent Auditor's Report is included in the Trust's annual report and financial statements, and reports that, in the appointed auditor's opinion, these were free from material misstatement and properly present the receipts and payments of the Trust.

Audit timetable

15. The unaudited annual report and financial statements were received on 25 June 2026 in accordance with the agreed audit timetable. The working papers provided by officers were satisfactory.

Materiality

16. Materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual report and financial statements.

17. Materiality is used to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual report and accounts. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Materiality is ultimately a matter of the auditor's professional judgement.

18. We assessed materiality based on the total values for the Trust at the risk assessment phase of the audit and reported it in the Annual Audit Plan. Following receipt of the unaudited annual report and financial statements materiality was reassessed and updated as shown in Exhibit 2.

Exhibit 2

2025/26 Final materiality levels for the Trust

Materiality	Amount
Materiality: Set at 2% of total assets HCT and HCCT (funds).	£73,400
Performance materiality: Set at 75% of materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required.	£55,000
Reporting threshold: Set at 5% of materiality.	£3,670

Source: Audit Scotland

Significant findings and key audit matters

19. ISA (UK) requires auditors to communicate significant findings from the audit to those charged as governance, which for the Trust is the trustees.

20. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

21. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

22. There are no significant findings or key audit matters to report.

Qualitative aspects of accounting practices

23. ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of the Trust's accounting practices, including accounting policies and disclosures in the financial statements.

Accounting policies

24. The appropriateness of accounting policies adopted by the Trust were assessed as part of the audit. These were considered to be appropriate to the circumstances of the Trust, and there were no significant departures from the accounting policies set out in the applicable accounting framework.

Disclosures in the financial statements

25. The adequacy of disclosures in the financial statements was assessed as part of the audit. Officers updated disclosures based on audit findings and have processed all updates and adjustments.

Audit adjustments

26. No audit adjustments were required to the financial statements greater than the reporting threshold.

Significant risks of material misstatement identified in the Annual Audit Plan

27. Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in Exhibit 3.

Exhibit 3

Significant risks of material misstatement to the financial statements

Risk of material misstatement	Audit work carried out	Conclusions
Fraud caused by management override of controls Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	• Evaluated the design and implementation of controls over journal entry processing. • Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Tested journal entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end. • Evaluated significant transactions outside the normal course of business.	• The design and implementation of controls over journal processing were appropriate. • No inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting. • No significant issues were identified from testing of journal entries. • We did not identify any transactions outside the normal course of business. • The controls in place for identifying and disclosing

Risk of material misstatement	Audit work carried out	Conclusions
	• Assessed the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Substantively tested a sample of receipts and payments, investments and funds.	related party relationships and transactions were adequate. • No significant issues were identified in testing of samples of receipts and payments, investments and funds.
Outcome / overall conclusion: We are satisfied there is no material misstatement due to management override of controls.		
Source: Audit Scotland		

Prior year recommendations

28. In our 2024/25 Annual Audit Report, we noted that officers had committed to enhancing and introducing improved tracking of investment income and shareholdings, and to ensuring that the classification of funds between unrestricted and restricted categories accurately reflected the current Trust Schemes.

29. Based on our testing, supporting evidence was available for investment income received during the year. In addition, shareholding tracking was strengthened during 2025/26 and no issues were identified regarding the classification of trust funds during our 2025/26 audit. We therefore consider the recommendation to be fully implemented.

Financial sustainability and Best Value

Main judgement

There are appropriate arrangements in place to ensure that resources are used appropriately and that expenditure is aligned to the charitable objectives and Section 106 obligations.

30. The Trust is administered through The Highland Council's governance and financial management arrangements (the administering authority). Governance costs are charged directly to the Trusts and apportioned across the educational trusts based on a percentage of their revenue balances.

31. As the Trust has no employees or direct operating costs, it is the council's arrangements for financial sustainability and securing Best Value

which provide the appropriate oversight of trust receipts, custody of funds and charitable payments. These arrangements for The Highland Council were found to be effective in 2025/26.

32. During 2025/26, the Trust continued to build on the structural reforms introduced in 2024/25 to streamline and modernise the trust portfolio. The Educational Trust Fund Sub-Committee, established in the previous year, met twice in 2025/26, in line with its remit to oversee the Trust and support good governance.

33. The Educational Trust Fund Sub-Committee continued to support increased grant-awarding activity during 2025/26 and this included awarding grants totalling approximately £129,000 (HCCT: £123,000, HCT: £6,000). Total funds of £3.7 million were reported at year end 2025/26 compared to £3.6 million in 2024/25. A surplus of £57,000 was reported in year, after grant payments, governance and other costs.

34. We noted improved governance in the audit trail for investment income in 2025/26 with officers now appropriately filing investment income evidence.

35. There are appropriate arrangements in place to ensure that resources are used appropriately and that expenditure is aligned to the charitable objectives and Section 106 obligations.

36. Officers also maintain routine contact with the Office of the Scottish Charity Regulator and this will help support effective and efficient administration and continuous improvement.

37. Collectively, these actions demonstrate effective arrangements for financial sustainability and Best Value, helping to ensure that trust resources are used efficiently and continue to support their charitable purposes.

Highland Council (Section 106) Charitable Trust Funds

2025/26 Annual Audit Report

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500
Email: info@audit.scot
www.audit.scot

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