

The Highlands and Islands Transport Partnership

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for Highlands and Islands Transport Partnership
March 2024

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Introduction

Summary of planned audit work

1. Patricia Fraser has been appointed by the Accounts Commission as external auditor of The Highlands and Islands Transport Partnership (the Partnership) for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of my five-year audit appointment.

2. This document summarises the work plan for our 2023/24 audit. The main elements of the audit include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on other statutory information published within the annual accounts, including the Management Commentary, the Annual Governance Statement, and the audited part of the Remuneration Report
- consideration of arrangements in relation to wider scope areas including Best Value. As a less complex body, wider scope requirements are restricted to conclusions on financial sustainability and the adequacy of the disclosures in the Annual Governance Statement.

Respective responsibilities of the auditor and Audited Body

3. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and the Partnership. Key responsibilities are summarised below.

Auditor responsibilities

4. My responsibilities as appointed auditor are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

5. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the wider scope arrangements in place at the Partnership. In doing this, we aim to support improvement and accountability.

The Highlands and Islands Transport Partnership's responsibilities

6. The Partnership is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true and fair view. The Partnership is also required to produce other reports in the annual accounts in accordance with statutory requirements.

7. The Partnership has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance, propriety, and regularity that enable them to deliver their objectives.

Communication of fraud or suspected fraud

8. In line with ISA 240, in presenting this audit plan to the Partnership Board we seek confirmation from those charged with governance of any instances of actual, suspected or alleged fraud that should be brought to our attention. Should members of the Partnership Board have any such knowledge or concerns relating to the risk of fraud within The Highlands and Islands Transport Partnership, we invite them to communicate this to the appointed auditor for consideration.

Adding Value

9. We aim to add value by:

- tailoring audit work to the circumstances of the Partnership and the audit risks identified
- being constructive and forward looking
- providing independent conclusions
- attending meetings of the Partnership Board, and
- recommending and encouraging good practice.

10. In so doing, we will help the Partnership promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual accounts

Introduction

11. The annual accounts are an essential part of demonstrating the Partnership's stewardship of resources and its performance in the use of those resources.

12. We are required to perform an audit of the financial statements, consider other information within the annual accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

13. We focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relevant to the production of the financial statements.

Materiality

14. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. I am required to plan my audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit

15. We assess materiality at different levels. The materiality values for the Partnership are set out in [Exhibit 1](#).

Exhibit 1

2023/24 Materiality levels for Highlands and Islands Transport Partnership

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the Partnership's operations. For the year ended 31 March 2024, we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2022/23.	£80,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our	£56,000

professional judgement, we have assessed performance materiality at 70% of planning materiality.

Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£4,000
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Source: Audit Scotland

Significant risks of material misstatement to the financial statements

16. Our risk assessment draws on our cumulative knowledge of the Partnership, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at Partnership Board meetings, and a review of supporting information.

17. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.

18. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2

2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments throughout the year. • Evaluate significant transactions outside the normal course of business.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
management's ability to override controls that otherwise appear to be operating effectively.		<ul style="list-style-type: none"> • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.

Source: Audit Scotland

19. As set out in ISA (UK) 240: The auditor's responsibilities relating to fraud in an audit of financial statement, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

20. In line with Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for the Partnership on the basis that:

- there are generally no incentives for staff to commit fraudulent financial reporting
- the majority of the Partnership's income comes from government grants and contributions from other public sector bodies which can be readily agreed to third party correspondence and confirmations
- the Partnership's core costs (payroll, rent and management costs) are routine in nature and individual transactions are relatively small in scale and well controlled
- more than half of the Highlands and Islands Transport Partnership's expenditure is on projects delivered by the partner councils on the Partnership's behalf, some of which are subject to external reviews by funding providers. The majority of the remaining Highlands and Islands Transport Partnership's expenditure relates to recurring costs associated with developing, monitoring and delivering the Partnership's strategy.

- experience in the sector, including a review of past misstatements, does not indicate a significant risk.

21. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

22. As part of our assessment of audit risks, we have identified one other area where we consider there is also a risk of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider this to represent significant risk. We will keep this area under review as our audit progresses.

23. The area of specific audit focus relates to:

- Valuation of IAS19 pension liability/asset. The liability requires the use of an actuarial methodology based on a range of assumptions including financial and demographic assumptions. Small movements in these can result in material changes to valuations. We will assess the scope, independence and competence of the professionals engaged in providing estimates for pensions and review appropriateness of actuarial assumptions and results including comparison with other similar organisations. We will establish officers' arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by Highland Council on behalf of HITRANS.

Wider Scope and Best Value

Introduction

24. The Code of Audit Practice 2021 sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies. Auditors are required to consider the adequacy of the audited body's arrangements for these areas unless the auditor judges it is not appropriate due to the body's size, nature and audit risks (less complex body).

25. Based on the Partnership's gross expenditure and assets, the lack of wider scope risks and low level of public scrutiny we have concluded that it is appropriate to apply the less complex body approach to the 2023/24 audit. Consequently, our wider scope audit work will focus on the appropriateness of the disclosures in the Annual Governance Statement and the Partnership's arrangements for ensuring financial sustainability.

Best Value

26. Auditors have a duty to be satisfied that bodies that fall within section 106 of the Local Government (Scotland) Act 1973 have made proper arrangements to secure Best Value. We will consider how the Partnership demonstrates that it is meeting its Best Value responsibilities and we will report our findings as part of our Annual Audit Report.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

27. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

28. We will provide:

- an Independent Auditor's Report to the Partnership and the Accounts Commission setting out our opinions on the annual accounts
- the Partnership and the Accounts Commission with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

29. [Exhibit 5](#) outlines the target dates for our audit outputs set by the Accounts Commission.

Exhibit 5

2023/24 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2024	26 April 2024
Independent Auditor's Report	30 September 2024	20 September 2024
Annual Audit Report	30 September 2024	20 September 2024

Source: Audit Scotland



30. All Annual Audit Plans and the outputs detailed in [Exhibit 5](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

31. To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 6](#) that has been discussed with management.

32. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 6 Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	By 30 June 2024
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2024
Latest date for final clearance meeting with the Treasurer	23 August 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	6 September 2024
Agreement of audited and unsigned annual accounts	6 September 2024
Issue of Annual Audit Report to those charged with governance.	6 September 2024
Signed Independent Auditor's Report	20 September 2024

Source: Audit Scotland

Audit fee

33. In determining the audit fee, we have taken account of the risk exposure of the Partnership and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The proposed audit fee for 2023/24 is £12,560 (2022/23: £11,850).

34. In setting the fee for 2023/24, we have assumed that the Partnership has effective governance arrangements and will prepare a comprehensive and accurate set of annual accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

35. It is the responsibility of the Partnership to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

36. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

37. Patricia Fraser, your appointed auditor, is independent of the Partnership in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

38. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

39. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. We are not aware of any such relationships pertaining to the audit of the Partnership.

Audit Quality

40. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

41. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

42. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

43. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

44. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

The Highlands and Islands Transport Partnership

Draft Annual Audit Plan 2023/24

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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