

# Highlands and Islands Transport Partnership

## Annual Audit Plan 2011/12



Prepared for Highlands and Islands Transport Partnership  
March 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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# Summary plan

## Summary of planned audit activity

Based on our analysis of the risks facing Highlands and Islands Transport Partnership our planned work in 2011/12 includes:

- an audit of the financial statements and provision of an opinion on whether:
  - they give a true and fair view of the financial position of Highlands and Islands Transport Partnership as at 31 March 2012 and its income and expenditure for the year then ended
  - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2011 Code of audit practice on local authority accounting in the United Kingdom
- a review and assessment of Highlands and Islands Transport Partnership's governance and performance arrangements
- provision of the annual report on the audit addressed to members of the Highlands and Islands Transport Partnership and the Controller of Audit.

## Introduction

1. Our audit is focused on the identification and assessment of the key challenges and risks to Highlands and Islands Transport Partnership (the Partnership) in achieving its business objectives. We also assess the risk of material misstatement or irregularity in the Partnership's financial statements. This report summarises specific governance and other risks that may affect the financial statements of the Partnership, and sets out the audit work that we propose to undertake in 2011/12 to address these. Our annual audit plan reflects:
  - the risks and priorities facing the Partnership
  - current national risks relevant to local circumstances
  - the impact of changing international auditing and accounting standards
  - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland and the Accounts Commission
  - issues brought forward from previous audit reports.

## Our responsibilities

2. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

3. Audit in the public sector goes beyond simply providing assurance on the financial statements and the organisation's internal control environment. We are also required to provide a view on performance and the organisation's use of resources. In doing this, we aim to support improvement and accountability.
4. In carrying out our audit, we seek to gain assurance that the Partnership:
  - has good corporate governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability
  - has systems of recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests
  - prepares financial statements which give a true and fair view of the financial position at 31 March 2012 and income and expenditure for the year then ended, in accordance with the Local Government (Scotland) Act 1973 and other applicable laws and regulations, including the 2011 Code of practice on local authority accounting in the United Kingdom (the 2011 Code)
  - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
  - complies with established policies, procedures, laws and regulations
  - proactively manages and reviews its performance in line with its strategic and operational objectives
  - has made proper arrangements for securing best value in its use of resources.

## **Our approach to the audit of the accounts**

5. Our audit approach is based on an understanding of the Partnership's characteristics, responsibilities and principal activities, risks and governance arrangements, and identification of the key audit risks and challenges in the local government sector generally. This approach includes:
  - understanding the business of the Partnership and the risk exposure which could impact on the financial statements
  - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
  - identifying major transaction streams, balances and areas of estimation, understanding how the Partnership will include these in the financial statements and developing procedures to audit these
  - assessing the risk of material misstatement in the financial statements, in conjunction with our evaluation of inherent risk, the control environment and control risk as part of our risk assessment

- determining the nature, timing and extent of our testing programme to provide us with sufficient appropriate audit evidence as to whether the financial statements are free of material misstatement.
6. Through this approach we have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2011/12 includes:
- comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
  - clear responsibilities for provision of accounts and working papers being agreed
  - delivery of unaudited accounts to agreed timescales
  - a comprehensive working papers package and supporting records to demonstrate full compliance with the 2011 Code.
7. The Board's internal audit service is provided by The Highland Council's audit team. Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources, and so we seek to rely on the work of internal audit wherever possible in order to gain the assurances required to express our opinion on the financial statements. Internal Audit did not review any of the Partnership's governance or key financial systems in 2011/12. As a result, we will have to do all of the work required to gain the necessary assurances for our opinion on the financial statements, and this has been reflected in the agreed fee for the audit.
8. Our approach to the audit of the financial statements is based on an integrated assessment of risk across the Code of Audit Practice responsibilities in relation to governance, performance and opinion.
9. On completion of the audit we will provide elected members and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## Responsibility for the preparation of accounts

10. It is the responsibility of the Partnership and the Treasurer, as Accountable Officer, to prepare the financial statements in accordance with the 2011 Code. This means:
- acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
  - maintaining proper accounting records
  - preparing financial statements timeously which give a true and fair view of the financial position of Highlands and Islands Transport Partnership as at 31 March 2012 and its expenditure and income for the year then ended

- reviewing the main components of the system of internal control. This should include consideration of issues identified as part of the audit process
- preparing an explanatory foreword.

## Format of the accounts

11. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003.

## Audit issues and risks

12. Based on our discussions with staff, discussions with outgoing auditors and a review of supporting information, we have identified the following main risk areas for Highlands and Islands Transport Partnership.

## Governance and accountability

13. As noted at paragraph 7, Internal Audit did not review any of the Partnership's key financial systems in 2011/12. Annual coverage of key controls is essential to support the Head of Internal Audit & Risk Management's opinion on the adequacy of the Partnership's internal financial control system.
14. The local government elections may result in changes in elected members on the Partnership Board. During any period of transition, there is a need to ensure clarity in members' roles and promote effective working both between members and between members and officers.

## Financial management and financial pressures

15. Local government and Scottish Regional Transport Partnerships face substantial real-term reductions in finance in 2011/12 and the coming years. Reduced funding from and reduced capital spend by partner councils will place considerable pressure on the Partnership's ability to provide services and ensure delivery of its Regional Transport Strategy by 2022.

## Accounts preparation and disclosure

16. Although the changes included in the 2011 Code are not as significant as in recent years, the Partnership needs to review its processes and working papers to ensure that they are reflected in the 2011/12 financial statements. These changes include:
  - a new disclosure requirement in respect of exit packages to ensure consistency with the rest of the public sector. Exit packages include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs
  - additional guidance in respect of leases

- a new requirement for disclosure of compliance with the statement from the Chartered Institute of Public Finance and Accountancy (CIPFA) on the chief financial officer in the statement on the system of internal financial control or annual governance statement.

## National performance audit studies – impact and follow up

17. In addition to the above work, Audit Scotland's Performance Audit Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. In line with Audit Scotland's strategy to support improvement through the audit process and to maximise the impact of national performance audits we will review the action taken by the Partnership in response to Audit Scotland's report '*Transport for Health and Social Care*' published in August 2011.

## Summary assurance plan

18. Actions to manage these risks are either planned or already underway within the organisation. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake are also set out in Appendix A. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

## Materiality

19. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
20. International Standard on Auditing 320 states that '*Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.*'
21. When considering, in the context of a possible qualification to the audit opinion, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement, experience and internal guidelines from peers as broad guidance in regard to considering whether the results of tests of detail are material.

22. An item may be judged material for reasons other than its monetary or quantitative value. An inaccuracy, which would not normally be regarded as material by amount, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, an item contrary to law, or areas affected by central government control). Again we use professional judgement, experience and internal guidelines from peers to determine when such matters would fall to be covered in an explanatory paragraph, rather than as a qualification to the audit opinion.

## Reporting arrangements

23. Under the Local Government (Scotland) Act 1973, there is a requirement for unaudited financial statements to be presented to the Partnership Board and the Controller of Audit within 3 months of the financial year end i.e. 30 June. The non-statutory target for audit completion is 30 September. To achieve this target, it is critical that a timetable for the audit of the accounts is agreed with us. An agreed timetable is included at Appendix B of this plan, which takes account of submission requirements, planned Partnership Board meeting dates and audit resources.
24. Matters arising from the financial statements audit will be regularly reported and discussed with management. On conclusion of this audit, we will provide an independent auditor's report to the members of the Highlands and Islands Transport Partnership and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements, including an opinion on those financial statements. An annual report to members and the Controller of Audit will also be produced to summarise all significant matters arising from the audit and overall conclusions about the Partnership's management of key risks.
25. Draft management reports will be issued to the Partnership Director and Treasurer to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission. Once finalised, reports will be submitted to the Partnership Board for their consideration and copied to the Partnership Director, Treasurer and Audit Scotland's Best Value & Scrutiny Improvement Group. All annual reports produced by Audit Scotland are published on our website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)).

26. The full range of outputs to be delivered by the audit team are summarised in Exhibit 1.

**Exhibit 1: 2011/12 Planned Outputs**

Planned outputs	Target delivery date
<b>Governance</b>	
Annual Audit Plan	31 March 2012
<b>Financial statements</b>	
Report to Partnership Board in terms of ISA 260 (Communication of audit matters with those charged with governance)	6 September 2012
Independent auditor's report on the financial statements	30 September 2012
Annual report to Members and the Controller of Audit	31 October 2012

**Quality control**

27. We are committed to ensuring that our audit reflects best practice and demonstrates best value to Highlands and Islands Transport Partnership and the Accounts Commission. We operate a strong quality control framework that seeks to ensure that the Partnership receives a high quality service. The framework is embedded in our organisational structures and processes and includes an engagement lead for every client; in the Partnership's case this is Maggie Bruce, who is responsible for ensuring that our work is carried out on time and to a high quality standard.
28. As part of our commitment to quality and continuous improvement, we may periodically seek your views. We would be grateful for any feedback on our services.

**Fees and resources**

29. Our agreed fee for the 2011/12 audit of Highlands and Islands Transport Partnership is £10,880 (2010/11 - £9,360). Our fee covers:
- all of the work and outputs described in this plan
  - a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
  - attendance at Partnership Board meetings
  - access to advice and information on relevant audit issues
  - access to workshops/seminars on topical issues
  - travel and subsistence costs.

30. In determining the agreed fee we have taken account of the Partnership's risk exposure, the management assurances in place, and the level of assurance we plan to take from the work of internal audit. We have assumed receipt of the unaudited accounts and working papers by 28 May 2012. If the unaudited accounts and working papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for further audit work. An additional fee will also be required for any work or other significant exercises not within our planned audit activity.
31. Fiona Kordiak, Director, Audit Services is the appointed auditor for all local authorities audited by Audit Scotland. In practice, this operates by delegating management and certification responsibilities to Assistant Directors or Senior Audit Managers. For Highlands and Islands Transport Partnership the Senior Audit Manager is Maggie Bruce.
32. The local audit team will be led by Joni McBride who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience of our team are provided at Appendix C. The core audit team will call on other specialist and support staff as necessary.

## **Independence and objectivity**

33. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships within the audit team.
34. We comply with ethical standards issued by the Auditing Practices Board and with Audit Scotland's requirements in respect of independence and objectivity, as summarised at Appendix D.

# Appendix A - Summary assurance plan

In this section we identify a range of governance and other risks facing Highlands and Islands Transport Partnership, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of the Partnership and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Risk	Source of Assurance	Planned audit action
<p><b>Internal audit</b></p> <p>Internal Audit did not review any of the Partnership's key financial systems (payroll, trade payables, main accounting, budgetary control) in 2011/12.</p> <p><b><i>Risk: there is insufficient evidence available to support the opinion on the effectiveness of the system of internal financial control included within the financial statements.</i></b></p>	<ul style="list-style-type: none"> <li>the Partnership is currently reviewing the input required by internal audit, including further discussion with Audit Scotland.</li> </ul>	<ul style="list-style-type: none"> <li>meet with The Highland Council's Director of Finance and Head of Internal Audit &amp; Risk Management to discuss our expectations of internal audit</li> <li>undertake the additional work required to obtain the assurances necessary for our opinion on the financial statements.</li> </ul>

Risk	Source of Assurance	Planned audit action
<p><b>Financial management and financial pressures</b></p> <p>Local government and Scottish Regional Transport Partnerships face substantial real-term reductions in finance in the medium term. Reduced funding from and reduced capital spend by partner councils will place considerable pressure on the Partnership's ability to provide services and ensure delivery of its Regional Transport Strategy by 2022.</p> <p><b><i>Risk: the Partnership may not be able to deliver the Regional Transport Strategy by 2022.</i></b></p>	<ul style="list-style-type: none"> <li>• detailed budget reports are presented to each Partnership Board</li> <li>• the Partnership is working to meet its efficiency targets and reduce core costs.</li> </ul>	<ul style="list-style-type: none"> <li>• monitor progress and include reference in the annual report to members and the Controller of Audit.</li> </ul>
<p><b>Board members</b></p> <p>The local government elections may result in changes in membership of the Partnership. During any period of transition there is a need to ensure clarity in members' roles, and promote effective working relationships both between members and between members and officers.</p> <p><b><i>Risk: members are not adequately supported with appropriate training and development to undertake their role.</i></b></p>	<ul style="list-style-type: none"> <li>• this issue has been identified to the Partnership Board as a strategic risk in the risk register and mitigating actions agreed</li> <li>• induction training will be delivered to all Partnership Board members following the elections.</li> </ul>	<ul style="list-style-type: none"> <li>• monitor progress and include reference in the annual report to members and the Controller of Audit.</li> </ul>

Risk	Source of Assurance	Planned audit action
<p><b>Accounting Code changes</b></p> <p>Although the changes included in the 2011 Code are not as significant as in recent years, the Partnership needs to review its processes and working papers to ensure that they are reflected in the 2011/12 financial statements.</p> <p><b><i>Risk: the Partnership's financial closure planning process does not take account of the changes set out in the 2011 Code.</i></b></p>	<ul style="list-style-type: none"> <li>• technical knowledge of key staff</li> <li>• financial statements and related working papers will incorporate Code changes.</li> </ul>	<ul style="list-style-type: none"> <li>• early financial statements planning meeting</li> <li>• early discussion of emerging issues.</li> </ul>

# Appendix B - Financial statements audit timetable

Key stage	Date
Provision of closedown procedures to audit	2 March 2012
Meetings with officers to clarify expectations of detailed working papers and financial system reports	28 March 2012
Latest submission of unaudited financial statements to external audit together with working papers package	28 May 2012
Testing and review of internal control systems and transactions	31 May 2012
Submission of unaudited financial statements to Partnership Board	15 June 2012
Submission of unaudited financial statements to Controller of Audit	30 June 2012
Progress meetings with lead officers on emerging issues	As required during audit process
Latest date for submission of matters arising from the financial statements audit	17 August 2012
Latest date for final clearance meeting with the Treasurer	31 August 2012
Independent auditor's report and report in terms of ISA 260 (Communication of audit matters with those charged with governance) issued	6 September 2012
ISA 260 report considered by Partnership Board	13 September 2012
Independent Auditor's Report signed	30 September 2012
Annual report to elected members and the Controller of Audit	30 September 2012
Annual report and certified accounts presented to the Partnership Board	5 October 2012

# Appendix C - Audit team

A summarised curriculum vitae for each core team member is set out below:

***Maggie Bruce, MA (Hons) CA***

***Senior Audit Manager***

Maggie has over 20 years of experience of public sector audit with Audit Scotland, covering the local government, health and further education sectors. Prior to joining Audit Scotland, Maggie trained as an auditor in the private sector.

***Joni McBride BSc (Hons) CPFA***

***Senior Auditor***

Joni is a Maths graduate from Glasgow University who joined Audit Scotland in 2008 as part of our graduate training programme. Joni has been involved in the audit of a range of local and central government clients.

***Stephanie Harold BA (Hons), MSc***

***Professional Trainee***

Stephanie is an Economics graduate from Strathclyde University who joined Audit Scotland in 2011 as part of the graduate training programme. She is currently studying for the ICAS qualification.

# Appendix D - Independence and Objectivity

Auditors appointed by the Auditor General for Scotland are required to comply with the Code of Audit Practice and standing guidance for auditors, which defines the terms of appointment. When auditing the financial statements auditors are also required to comply with the auditing and ethical standards issued by the Auditing Practices Board (APB). The main requirements of the Code of Audit Practice, standing guidance for auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication with those charged with governance) requires that the appointed auditor communicates:

- a statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with the APB's Ethical Standards for auditors
- all relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor, and
- the related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

The standard defines 'those charged with governance' as 'the person(s) or organisation(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.' In the Partnership's case, the appropriate addressees of communications from the auditor to those charged with governance are the Treasurer and the Partnership Board. The auditor reserves the right to communicate directly with members on matters which are considered to be of sufficient importance.

Audit Scotland's Code of Audit Practice requires appointed auditors to carry out their work independently and objectively, and ensure they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. Appointed auditors and their staff should avoid entering in to any official, professional or personal relationships which may impair their independence, or might lead to a reasonable perception that their independence could be impaired.

The standing guidance for auditors includes a number of specific requirements. The key requirements relevant to this audit appointment are as follows:

- during the currency of an appointment, auditors should not perform non-audit work for an audited body, consultancy or otherwise, without the prior approval of Audit Scotland
- the appointed auditor and key staff should, in all but exceptional circumstances, be changed at least once every five years in line with Audit Scotland's rotation policy
- the appointed auditor and audit team are required to carry out their duties in a politically neutral way, and should not engage in high profile public party political activity
- the appointed auditor and audit team must abide by Audit Scotland's policy on gifts and hospitality, as set out in the Audit Scotland Staff Code of Conduct.