

Highlands and Islands Transport Partnership

Report to Members and the Controller of Audit on the 2010/11 audit



Prepared for the Members of the Highlands and Islands Transport Partnership and the Controller of Audit

September 2011

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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Key messages

In 2010/11 we audited the financial statements and looked at aspects of governance and performance within Highlands and Islands Transport Partnership. This report sets out our main findings.

Overall, we found the financial stewardship of Highlands and Islands Transport Partnership (the Partnership) during the year to be satisfactory.

The main conclusions and outcomes from the audit are:

- An unqualified opinion has been issued on the financial statements for 2010/11.
- Final accounts preparation procedures and working papers were good and this enabled the audit to progress smoothly.
- A sound corporate governance framework commensurate with the size of the Partnership has been adopted. The Partnership operates the corporate financial systems of The Highland Council and, as external auditor of the council, we have also been able to take assurance from our work on these systems.

During the year, the Partnership approved a formal review and assessment approach for monitoring progress on achieving the targets set out in the 2008 Strategy.

Looking forward the Partnership, like all public sector organisations, faces a very challenging financial climate. Central funding for all Scottish Regional Transport Partnerships is decreasing and the Partnership is actively looking for alternative funding streams to enable it to deliver the transport strategy.

Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants, for a five year term. 2010/11 is the last year of our current audit appointment to the Partnership and we would like to thank officers and members for their assistance during the last five years.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of Highlands and Islands Transport Partnership. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's, overall conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. Audit is an essential element of accountability and the process of public reporting. This report is addressed to the members and the Controller of Audit and should form a key part of discussions with the Partnership. It will also be published on our website after consideration by the Partnership.
3. The management of the Partnership is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified are only those which have come to our attention during normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

4. The financial statements of the Partnership are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. It is the responsibility of the Partnership to prepare financial statements that provide a true and fair view of its financial position and the income and expenditure for the year.
5. As auditors, we are required to audit financial statements in accordance with the timescales set by Audit Scotland and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
6. We also review and report on other information published within the financial statements as appropriate, including the explanatory foreword, statement on the systems of internal financial control and the remuneration report. This section summarises the results of our audit of the financial statements.

Audit opinion

7. We have given an unqualified opinion that the financial statements of Highlands and Islands Transport Partnership for 2010/11 give a true and fair view of the state of the affairs of the Partnership as at 31 March 2011 and of the income and expenditure for the year then ended.

Legality

8. Through our planned audit work we consider the legality of the Partnership's financial transactions. In addition the Treasurer has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the Partnership's management team, the financial transactions of the Partnership were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Statement on the system of internal financial control

9. In accordance with good practice the Partnership has included a statement on the system of internal financial control in the 2010/11 financial statements. We are satisfied with the disclosures made in this statement and the adequacy of the process put in place by the Partnership to obtain the necessary assurances from the Director.
10. The Partnership operates the corporate financial systems of The Highland Council which are subject to regular review by The Highland Council's Internal Audit department. Any specific

work required on grant claims is also done by this department. As external auditor of the council, we have also been able to take assurance from our work on these systems

Remuneration report

11. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2010/11 financial statements include all eligible remuneration for the relevant Partnership officers and elected members.

Accounting issues

Accounts submission

12. The Partnership's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. A comprehensive working papers package was also available by this date. This enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2011. The financial statements are now available for presentation to members and for publication.
13. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010 Code). We are satisfied that the Partnership prepared the 2010/11 financial statements in accordance with the 2010 Code.

Prior year adjustments

14. The 2010 Code is based on International Financial Reporting Standards (IFRS) instead of the previous practice of preparing financial statements under UK Generally Accepted Accounting Practice (UKGAAP). This transition required prior year adjustments to the 2009/10 audited financial statements and the restatement of the 1 April 2009 opening balance sheet position.
15. The main area that required restatement was the inclusion of an accrual for employee benefits such as annual leave and flexi balances. The changes resulted in the net asset position of the Partnership as at 31 March 2010 changing from £338,000 to £342,000.
16. Whilst the Partnership has included an amount for annual leave there was no account taken of outstanding flexi balances. We have received management representations that flexi time balances would not have been material and we concur with this view.

Pension costs

17. The Partnership is a member of The Highland Council Pension Fund which is a multi-employer defined benefit scheme. In accordance with pensions accounting standard IAS19 'Retirement Benefits' the Partnership has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation at 31 March 2011 provided by the scheme's actuaries reduced the Partnership's share of the deficit from £338,000 last year to £152,000 this year. The decrease of £186,000 is a result of two main factors:

- an actuarial gain based on the assumptions applied to pension fund assets and liabilities, and
 - future pension increases now being linked to the consumer prices index (CPI) rather than the retail prices index (RPI) following an announcement to this effect by the Chancellor of the Exchequer in June 2010.
18. The actuary makes a number of assumptions in calculating pension costs. In our 2009/10 report to members we highlighted that no review of the assumptions or rates applied by the actuary is carried out to ensure the Partnership is satisfied that these are appropriate to local circumstances. In discussions with Pensions officers this year, we were advised that there are close working relationships with the actuary to ensure that local circumstances are taken into account. We also requested a specific representation from the administering authority for The Highland Council Pension Fund, that they are satisfied that the assumptions made by the actuary agree with local circumstances.

Outlook

Audit appointment for 2011/12

19. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants, for a five year term. 2010/11 is the last year of the current audit appointment and we would like to thank officers and members for their assistance during the last five years.
20. The procurement process for the next five years was completed in May 2011. From next year (2011/12) Audit Scotland will again be the appointed auditor for Highlands and Islands Transport Partnership but a different audit team will be in place. We look forward to continuing the good working relationships that exist.

Financial position

21. The Partnership is responsible for conducting its affairs and for putting in place proper arrangements to ensure that the financial position is soundly based.
22. As auditors, we consider whether adequate arrangements have been established and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - the ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
23. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the Partnership.

Financial results

24. In 2010/11, Highlands and Islands Transport Partnership spent £1.168 million on the provision of public services and achieved an accounting surplus of £186,000.
25. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on the financial statements. One of the indicators that may give rise to going concern considerations is an excess of liabilities over assets. The Partnership's balance sheet at 31 March 2011 shows net liabilities of £156,000.
26. The net liability position is due to the requirements of IAS 19 (retirement benefits) which requires the Partnership to recognise the full pension obligations in the year they are earned. This technical accounting requirement has had no impact on the underlying basis for meeting current and on-going pension liabilities which will be met, as they fall due, by contributions from constituent authorities in the normal way. In common with similar authorities, the Partnership has considered it appropriate to adopt a going concern basis for the preparation of the financial statements as future actuarial valuations of the pension fund will consider the appropriate employer's contribution rate to meet the fund's commitments. The constituent authorities of the Partnership are also liable to fund the Partnership's liabilities as they fall due. We are satisfied that the process the Partnership has undertaken to consider going concern is reasonable.
27. The actuary is required to make a 3-year assessment of the contributions that should be paid by the employing authorities to maintain the solvency of the fund. A new valuation of the fund will be taking place as at April 2011.
28. The Partnership is required to achieve a breakeven position year on year in accordance with the requirements of the Transport (Scotland) Act 2006 for Regional Transport Partnerships.

The budget performance statement on page 5 of the accounts shows that this statutory obligation was achieved.

Outlook

2011/12 budget

29. The Partnership, like all public sector organisations, faces a very challenging financial climate. Grant-in-Aid for 2011/12 is down 15%, from £615,000 in 2010/11 to £522,000. We note that the Partnership is actively pursuing other sources of finance such as grants available from the European Regional Development Fund to enable it to deliver the transport strategy (see Performance Management section).

Corporate Governance

30. In this section we comment on key aspects of the Partnership's governance arrangements during 2010/11.

Overview

31. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. The Partnership has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.
32. The Partnership has approved financial regulations and standing orders and has developed a sound corporate governance framework by adopting a number of the policies in place within The Highland Council for its own purposes. Examples of such policies include Freedom of Information, Data Protection, Equality and Diversity and a Complaints Policy. In our view the policies in place are commensurate with the size of the organisation. On an on-going basis the Partnership should ensure it has adequate policies in place to address any future legislative requirements.

Working of the Partnership Board

33. The Partnership has a Board in place, which consists of five members representing the constituent authorities and three members from external bodies appointed under the Nolan rules. All members have voting rights on transport strategy related issues; however, the external members do not have the right to vote on financial matters as they do not represent the constituent authorities. In order to make savings on the costs associated with running the Board and associated travel arrangements, the Partnership has reduced the number of times it meets from five to four times a year.
34. Members work effectively together and with officers to deliver on the Partnership's objectives.

Systems of internal control

35. It is the responsibility of the Partnership's management to maintain adequate financial systems and associated internal controls. The Partnership's financial transactions are processed through Highland Council's corporate financial systems, namely: ResourceLink for payroll and the Oracle financial management system for all other income and expenditure. As external auditors of the council we have been able to take assurance from our work on these systems. We also sample tested transactions and balances in the Partnership's financial statements. Overall, there were no material issues of concern in relation to the operation of the main financial systems.

Risk management

36. In February 2011, the Board approved the Partnership's risk management strategy as part of its Business Plan. The risk register was prepared and submitted to the Board in April 2011. The risks identified are appropriate to the size of the Partnership. We note that it is intended that the risk register be updated and submitted to the Board for review every 6 months.

Outlook

37. It is expected that after the local government elections of May 2012 there will be a refresh of members. However, in order to maintain a level of continuity, the Partnership hopes that no more than one third of its Board members will retire in any year.

Performance management

38. As part of our planned work this year, we held discussions with Partnership officers about the arrangements put in place to measure the performance of the Partnership against the Regional Transport Strategy for the Highlands and Islands.
39. In this section we comment on the Partnership's approach to performance management

Regional Transport Strategy (RTS)

40. The Regional Transport Strategy spans a period of 15 years from inception. During our 2009/10 audit, we noted that the performance measures in place (transport indicators) were not measured during the life of the strategy. There was, therefore, a risk that the Partnership would not be alerted to problems in meeting the 2022 delivery date.
41. In December 2010, the Partnership approved a formal review and assessment approach for monitoring progress on achieving the targets set out in the 2008 Strategy. This will take place through an interim report to the Partnership every 5 years through to 2022, with the first interim report being due in 2013. This is expected to act as an early warning system and enable the Partnership to take remedial action if targets slip.
42. An annual report is produced detailing the Partnership's progress against projects and developments it has engaged in, its performance against the allocated budget and an update on the performance against the Regional Transport Strategy. At the time of our audit, the 2010-11 annual report was not yet available.
43. In 2011, the Partnership and its collaborators succeeded in establishing a hub-connection for flights from Inverness Airport to Amsterdam Airport Schiphol. This link allows a better connection to overseas and/or transatlantic airports which in turn may provide opportunities for inward investment from these areas.

Outlook

44. Delivery of the Regional Transport Strategy will be challenging given the financial pressures faced in the public sector. We note the Partnership is proactive in seeking alternative means of funding and auditors will continue to monitor progress in this area.