

Highland and Islands Transport Partnership

Annual Audit Plan 2010/11

January 2011



 AUDIT SCOTLAND



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Summary plan

Summary of planned audit activity

Based on our analysis of the risks facing Highland and Islands Transport Partnership our planned work in 2010/11 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 Highland and Islands Transport Partnership as at 31 March 2011 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 2010 Code including for the first time on 2010/11 the full application of International Financial Reporting Standards (IFRS)
- a follow up of last year's review of Highlands and Islands Transport Partnership's governance and performance arrangements for delivery of the regional transport strategy.

Introduction

1. Our audit is focused on the identification and assessment of the key challenges and risks to Highland and Islands Transport Partnership in achieving its business objectives. We also assess the risk of material misstatement or irregularity in Highland and Islands Transport Partnership's financial statements. This report summarises specific governance and other risks that may affect the financial statements of Highland and Islands Transport Partnership, and sets out the audit work that we propose to undertake in 2010/11 to address these. Our annual audit plan reflects:

- the risks and priorities facing Highland and Islands Transport 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 Highland and Islands Transport 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 provides 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 2011 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 2010 'Code of practice on local authority accounting in the United Kingdom' (the 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 and is complying with its community planning duties.

Our approach to the audit of the accounts

5. Our audit approach is based on an understanding of the characteristics, responsibilities and principal activities, risks and governance arrangements of Highland and Islands Transport Partnership, and identification of the key audit risks and challenges in the local government sector generally. This approach includes:
 - understanding the business of Highland and Islands Transport 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 Highland and Islands Transport 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 2010/11 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 requirements of IFRS.
7. 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.
8. At the completion of the audit we will provide the 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

9. It is the responsibility of Highland and Islands Transport Partnership and the Treasurer to prepare the financial statements in accordance with the 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 Highland and Islands Transport Partnership as at 31 March 2011 and its expenditure and income for the year then ended
 - preparing an explanatory foreword.

Format of the accounts

10. 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.

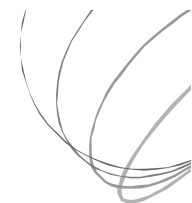


Audit issues and risks

11. This annual audit plan focuses on financial and other risks specific to Highland and Islands Transport Partnership.
12. Based on our discussions with staff, attendance at Board meetings and a review of supporting information, we have identified the following main risk areas for your organisation.
13. **Budget savings and financial pressures:** Local government faces substantial real-term reductions in financing over the next three years and beyond. At the same time pressures are building, costs are increasing and income from sources such as fees and charges are reducing. Strong financial management and governance are increasingly important including effective budgetary control systems.
14. **IFRS:** there will be substantial changes to local government financial accounting in 2010/11 when the financial statements will have to be fully prepared in accordance with International Financial Reporting Standards. An incremental approach has been applied to date to the implementation of IFRS, with financial instruments and private finance contracts already being accounted for on this basis. However 2010/11 is the first year of full application of IFRS and it is essential that local government organisations are well prepared and have maintained comprehensive records to support the audit of the 2010/11 financial statements as well as the audit of the 2009/10 shadow accounts.
15. **Delivery of the Regional Transport Strategy:** the Regional Transport Strategy will run to 2022 and has various short, medium and long term targets to achieve. A key risk for the Partnership is that these targets are not met.

Accounts presentation and disclosure

16. 2011 is the first year that the local authority accounting code is based on international financial reporting standards (IFRS). The move to an IFRS based Code from a UK GAAP based SORP has resulted in a number of significant changes in accounting practice. The key changes include :
 - a greater emphasis on depreciation of asset components, and a new classification of assets held for sale
 - changes in the classification of leases, and a new requirement to account for arrangements containing a lease
 - a change in accounting treatment for grants and contributions used to fund capital expenditure
 - a requirement to recognise a liability for untaken annual leave
 - new disclosure requirements for accounting standards not yet adopted, key assumptions and judgements, changes in respect of prior period adjustments, and operating segments.



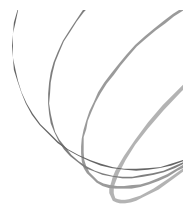
17. It is essential that the Partnership ensures that their financial statements work programme and templates have been updated to reflect all the relevant changes in presentation and disclosure in the 2010/11 financial statements, in particular those related to the application of IFRS.

Summary assurance plan

18. Within these identified risk areas there is a range of more specific risks and these are summarised at Appendix A. In most cases, 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 is 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.

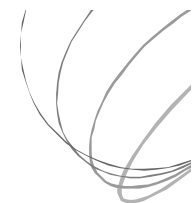
Materiality

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 members and the Controller of Audit within 3 months of the financial year end, that is 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 Board meeting dates and audit resources.
24. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the Partnership Director and Treasurer to confirm factual accuracy. Responses to draft reports are expected within two weeks of submission.
25. A copy of all final agreed reports will be sent to the Partnership Director and Treasurer, and Audit Scotland's Performance Audit Group.
26. We will provide an independent auditor's report to Highland and Islands Transport Partnership and the Accounts Commission for Scotland 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 Highland and Islands Transport Partnership management of key risks.
27. All annual reports produced by Audit Scotland are published on our website, (www.audit-scotland.gov.uk).



28. The full range of outputs to be delivered by the audit team are summarised below:

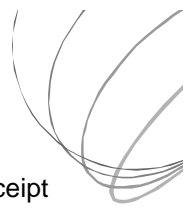
Planned outputs	Target delivery date
Governance	
Annual audit plan	31 January 2011
Financial statements	
Report to Audit Committee in terms of ISA 260 (Communication of audit matters to those charged with governance)	2 September 2011
Independent auditor's report on the financial statements	9 September 2011
Annual report to the members and the controller of audit	30 September 2011

Quality control

29. We are committed to ensuring that our audit reflects best practice and demonstrates best value to Highland and Islands Transport Partnership and the Accounts Commission. We operate a strong quality control framework that seeks to ensure that your organisation receives a high quality service. The framework is embedded in our organisational structures and processes and includes an engagement lead for every client; in your case this is Pearl Tate, who is responsible for ensuring that our work is carried out on time and to a high quality standard.
30. 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

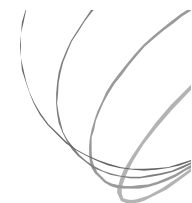
31. Our agreed fee for the 2010/11 audit Highland and Islands Transport Partnership is £9,360. Our fee covers:
- all of the work and outputs described in this plan
 - a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
 - attendance at key Board meetings
 - access to advice and information on relevant audit issues
 - access to workshops/seminars on topical issues
 - travel and subsistence costs.
32. In determining the agreed fee we have taken account of the risk exposure of Highland and Islands Transport Partnership, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of the draft accounts and working papers by 30 June 2010.



33. We reserve the right to charge an additional fee for further audit work in instances such as late receipt of the draft financial statements or the lack of agreed management assurances. The impact of IFRS has been absorbed into the fee, however, an additional fee may be required where our audit cannot proceed as planned due to the Partnership's inadequate processes and working papers relating to the application of the international standards.
34. An additional fee will be required in relation to any work or other significant exercises not within our planned audit activity. An additional fee will also be charged for work on any grant claims or returns not included in the planned outputs noted previously.
35. 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 Highland and Islands Transport Partnership the Senior Audit Manager is Pearl Tate.
36. The local audit team will be led by Grietje Menger who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience/skills 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

37. 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.
38. 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 that may affect the financial statements of Highland 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 Highland and Islands Transport 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
Performance		
<p>The current economic climate presents financial constraints on all activities that are not front line activities and also on some front line activities.</p> <p>Risk: The Partnership may face budget pressures which will affect its ability to deliver the Regional Transport Strategy.</p>	<p>Delivering and monitoring is included as an output in the Strategy document. Demonstration of performance is shown in the agendas and minutes of the Partnership's Board meeting and the annual report.</p>	<p>Track management assurances</p> <p>Review the performance monitoring arrangements for delivering the Strategy.</p>
<p>The Regional Transport Strategy spans a period of 15 years from inception. Although there are performance measures in place these are not split into short, medium and longer term and therefore the Partnership is unable to measure its effectiveness in delivering on its performance measures on an on-going basis. There is, therefore a risk that the Partnership will not be alerted to problems in meeting the 2022 delivery date.</p> <p>Risk: the Partnership will not be able to facilitate delivery of the RTS on time.</p>	<p>The Partnership has established a Framework for delivering the RTS within the prescribed timescale.</p> <p>HITRANS officers and Permanent Advisors will develop interim and final targets for the key Transport Indicators included in the Framework.</p> <p>The Board will be provided with updates on progress towards achieving these targets.</p>	<p>Review the performance monitoring arrangements for delivery of the Strategy.</p>
<p>The Partnership's business plans require risk management processes to be put in place during 2009/10. There is to date little evidence of this being done.</p> <p>Risk: the Partnership does not adequately recognise and address the risks it faces.</p>	<p>The Board will be provided with a report identifying the risks faced by the Partnership and how these will be managed, measured and monitored.</p>	<p>Track management assurances.</p>

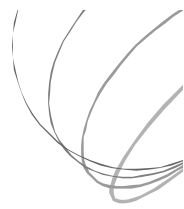


Risk	Source of assurance	Planned audit action
Financial statements		
<p>Local Authorities will be required to prepare accounts under an IFRS basis with effect from 2010/11. Shadow IFRS accounts are required for 2009/10.</p> <p><i>Risk: Staff involved in preparing the year end financial statements are not adequately trained to implement IFRS accounting.</i></p>	<p>Staff involved in the preparation of the annual accounts have received training in applying IFRS compliant accounts.</p>	<p>Review the Board's arrangements for implementing IFRS.</p>



Appendix B - Financial statements audit timetable

Key stage	Date
Provision of closedown procedures to audit	31 March 2011
Meetings with officers to clarify expectations of detailed working papers and financial system reports	31 March 2011
Planned Board approval of unaudited financial statements.	2 June 2011
Latest submission of unaudited financial statements with working papers package	30 June 2011
Progress meetings with lead officers on emerging issues	As required during audit process
Latest date for final clearance meeting with the Treasurer	19 August 2011
Report to the Board on the audit of financial statements (ISA 260)	2 September 2011
Independent Auditors Report signed	9 September 2011
Annual report and certified accounts presented to the Board	December 2011



Appendix C - Audit team

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

Pearl Tate, CPFA

Senior Audit Manager

Pearl began her career as a finance trainee in the health sector and was then an internal auditor in health before joining Audit Scotland in 1996. As an external auditor she has covered a wide and varied portfolio of audits across the whole public sector and has specialised in local government audit for the last six years.

Grietje Menger CISA ACCA

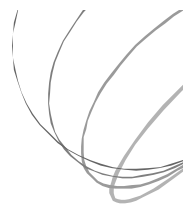
Senior ICT Auditor

Grietje Menger started working as a Senior ICT Auditor for Audit Scotland in October 2003. Since then, she has worked mainly as an ICT audit specialist and more recently has regularly undertaken financial statements audits in local government. Grietje trained as an auditor and ICT audit specialist with the Dutch Tax Authority. She qualified as a Certified Information Systems Auditor in 2003 and became a member of the Association of Chartered Certified Accountants in 2010.

Nick Smith

Auditor

Nick is a professional trainee who joined Audit Scotland in 2009.



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 Standards 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 organization(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 your case, the appropriate addressee of communications from the auditor to those charged with governance is 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.