

Highlands and Islands Transport Partnership

Annual report on the 2011/12 audit



Prepared for members of Highlands and Islands Transport Partnership and the Controller of Audit
October 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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Introduction

1. This report summarises the findings from the 2011/12 audit of Highlands and Islands Transport Partnership (the Partnership). The nature and scope of the audit were outlined in the Audit Plan presented to the Partnership Board in April 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the public sector audit model.
2. Audit is an essential element of accountability and the process of public reporting. This report is addressed to members and the Controller of Audit and should form a key part of discussions with the Partnership Board. The report will be published on our website and its information may be used for the Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
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. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their 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 Partnership's financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
5. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of the Partnership and its 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, as appropriate, other information published with the financial statements, including the Explanatory Foreword, Statement on the System of Internal Financial Control and the Remuneration Report. This section summarises the results of our audit on the financial statements.

Audit opinion

7. We gave an unqualified opinion that the financial statements of Highlands and Islands Transport Partnership gave a true and fair view of the state of the affairs of the Partnership as at 31 March 2012 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. We are satisfied with the disclosures made in the Statement on the System of Internal Financial Control and the adequacy of the process put in place by the Partnership to obtain the necessary assurances. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts.

Remuneration report

10. 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 2011/12 financial statements include all eligible remuneration for the relevant Partnership officers and elected members.

Accounting issues

11. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the 2011/12 Code). We are satisfied that the Partnership prepared its 2011/12 financial statements in accordance with the 2011/12 Code.

Accounts submission

12. The Partnership's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Audited accounts were finalised by the target date of 30 September 2012 and are now available for presentation to members and publication.

Presentational and monetary adjustments to the unaudited accounts

13. A number of presentational amendments were made to the unaudited accounts to improve compliance with the Code. No financial misstatements were identified during the audit.

Going concern

14. The Partnership's balance sheet at 31 March 2012 has an excess of liabilities over assets of £0.182 million, largely due to the accrual of pension liabilities in accordance with International Accounting Standards 19 (IAS 19). In common with similar public bodies, the Partnership has adopted a 'going concern' basis for the preparation of its financial statements as the pension liabilities are based on long-term actuarial projections and do not require immediate funding other than through increased employers' contributions which are already built into the Partnership's budgets and plans. We are satisfied that the process that the Partnership has undertaken to consider the organisation's ability to continue as a going concern is reasonable.

Financial position

15. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
16. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - 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.
17. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

Budgetary control

18. The Partnership's operating expenditure in 2011/12 was £952,000, an overspend of £87,000 (10%) against budget. The majority of this overspend relates to higher than expected expenditure on two part funded European projects. Actual income was £107,000 (12%) greater than budget, resulting in a £20,000 surplus for the year.
19. The Partnership's net operating expenditure (£200,000) differs from the Net Cost of Services (£206,000) disclosed in the Comprehensive Income and Expenditure Statement by £6,000. This is because reports prepared for the Partnership's monitoring purposes are prepared on a different basis from the accounting policies used in the financial statements. Note 12 to the accounts reconciles the figures in the budget monitoring report to the figures in the Comprehensive Income and Expenditure Statement.

Reserves and funds

20. The Partnership is required to achieve a break-even position year on year in accordance with the requirements of the Transport (Scotland) Act 2006 for Regional Transport Partnerships. As a result, the £20,000 underspend of government grant has been included as a creditor at the year end.

Outlook

2012/13 budget

21. The Partnership, like all public sector organisations, faces a challenging financial climate. A standstill budget was approved for 2012/13, with Grant-in-Aid from the Scottish Government (£522,750) and contributions from constituent authorities (£200,000) maintained at 2011/12 levels. The Partnership continues to actively pursue other sources of finance such as grants from the European Development Fund to enable it to deliver its transport strategy.

Governance and accountability

22. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
23. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
24. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption
25. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

26. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account on service delivery and support the modernisation agenda. The Partnership Board has oversight of the financial resources and receives budget monitoring reports at each meeting. The responsibilities of the Partnership Director, Partnership Treasurer and the Highlands and Islands Transport Partnership in relation to budget monitoring and review are set out in the Partnership's Financial Regulations.
27. The Partnership Board consists of five members representing the constituent authorities and three members from external bodies appointment under the Nolan rules. All members have voting rights on transport strategy related issues but only members representing the constituent authorities can vote on financial matters. The Board meets four times a year.
28. The Accounts Commission recommends that local authorities give priority to the continuous professional development of their members. Following the local government elections in May 2012 all five members representing the constituent authorities changed. The representatives from external bodies continue to be members of the Partnership Board and this has provided some continuity. Induction training has been provided for members to ensure that they are clear about their roles and responsibilities.

Internal control

29. Internal audit plays a key role in the Partnership's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. Our overview of the internal audit service provided by the Highland Council's Internal Audit section confirmed that the section operates in accordance with the CIPFA code of practice for internal audit in local government.
30. The Partnership's financial transactions are processed through The Highland Council's financial systems. Our review of these systems was conducted as part of the council audit, supplemented by specific audit work on the Partnership's financial statements. We did not find any significant control weaknesses in relation to the operation of the Partnership's main financial systems. We also placed reliance on the Head of Internal Audit and Risk Management's opinion that 'reasonable assurance can be placed upon the adequacy and effectiveness of the Assessor's internal control systems for the year to 31 March 2012.'

Risk management

31. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks. Risk management supports decision making and contributes to performance.
32. The Partnership Board agreed a Risk Management Strategy in February 2011 and a risk register was prepared and submitted to the Board in April 2011. Each risk is given a rating, which is a combination of the likelihood of the risk occurring and its associated impact, with remedial actions outlined against each risk. The risk register is subject to regular review with the latest version submitted to the Partnership Board in October 2012.

Prevention and detection of fraud and irregularities

33. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
34. The Partnership has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: adoption of The Highland Council's Anti-fraud and Anti-corruption Policy, and a code of conduct for members.
35. The Partnership does not have a history of fraud or corruption and overall the arrangements in place are appropriate to the organisation.

Outlook

36. The Partnership Director will retire at the end of November 2012. His successor has been appointed and a four week handover is planned to ensure a smooth transition. The new Partnership Director formerly held the post of Partnership Manager and so is well acquainted with the opportunities and challenges facing the Partnership.

Best Value, use of resources and performance

37. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
38. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
39. This section includes a commentary on the performance management arrangements within the Partnership

Management arrangements

Regional Transport Strategy

40. The Regional Transport Strategy spans a period of 15 years from 2008 - 2022. Annual reports are submitted to the Partnership Board setting out progress made 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 2011/12 annual report was not yet available.
41. The Partnership has put in place a formal review and assessment approach for monitoring progress on achieving the targets set out in the Regional Transport Strategy. Interim reports will be submitted 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 to enable the Partnership to take remedial action if progress against targets slips.

National Transport Strategy

42. The Minister for Housing and Transport and the Regional Transport Partnership (RTPs) Joint Chairs Forum met in March 2012 where it was agreed to establish a Working Group between the seven RTPs, Transport Scotland and Scottish Government. It was proposed that the group would look at various issues of joint interest, including those raised in the National Transport Strategy and in Regional Transport Strategies, with a view to working in partnership and maximising the role of RTPs to deliver the agenda for improving Scotland's transport systems.

43. The primary purpose of the Working Group is to establish how RTPs can assist in the delivery of the National Transport Strategy and the outcomes outlined below:
- Improve journey times and connections between cities and towns and global markets to tackle congestion and provide access to key markets
 - Reduce emissions to tackle climate change
 - Improve quality, accessibility and affordability of transport, to give people the choice of public transport and real alternatives to the car
44. The Chair and Partnership Director are involved in this Working Group. As the group has only recently been established it is too early to comment on the impact that this will have on the delivery of improvements to Scotland's transport systems. We will monitor progress in this area as part of our 2012/13 audit.

National performance reports

45. Audit Scotland carries out a national performance audit programme 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 from national performance audits, we reviewed the action taken by the Partnership in response to Audit Scotland's report, *Transport for Health & Social Care* which was published in August 2011.
46. The report looked at the efficiency and effectiveness of transport arranged by the ambulance service, NHS boards and local authorities to take people to and from health appointments and social care services such as day centres. It also assessed how well agencies work together to plan and deliver transport for health and social care to meet local needs and identified examples of good practice and potential savings.
47. The report concluded that transport services for health and social care are fragmented and that there is a lack of leadership, ownership and monitoring of the services provided. The Scottish Government, Regional Transport Partnerships, local authorities, NHS boards and the ambulance service are not working together effectively to deliver transport for health and social care or making best use of available resources.
48. Although the Partnership did not formally consider the report, the Partnership has, with its partners, established a project to examine options for improving the integration of transport services for health and social care within the region. The report has also prompted the Partnership to engage with a number of its NHS boards, local authorities and other transport operators to investigate how they can develop a more effective and efficient service for users.

Outlook

49. Delivery of the Regional Transport Strategy will be challenging given the financial pressures facing the public sector. As noted at paragraph 21, the Partnership continues to actively pursue other sources of finance to enable it to deliver its transport strategy. We will continue to monitor progress in this area in 2012/13.