

# Highlands and Islands Transport Partnership

## Annual Audit Plan 2012/13



Prepared for members of Highlands and Islands Transport Partnership  
March 2013

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 (the Partnership), our planned work in 2012/13 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 the Partnership as at 31 March 2013 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 2012/13 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
- a review and assessment of the 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 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 2012/13 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 2013 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 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

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 2012/13 includes:
  - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
  - clear responsibilities being agreed for the provision of accounts and working papers
  - delivery of unaudited accounts to agreed timescales
  - a comprehensive working papers package and supporting records.
7. Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and, as part of our planning process, we carry out an early assessment of the internal audit function. Our review concluded that the internal audit service provided to the Partnership by the Highland Council's internal audit section operates in accordance with the CIPFA code of practice for internal audit in local government. We plan to place reliance on internal audit's work to support the Head of Internal Audit and Risk Management's opinion on the Partnership's system of internal control as part of our audit of the 2012/13 accounts.
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. At the 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 Highlands and Islands Transport Partnership and the Treasurer, as Proper Officer, 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 the Partnership as at 31 March 2013 and its expenditure and income for the year then ended
  - reviewing the main components of the system of internal control, including the arrangements for internal audit. This should include consideration of issues identified as part of the audit process
  - preparing an explanatory foreword.

## Format of 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 experience, discussions with staff, attendance at Partnership Board meetings and a review of supporting information, we have identified the following specific areas that we will keep under review as part of our 2012/13 audit.

## Governance and accountability

13. The Equality Act 2010 introduced a new 'General Duty' to encourage public sector bodies to mainstream equality within their core work. In May 2012, the Scottish Government introduced nine 'Specific Duties' aimed at supporting public bodies to better perform against the 'General Duty'. These 'specific duties' include assessing the impact of equalities in all policies and decisions, and publishing a set of equality outcomes (and reporting requirements) no later than 30 April 2013.

## Financial management and financial pressures

14. Local government and Scottish Regional Transport Partnerships face substantial real-term reductions in financing over the next three 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.

## Summary assurance plan

15. Actions to manage these risks are either planned or already underway within the Partnership. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake are 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

16. 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.

17. 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'*.
18. 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.
19. 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

20. Under the Local Government (Scotland) Act 1973, there is a requirement for unaudited financial statements to be submitted to the Partnership 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 important 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.
21. 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 elected members of 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.



22. 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)).
23. The full range of outputs to be delivered by the audit team are summarised in Exhibit 1.

### Exhibit 1: 2012/13 Planned Outputs

Planned outputs	Target delivery date
<b>Governance</b>	
Annual Audit Plan	27 March 2013
<b>Financial Statements</b>	
Report in terms of ISA 260 (Communication of audit matters with those charged with governance) issued	14 August 2013
Independent auditor's report (audit certificate) signed	30 September 2013
Annual report to members and the Controller of Audit	31 October 2013

### Quality control

24. We are committed to ensuring that our audit reflects best practice and demonstrates best value to the 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, Maggie Bruce is responsible for ensuring that our work is carried out on time and to a high quality standard.
25. 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

26. Our agreed fee for the 2012/13 audit of Highlands and Islands Transport Partnership is £10,400 (2011/12: £10,880). 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
  - travel and subsistence costs.

27. In determining the agreed fee we have taken account of the risk exposure of the 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 31 May 2013.
28. In 2011/12, Audit Scotland were successful in delivering all of our work for less than the budgeted costs, largely as a result of our cost reduction plans continuing to be achieved faster than planned. As a result, the Partnership will receive a one off rebate equivalent to around 6% of the 2011/12 indicative fees. This is in addition to the ongoing reduction noted above.
29. We reserve the right to charge an additional fee for further audit work in such instances as late receipt of the unaudited financial statements, the lack of agreed management assurances or being unable to take planned reliance from the work of internal audit. An additional fee may also be required if our audit cannot proceed as planned.
30. 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.
31. 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

32. 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.
33. We comply with ethical standards issued by the Financial Reporting Council 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 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
<b>Governance and accountability</b>		
<p>The Equality Act 2010 introduced a new 'General Duty' to encourage public sector bodies to mainstream equality within their core work. In May 2012, the Scottish Government introduced nine 'Specific Duties' aimed at supporting public bodies to better perform against the 'General Duty'. These include assessing the impact of equalities in all policies and decisions, and publishing a set of equality outcomes (and reporting requirements) no later than 30 April 2013.</p> <p><b><i>Risk: the Board is unable to comply with these 'Specific Duties'.</i></b></p>	<ul style="list-style-type: none"> <li>officers will produce a report to the April meeting of the Partnership Board seeking approval for the action taken to mainstream Equalities within the Partnership. The report will include, as appendices, the two reports the Partnership will publish in respect of these duties. These are 'Mainstreaming the Equality Duty' (which shows how equality will become part of the Partnership's structures, behaviours and culture; how it will promoted, and how mainstreaming it contributes to continuous improvement and better performance), and 'Equality Outcomes' (which sets out equality outcomes to enable the Partnership to better perform the general equality duty).</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
<b>Financial management and financial pressures</b>		
<p>Local government and Scottish Regional Transport Partnerships face substantial real-term reductions in financing over the next three 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.</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 meeting</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>

# Appendix B - Financial statements audit timetable

Key stage	Date
Meetings with officers to clarify expectations of working papers	9 January 2013
Provision of closedown procedures to audit	18 February 2013
Latest date for submission of unaudited financial statements with working papers package	31 May 2013
Submission of unaudited financial statements to the Controller of Audit	30 June 2013
Submission of unaudited financial statements to the Partnership	30 June 2013
Progress meetings with lead officers in emerging issues	As required during the audit process
Latest date for final clearance meeting on matters arising from the audit	7 August 2013
Independent auditor's report and report in terms of ISA 260 (Communication of audit matters with those charged with governance) issued	14 August 2013
Partnership Board meets to consider ISA 260 report	23 August 2013
Independent Auditor's Report (audit certificate) signed	30 September 2013
Annual Audit Report to elected members and Controller of Audit issued	31 October 2013
Annual Audit Report and certified accounts presented to the Partnership	8 November 2013

# 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 (and engagement lead)**

Maggie has over 20 years 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 a professional trainee and qualified in September 2011. Joni has been involved in the audit of a range of local and central government clients.

# 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 Financial Reporting Council (FRC). 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 FRC'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
- 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 elected 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.