

Highland & Islands Transport Partnership

Annual Audit Plan 2013/14



Prepared for Highland & Islands Transport Partnership
March 2014

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Summary

Introduction

1. Our audit is focused on the identification and assessment of the risk of material misstatement in Highland & Islands Transport Partnership's (the Partnership) financial statements. This report summarises our assessment of the key challenges and risks facing the Partnership and sets out the audit work that we propose to undertake in connection with the 2013/14 audit.

Our 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.

Summary of planned audit activity

2. Our planned work in 2013/14 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 2014 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 2013 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 Highland & Islands Transport Partnership and the Controller of Audit.

Responsibilities

3. The audit of the financial statements does not relieve management or the Partnership Board, as the body charged with governance, of their responsibilities.

Responsibility of the appointed auditor

4. 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.
5. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Responsibility of the Treasurer

6. It is the responsibility of the Treasurer, as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This means:
 - acting within the law and ensuring the regularity of transactions by putting in place appropriate systems of internal control
 - 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 2014 and its expenditure and income for the year then ended.

Format of the accounts

7. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice.

Audit Approach

Our approach

8. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of the Partnership. We also consider 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 and understanding how the Partnership will include these in the financial statements
 - assessing and addressing the risk of material misstatement in the financial statements
 - determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.
9. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management actions. Management action being relied on for 2013/14 includes:
 - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for preparation of financial statements and the provision of supporting working papers
 - delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package.
10. 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 Public Sector Internal Audit Standards (PSIAS). 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 2013/14 accounts.

Materiality

11. International Standard on Auditing 320 provides guidance on the concept of materiality. We consider materiality and its relationship to audit risk when planning the nature, timing and extent of our audit and conducting our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively. Planning materiality for 2013/14 has been set at £7,227. The calculation is based on 1% of budgeted gross expenditure. This is based on the fact that transactions are generally routine with no complex areas for the preparers of the financial statements and there have been no major changes to the 2013/14 Code.
12. When considering, in the context of a possible qualification, 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 and experience and internal guidelines from peers. An item may be judged material for reasons other than its monetary value. An inaccuracy, which would not normally be regarded as material, 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, or an item contrary to law). Such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

Reporting arrangements

13. The Local Government (Scotland) Act 1973 requires that unaudited financial statements are presented to the Partnership Board and Controller of Audit within three months of the end of the financial year. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year. A high level timetable is included at Appendix A of this plan, which takes account of submission requirements and planned Partnership Board dates.
14. 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 three weeks of submission. A copy of all final agreed reports will be sent to the Partnership Director, Treasurer, Internal Audit and Audit Scotland's Performance Audit and Best Value Group.
15. We will provide an independent auditor's report to the Partnership and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. After completion of the audit we will provide Members and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the course of the audit. All annual reports produced are published on Audit Scotland's website: (www.audit-scotland.gov.uk).

16. Planned outputs for 2013/14 are summarised at Exhibit 1.

Exhibit 1: Planned outputs

Planned outputs	Final report issued by
Governance	
Annual Audit Plan	31 March 2014
Financial statements	
Report to Partnership Board in terms of ISA 260 (Communication of audit matters to those charged with governance)	26 September 2014
Independent auditor's report on the financial statements	30 September 2014
Annual report to Members and the Controller of Audit	31 October 2014

Quality control

17. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards Audit Scotland conducts peer review, internal quality reviews and has engaged the Institute of Chartered Accountants of Scotland (ICAS) to conduct a programme of external review.
18. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, Maggie Bruce.

Independence and objectivity

19. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB) and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

20. 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 pertaining to the audit of the Partnership.

Audit issues and risks

Audit issues and risks

21. Based on our discussions with staff, attendance at meetings and a review of supporting information, we have identified the following main risk areas for your organisation:

22. **Delivery of the Regional Transport Strategy (RTS).** The Partnership continues to face a number of significant financial pressures, including reduced funding and capital spend by partner councils. However, detailed budget reports are presented to the Partnership Board and the Partnership is actively exploring funding opportunities in order to deliver the RTS by 2022. The Partnership also has a formal review and assessment approach in place for monitoring progress made towards achieving the objectives and outcomes set out in the RTS. We will continue to review the Partnership's progress in these areas as part of our 2013/14 audit.

23. **Prior year issues.** During the 2012/13 financial statements audit a number of issues were identified relating to income and expenditure being accounted for in the incorrect financial year. Grant income due for European projects in 2012/13 had not been accrued into the correct financial year and some expenditure on European projects had been incorrectly accrued into 2012/13 within the unaudited accounts. All significant errors were corrected prior to the certification of the 2012/13 audited accounts. There is a risk that similar issues will be identified in 2013/14, and as a result we plan to increase the amount of testing we undertake in this area during our financial statements audit.

Fees and resources

Audit fee

25. In determining the audit fee we have taken account of the risk exposure of the Partnership and the management assurances in place. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 31 May 2014.
26. The agreed audit fee for the 2013/14 audit of the Partnership is £10,400 as summarised in Exhibit 2. Our fee covers:
- all of the work and outputs described in this plan
 - attendance at Partnership Board meetings
 - access to advice and information on relevant audit issues
 - access to workshops/seminars on topical issues
 - travel and subsistence costs.

Exhibit 2: Audit fee

Description	Audit fee 2010/11	Audit fee 2011/12	Audit fee 2012/13	Audit fee 2013/14
Total audit fee	£9,360	£10,880	£10,400	£10,400
% cash movement on prior year	-1.1%	16.2%	-4.4%	0%
Cumulative % real movement, including GDP deflator	-3.3%	10.7%	3.6%	1.5%

27. Where our audit cannot proceed as planned through, for example, late receipt of the unaudited financial statements, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Audit team

28. Maggie Bruce, Senior Audit Manager, Audit Services is your appointed auditor. 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 and skills of our team are provided at Appendix B. The core audit team will call on other specialist and support staff, as necessary.

Appendix A - Financial statements audit timetable

Key stage	Date
Meetings with officers to clarify expectations of detailed working papers and financial system reports	31 March 2014
Submission of unaudited financial statements with working papers package	31 May 2014
Submission of unaudited financial statements to Partnership Board	30 June 2014
Progress meetings with lead officers on emerging issues	As required
Latest date for final clearance meeting with Treasurer or other senior officers	29 August 2014
Independent auditor's report and report in terms of ISA 260 (Communication of audit matters with those charged with governance) considered by Partnership Board	26 September 2014
Independent auditors report signed	30 September 2014
Annual report to Members and the Controller of Audit	31 October 2014
Certified accounts and annual report presented to Partnership Board	7 November 2014

Appendix B - Audit team

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

Maggie Bruce MA (Hons) CA

Senior Audit Manager

Maggie has over 20 years 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 joined Audit Scotland in 2008 as part of our graduate training programme and qualified in September 2011. Joni has been involved in a range of audits covering local government, central government and health.

Lee McDowall BAcc (Hons)

Auditor (Professional Trainee)

Lee joined Audit Scotland in October 2013 as a professional trainee and will start studying towards obtaining his ICAS accountancy qualification in the Summer of 2014. Prior to joining Audit Scotland Lee was an Accounting student at the University of Strathclyde.