



Highland and Islands Transport Partnership Annual Audit Plan 2014/15

Prepared for Highland and Islands Transport Partnership

March 2015



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 risks of material misstatement in Highland and Islands Transport Partnership's (the Partnership's) financial statements.
2. This report summarises the key challenges and risks facing the Partnership and sets out the audit work that we propose to undertake in 2014/15. Our plan reflects:
 - the risks and priorities facing the Partnership
 - current national risks that are 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
 - issues brought forward from previous audit reports.

Summary of planned audit activity

3. Our planned work in 2014/15 includes:
 - an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the state of affairs of the Partnership as at 31 March 2015 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 2014 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 and Islands Transport Partnership and the Controller of Audit.

Responsibilities

4. 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

5. 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.
6. 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

7. 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. This means:
 - maintaining proper accounting records
 - preparing financial statements which give a true and fair view of the financial position of the Partnership as at 31 March 2015 and its income and expenditure for the year then ended.

Format of the accounts

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

Audit Approach

Our approach

9. 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.
10. 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 action and reliance on systems of internal control. Management action being relied on for 2014/15 includes:
 - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for the preparation of the financial statements and the provision of supporting working papers
 - delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package.
11. Auditing standards require internal and external auditors to work closely together to make best 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 Highland Council's internal audit section, which provides internal audit services to the Partnership, generally operates in accordance with the Public Sector Audit Standards, and noted that an action plan has been prepared to address areas of non-compliance.

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12. We plan to place reliance on internal audit's work to support the Head of Audit and Risk Management's opinion on the Partnership's system of internal control as part of our audit of the 2014/15 accounts.

Materiality

13. 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.
14. Based on our knowledge and understanding of the Partnership we have set our planning materiality at 1% of budgeted gross expenditure. For 2014/15 planning materiality is £10,000.
15. We set a lower level, known as performance materiality, when defining our audit procedures. This level depends on professional judgement and is informed by a number of factors including:
 - extent of estimation and judgement within the financial statements
 - nature and extent of prior year misstatements
 - extent of audit testing coverage.

16. For 2014/15 performance materiality has been set at £9,000. We will report, to those charged with governance, all misstatements greater than £500.
17. An inaccuracy which would not normally be regarded as material in terms of monetary value may be important for other reasons (for example the failure to achieve a statutory requirement, or an item contrary to law). In the event of such an item arising, its materiality has to be viewed in a narrower context. Such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

Reporting arrangements

18. The Local Authority Accounts (Scotland) Regulations 2014 require that the unaudited annual accounts are submitted to the appointed external auditor no later than 30 June each year; and that the Partnership considers the unaudited annual accounts at a meeting by 31 August. The Partnership must also publish the unaudited accounts on its website and give public notice of the inspection period.
19. The 2014 regulations require the Partnership to meet by 30 September to consider whether to approve the audited annual accounts for signature. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The Controller of Audit requires that the independent auditor's report be issued by 30 September each year.

20. The Partnership is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October. The annual audit report is required to be published on the website by 31 December.
21. An agreed timetable is included at Exhibit 1 which takes account of submission requirements and the dates of planned Partnership Board meetings.
22. 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, relevant senior manager, internal audit and Audit Scotland's Performance Audit and Best Value Group.
23. We will provide an independent auditor's report to the Partnership Board 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 audit reports produced are published on Audit Scotland's website: (www.audit-scotland.gov.uk).

Exhibit 1: Financial statements audit timetable

Key stage	Date
Meetings with officers to clarify expectations of working papers and financial system reports	31 March 2015
Planned committee approval of unaudited financial statements	2 June 2015
Submission of unaudited financial statements with working papers package	2 June 2015
Progress meetings with lead officers on emerging issues	As required
Latest date for final clearance meeting with Treasurer or other senior officers	7 August 2015
Agreement of unsigned financial statements for Partnership agenda, and issue of combined ISA 260 report to those charged with governance and draft Annual Audit Report.	25 August 2015
Partnership Board meeting	4 September 2015
Independent auditors report signed	4 September 2015

24. Planned outputs for 2014/15 are summarised at Appendix I.

Quality control

25. 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 reviews and internal quality reviews and has been subject to a programme of external reviews by the Institute of Chartered Accountants of Scotland (ICAS).
26. 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

27. Auditors appointed by the Accounts Commission 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.
28. 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

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

Audit risk of material misstatement in financial statements

30. **Prior year issues:** last year we identified a number of instances where expenditure relating to 2014/15 had been incorrectly accounted for in the 2013/14 unaudited financial statements. There is a risk that similar cut-off errors will be included within the 2014/15 unaudited financial statements. This will be an area of focus for us as part of our 2014/15 audit.

31. In addition, the Partnership was unable to provide evidence of when expenditure on some of its goods and services had been incurred as it did not obtain goods received notes or equivalent for all expenditure incurred. The Partnership has agreed to amend its internal control processes to ensure that adequate evidence is obtained to support all payments made. This will be an area of focus for us as part of our 2014/15 audit.

32. **Annual assurance statement:** the revised Local Authority Accounts Regulations require authorities to undertake an annual review of their system of internal control and report this in an annual governance statement. The Partnership has previously included a statement on the system of internal financial control instead of a wider annual governance statement within its annual financial statements.

33. **Management override of controls:** ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.

Audit risk from wider responsibilities under Audit Scotland's Code of Audit Practice

34. **Financial pressures:** Local Government and Scottish Regional Transport Partnerships continue to face real-term reductions in financing. 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

35. In most cases, 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 is set out in Appendix II. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

Fees and resources

Audit fee

36. Over the past four years, Audit Scotland has reduced audit fees nationally by 23.5% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to restrict the increase in audit fees for 2014/15 to 1% which, in real terms, represents a 0.6% reduction at 2014 price levels.
37. 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 2 June 2015.
38. The agreed audit fee for the 2014/15 audit of the Partnership is £10,500 (2013/14: £10,400). Our fee covers:
- the costs of planning, delivering and reporting the annual audit including auditor's attendance at committees
 - your organisation's allocation of the cost of national performance audits and statutory reports by the Accounts Commission
 - a contribution towards functions that support the local audit process (e.g. technical support), support costs and auditors' travel and subsistence expenses.

39. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, 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

40. 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 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 in Exhibit 2. The core team will call on other specialist and support staff as necessary.

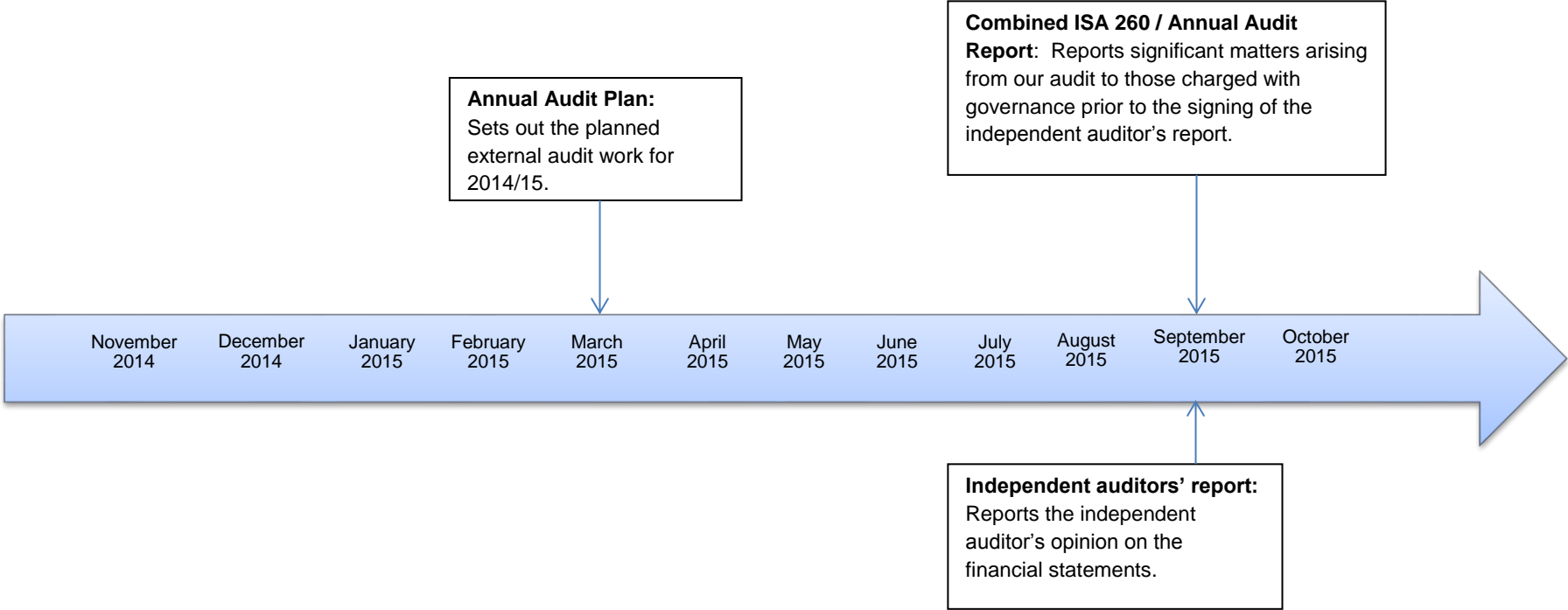
Exhibit 2: Audit team

Name	Experience
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.

Name	Experience
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), Trainee Auditor	Lee joined Audit Scotland in October 2013 as a professional trainee and started 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.

Appendix I: Planned audit outputs

The diagram below shows the key outputs planned for the Partnership in 2014/15.



Appendix II: Significant audit risks

We undertake a risk-based audit whereby we focus on those areas where we have identified a risk of material misstatement in the accounts. This section shows how our audit approach focuses on the risks we have identified through our planning procedures. ISA 315 *Identifying and assessing the risks of material misstatement through understanding the entity and its environment* defines a significant risk as “an identified and assessed risk of material misstatement that, in the auditor’s judgement, requires special audit consideration.”

In this section we identify a range of risks facing the 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.

Audit Risk	Source of assurance	Assurance procedure
<i>Audit risk of material misstatement in financial statements</i>		
<p>Prior year issues: last year we identified a number of instances where expenditure relating to 2014/15 had been incorrectly accounted for in the 2013/14 unaudited financial statements. There is a risk that similar cut-off errors will be included within the 2014/15 unaudited financial statements.</p>	<ul style="list-style-type: none"> • March and April transaction reports will be reviewed to ensure proper cut-off between financial years. 	<ul style="list-style-type: none"> • early financial statements planning meeting • increased audit testing in these areas • early discussion of emerging issues.

Audit Risk	Source of assurance	Assurance procedure
<p>Prior year issues: the Partnership was unable to provide evidence of when expenditure on some of its goods and services had been incurred as it did not obtain goods received notes or equivalent for all expenditure incurred.</p>	<ul style="list-style-type: none"> • third party documentation will be provided to substantiate when expenditure is incurred. 	<ul style="list-style-type: none"> • early financial statements planning meeting • increased audit testing in these areas • early discussion of emerging issues.
<p>Annual assurance statement: the revised Local Authority Accounts Regulations require authorities to undertake an annual review of their system of internal control and report this in an annual governance statement. The Partnership has previously included a statement on the system of internal financial control instead of a wider annual governance statement within its annual financial statements.</p>	<ul style="list-style-type: none"> • an annual governance statement will be included in the unaudited financial statements. This will include the results of internal audit's review of the adequacy and effectiveness of the Partnership's framework of governance and control as set out in the Head of Audit & Risk Management's statement on internal control. 	<ul style="list-style-type: none"> • early financial statements planning meeting • early discussion of emerging issues.

Audit Risk	Source of assurance	Assurance procedure
<p>Management override of controls: ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> • there is no history of reported fraud within the Partnership • the Partnership uses The Highland Council's financial systems within which a robust set of internal controls operate • each year Internal Audit consider and test the adequacy and effectiveness of the Partnership's framework of governance and control, including arrangements for the prevention and detection of fraud . 	<ul style="list-style-type: none"> • detailed testing of journal entries • review of accounting estimates for bias • evaluation of significant transactions that are outside the normal course of business.
<p><i>Audit risk from wider responsibilities under Audit Scotland's Code of Audit Practice</i></p>		
<p>Financial pressures: Local Government and Scottish Regional Transport Partnerships continue to face real-term reductions in financing. 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>	<ul style="list-style-type: none"> • detailed budget reports are presented to each Partnership Board meeting • the Partnership is working to meet its efficiency targets and reduce core costs. 	<ul style="list-style-type: none"> • monitor progress and include reference in the annual report to members and the Controller of Audit.