



Highland and Islands Transport Partnership

Annual Audit Plan
2015/16

Prepared for Members of Highland and Islands
Transport Partnership

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Key contacts

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The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies (www.audit-scotland.gov.uk/about/ac/). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General (www.audit-scotland.gov.uk/about/).

The Accounts Commission has appointed Maggie Bruce as the external auditor of Highland and Islands Transport Partnership for the period 2011/12 to 2015/16.

This report has been prepared for the use of Highland and Islands Transport Partnership and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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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) 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 2015/16. 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 and the Accounts Commission for Scotland
 - issues brought forward from previous audit reports.

Summary of planned audit activity

3. Our planned work in 2015/16 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 2016 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 2015/16 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 the 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 state of affairs of the Partnership as at 31 March 2016 and its expenditure and income 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. Planned management action being relied on for 2015/16 includes:
 - comprehensive closedown procedures for the Partnership's 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 for the Partnership operates in accordance with the vast majority of the Public Sector Internal Audit Standards. In order to achieve full compliance an external assessment is required to take place at least every five years. Plans are in place for West Dunbartonshire Council to assess the council's internal audit service during 2016/17.

12. Internal Audit is currently experiencing staff shortages, and the impact of these on the 2015/16 Audit Plan was reported to the council's Audit and Scrutiny Committee in November 2015. The 2016/17 Audit Plan has been based on a reduced resource following the outcome of the council's voluntary redundancy scheme (VRS). The council's Director of Finance has, however, recognised that the current staff shortages and the impact of the VRS would form a disproportionate reduction in the size and capability of the internal audit team. Proposals are, therefore, being developed to enhance the team from other sources to ensure that this is resourced to an acceptable level.
13. 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 2015/16 accounts.
15. 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.
16. Based on our knowledge and understanding of the Partnership we have set our planning materiality at £10,000 (1% of gross expenditure).
17. We set a lower level, known as performance materiality, when defining our audit procedures. This is to ensure that uncorrected and undetected audit differences do not exceed our planning materiality. 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.
18. For 2015/16 performance materiality has been set at £7,000. We will report, to those charged with governance, all misstatements identified which are greater than £1,000.

Materiality

14. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, 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

19. 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. The Partnership Board is required to consider 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.
20. 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 audit completion and issue of an independent auditor's report (opinion) by 30 September each year.
21. 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.
22. An agreed timetable for the audit of the 2015/16 financial statements is included at Exhibit 1. This takes account of submission requirements and the planned dates of Partnership Board meetings.
23. Planned outputs for 2015/16 are summarised at [Appendix 1](#).

Exhibit 1: Financial statements audit timetable

Key stage	Date
Meetings with officers to clarify expectations of working papers and financial system reports	By 31 March 2016
Latest submission date of unaudited financial statements with complete working papers package	17 June 2016
Consideration of unaudited financial statements by those charged with governance	28 June 2016
Progress meetings with lead officers on emerging issues	As required
Latest date for final clearance meeting with Treasurer or other senior officers	19 August 2016
Agreement of audited unsigned financial statements, and issue of Annual Audit Report which includes the ISA 260 report to those charged with governance	10 September 2016
Partnership meet to approve the audited accounts for signature	27 September 2016
Independent auditor's report signed	27 September 2016

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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 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.
 25. 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. The combined ISA 260 and Annual Audit Report will be issued by 30 September. All annual audit reports produced are published on Audit Scotland's website: www.audit-scotland.gov.uk.

Quality control

26. 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. This is to provide reasonable assurance that those 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).

27. 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

28. 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 Financial Reporting Council 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.
29. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. In significant cases we would change the audit team, however, where there are potential issues that are not fundamental to the delivery of the audit we advise the Treasurer of the circumstances and of the steps we have taken to manage this. We are not aware of any other such relationships pertaining to the audit of the Partnership.

Audit issues and risks

Audit issues and risks

30. Based on our discussions with staff, attendance at Partnership Board meetings and a review of supporting information we have identified the following main risk areas for the Partnership. We have categorised these risks into financial statements risks and wider dimension risks. In most cases, actions to manage these risks are either planned or already underway. Details of the sources of assurance that we have received for each of these risks and the audit work we plan to undertake is set out in [Appendix 2](#).

Financial statement issues and risks

31. **New corporate financial management system:** the Partnership's 2015/16 accounts will be produced from The Highland Council's new corporate financial management system (INTEGRA) which was introduced on 1 April 2015. The effective operation of this new system is fundamental to the preparation of the 2015/16 financial statements and our audit opinion. As with any new system, there is a risk that it is not operating as expected. Finance staff will need to review and revise any working papers which rely on ledger reports generated from the system to ensure that they continue to produce accurate figures for inclusion within the 2015/16 accounts.

32. **Prior year issue (management review of the unaudited accounts):** the 2014/15 financial statements submitted for audit did not comply with the requirements of the Local Authority Accounts (Scotland) Regulations 2014. In our opinion, a more robust and challenging review process needs to be put in place to improve the quality of the financial statements submitted for audit. We have been advised that the review process will be improved and working papers will be reviewed by a senior member of staff prior to the submission of the 2015/16 accounts for audit.

33. **Prior year issue (accounting for cut-off):** during the audit of the 2014/15 financial statements we identified a number of instances where expenditure relating to 2015/16 had been incorrectly accounted for in the 2014/15 financial statements. There is a risk that similar cut-off errors will be included within the 2015/16 unaudited financial statements. This will be an area of focus for us as part of our 2015/16 audit.

34. **Prior year issue (failure to comply with Transport (Scotland) Act 2005):** the Partnership treats underspends as a reduction to the grant received from the Scottish Government. This fails to comply with the requirements set out in the Transport (Scotland) Act 2005 which requires the net expenses of a Transport Partnership for each year to be paid by its constituent authorities. There is a risk that the Partnership will fail to comply with the requirements set out in the Act in 2015/16. We have been advised that the Partnership will review how it accounts for underspends prior to the preparation of the 2015/16 financial statements.

35. 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.

Wider dimension issues and risks

36. Financial Regulations: revised Financial Regulations were approved at the Partnership Board meeting in February 2015. Our review of the revised Financial Regulations noted that these have yet to be updated to reflect the requirements set out in the Local Authority Accounts (Scotland) Regulations 2014. Without up to date Financial Regulations, there is a risk that the Partnership does not comply with the requirements of the 2014 Accounts Regulations.

Fees and resources

Audit fee

37. Over the past four years, Audit Scotland has reduced audit fees by 24% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to maintain audit fees for 2015/16 at the same level as last year. This represents an additional real term fee reduction of 1.6%.
38. In determining the audit fee we have taken account of the risk exposure of the Partnership and the planned management assurances in place. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 17 June 2016.
39. The proposed audit fee for the 2015/16 audit of the Partnership is £10,500 (2014/15: £10,500) . 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 studies and statutory reports by the Auditor General for Scotland
 - a contribution towards functions that support the local audit process (e.g. technical support) support costs and auditors' travel and subsistence expenses.

40. 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

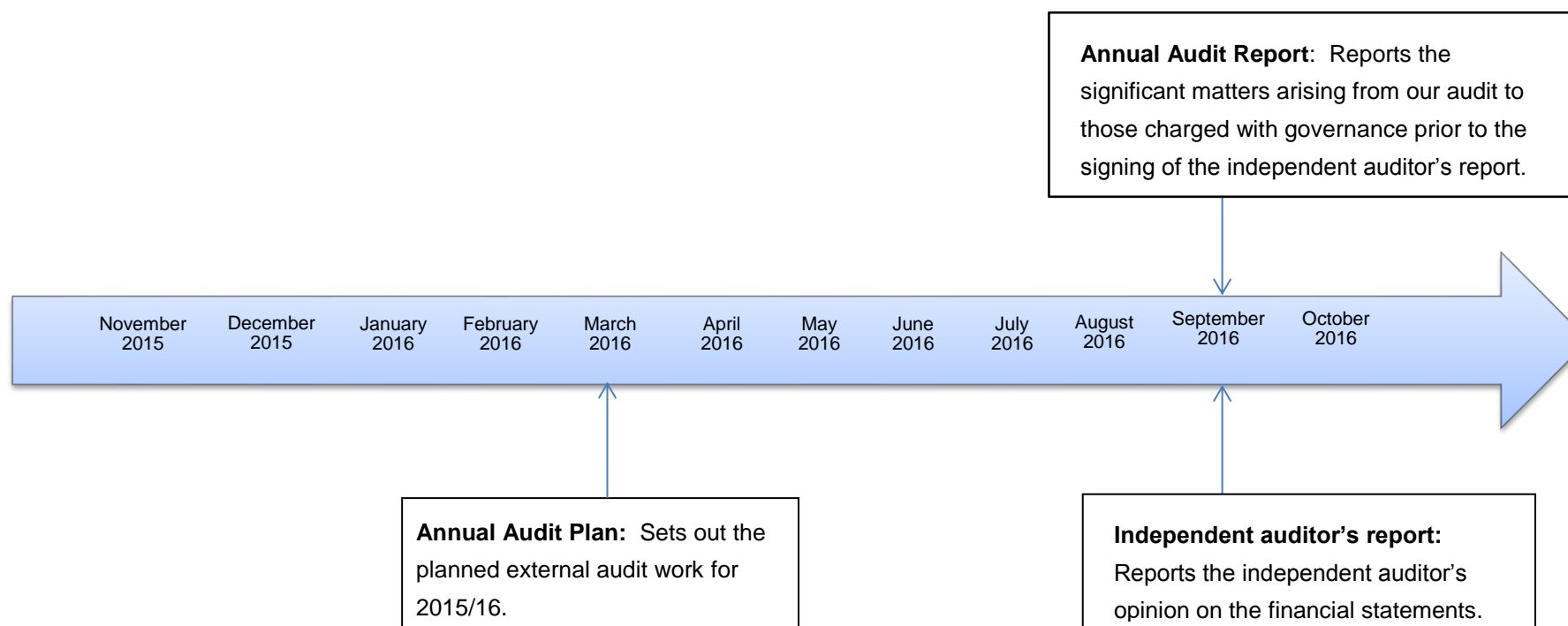
41. Maggie Bruce, Senior Audit Manager, Audit Services is your appointed auditor. The local audit team will be led by Joni McBride who will be responsible for day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in Exhibit 2. The core team will call on other specialist and support staff as necessary.

Exhibit 2: Audit team

Name	Experience
Maggie Bruce, 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 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 health, local government and central government.

Appendix 1: Planned audit outputs

The diagram below shows the key outputs planned for the Partnership in 2015/16.



Appendix 2: Significant audit risks

The table below sets out the key audit risks, the related sources of assurance received and the audit work we propose to undertake to address the risks.

#	Audit Risk	Source of assurance	Audit assurance procedure
Financial statement issues and risks			
1	<p>New corporate financial management system: the Partnership's 2015/16 accounts will be produced from The Highland Council's new corporate financial management system (INTEGRA) which was introduced on 1 April 2015. The effective operation of this new system is fundamental to the preparation of the 2015/16 accounts and our audit opinion. As with any new system, there is a risk that it is not operating as expected. Finance staff will need to review and revise any working papers which rely on ledger reports generated from the system to ensure that they continue to produce accurate figures for inclusion within the 2015/16 accounts.</p>	<ul style="list-style-type: none"> daily trial balance reports are produced from INTEGRA which are checked to ensure that the system is in balance. Error reports are also reviewed on a daily basis and corrective action taken where necessary. Daily transaction reports are taken from control accounts and reconciled to the nominal ledger and we are working towards bringing all reconciliations up to date. 	<ul style="list-style-type: none"> early financial statements planning meeting increased audit testing of opening balances review of controls operating within the new system review of revised working papers early discussion of emerging issues.

#	Audit Risk	Source of assurance	Audit assurance procedure
2	<p>Prior year issue (management review of the unaudited accounts): the 2014/15 financial statements submitted for audit did not comply with the requirements of the Local Authority Accounts (Scotland) Regulations 2014. In our opinion, a more robust and challenging review process needs to be put in place to improve the quality of the financial statements submitted for audit.</p>	<ul style="list-style-type: none"> the review process will be improved and working papers will be reviewed by a senior member of staff. 	<ul style="list-style-type: none"> early financial statements planning meeting early discussion of emerging issues.
3	<p>Prior year issue (accounting for cut off): last year we identified a number of instances where expenditure relating to 2015/16 had been incorrectly accounted for in the 2014/15 unaudited financial statements. There is a risk that similar cut-off errors will be included within the 2015/16 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	Audit assurance procedure
4	<p>Prior year issue (failure to comply with Transport (Scotland) Act 2005): the Partnership treats underspends as a reduction to the grant received from the Scottish Government. This fails to comply with the requirements set out in the Transport (Scotland) Act 2005 which requires that the net expenses of a Transport Partnership for each year are paid by its constituent authorities. There is a risk that the Partnership will fail to comply with the requirements set out in the Act in 2015/16.</p>	<ul style="list-style-type: none"> a review will be undertaken prior to the preparation of the 2015/16 financial statements of the approach each Regional Transport Partnership is taking to the treatment of any surplus or deficit in any given financial year. This will allow discussions to take place for the development of a cohesive and consistent approach to be adopted across all Regional Transport Partnerships. 	<ul style="list-style-type: none"> early financial statements planning meeting review of disclosures in financial statements early discussion of emerging issues
5	<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"> detailed testing of journal entries review of accounting estimates for bias evaluation of significant transactions that are outside the normal course of business.

#	Audit Risk	Source of assurance	Audit assurance procedure
Wider dimension issues and risks			
6	<p>Financial Regulations: revised Financial Regulations were approved at the Partnership meeting in February 2015. Our review of the revised Financial Regulations noted that these have yet to be updated to reflect the requirements set out in the Local Authority Accounts (Scotland) Regulations 2014. Without up to date Financial Regulations, there is a risk that the Partnership does not comply with the requirements of the 2014 Accounts Regulations.</p>	<ul style="list-style-type: none"> the Financial Regulations will be updated to reflect the requirements of the Local Authority Accounts (Scotland) Regulations 2014. 	<ul style="list-style-type: none"> monitor through the audit process report results in the annual report to members and the Controller of Audit.