

Highlands and Islands Transport Partnership (HITRANS)

External Audit Annual Report to Members and
Controller of Audit

2016/17 Financial Year (Draft)

15 September 2017



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Our audit plan at a glance

Materiality has been updated based on unaudited financial statements to £14,160 (1% of gross expenditure)

Performance materiality is set at £9,200 and we have reported to management everything identified over £1,000 (trivial)

Significant Audit risks were presumed risks under ISA's: management override of controls and risk of fraud in revenue recognition (non-Scottish Government). Other identified risk at planning: completeness of expenditure (fraud)

Our audit is undertaken in accordance with the smaller body exemption in the Code of Audit Practice. We have focused on financial sustainability, going concern and wider financial management arrangements

We can confirm we are independent of HITRANS and our objectivity is not compromised in accordance with International standards on Auditing (UK & Ireland) and APB ethical standards for Auditors. Our final fee was unchanged at £9,370. No non-audit services have been provided to HITRANS in 2016/17.

Key Messages

We anticipate issuing an unqualified opinion on:

- True and fair view of the financial statements
- Other prescribed matters

This report is a summary of our findings from our external audit work for the financial year ended March 2017. Our work has been undertaken in accordance with International Standards on Auditing (UK & Ireland) and the Code of Audit Practice (2016).

Our report is addressed to the members of the Highlands and Islands Transport Partnership (“HITRANS”) in their role as those charged with governance, and the Controller of Audit. This report will be published on the Audit Scotland website at: www.audit-scotland.gov.uk

This report has been discussed and agreed with officers, and presented to the HITRANS Partnership Committee on 15 September 2017. We would like to thank officers and staff for their co-operation and assistance during the audit.

Our external audit work included:

- An Audit of the 2016/17 Annual report and accounts
- A review of the Management Commentary and Annual Governance Statement
- Completion of the ‘Role of Board’s return submitted to Audit Scotland to inform a future performance publication

In accordance with the requirements the HITRANS accounts were submitted to us on 27 June 2017, before the deadline of the end of June. The unaudited annual report and accounts were complete and to a good standard. The audit process worked well, with no audit adjustments and limited disclosure amendments.

Financial performance was broadly in line with the budget set at the start of the year of £1.45 million with the exception of the North Bridge links project which was transferred out of HITRANS to Highlands and Island’s Enterprise.

A budget of £0.823 million is in place for 2017/18 reflecting the end of the Community Links Project which was completed in 2016/17.

HITRANS support the delivery of a number of transport related projects covering the geographical Council areas of Highlands, Orkney, Comhairle Nan Eilean Siar, Moray and Argyll & Bute (excluding Helensburgh and Lomond). Projects during 2016/17 included Active Travel maps and the Moray Active Travel Hub Feasibility Study.

Decisions regarding the HITRANS budget are taken by the Partnership Board, which is made up of representation from the five Councils, and three non-councillor members appointed by the Partnership with the agreement of Scottish Ministers.

HITRANS is supported in its administration by the Highland Council Finance team, using many of the Council’s financial systems. As Highland Council’s external auditors we have used the information gained through the Council audit to inform our understanding of HITRANS and subsequent testing strategy.



The Financial Statements Audit



Summary

We have not had to alter or change our audit approach which was set out in our audit plan, presented to the HITRANS Partnership Committee on 3 February. As set out in our plan we have updated our materiality calculations to be based on the unaudited 2016/17 financial statements. Final materiality was £14,160 (1% of gross expenditure).

Our audit is substantially complete, subject to the finalisation of:

- completion procedures including receipt of final financial statements and management representation letter

A summary of corrected and uncorrected adjustments are set out in Appendix 1. In line with triviality we have reported all identified audit adjustments above £1,000 to Officers (trivial); along with identified disclosure enhancements.

Overall, the draft financial statements we received on the 27th of June were of a good quality and was a complete annual accounts and report.

Internal Control Environment

In discharging our respective ISA responsibilities we have sought to understand HITRANS's control environment. In particular we have performed the following work at Highland Council who provide accounting services:

- considered procedures and controls around related parties, journal entries and other key entity level controls
- performed walkthrough procedures on key controls around identified risk areas for example operating expenses

No material weaknesses in the accounting and internal control systems were identified during the audit which could have an adverse impact on HITRANS's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Under ISA's we are required we are required to report to those charged with governance the main issues arising from our audit of the Annual Accounts and Report. This report discharges our obligations under the relevant ISA's.

Internal Audit

As set out in our plan we have not placed formal reliance on the work of the in-house Internal Audit function during 2016/17, which is provided by Highland Council. The Internal Audit function confirmed compliance with the Public Sector Internal Audit Standards as part of their Annual Report. An external assessment of the Internal Audit function was completed in the year through the Scottish Local Authorities Chief Internal Auditor Group (SLACAIG) which was reported to Audit and Scrutiny Committee at the 2 March 2017 meeting. This report highlighted that overall the function generally conforms with standards, with 7 areas of full conformance noted and 6 areas of general conformance. There were no areas of partial or non-conformance noted.

We have reviewed the internal audit plan for the Council, and the internal reports considered relevant to our external audit, in particular the reviews of internal controls and debtors.

Based on the work throughout the year, Internal Audit have concluded that the key Council systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. They have provided an opinion that reasonable assurance can be placed on the adequacy and effectiveness of the HITRANS framework of governance, risk management and control.



Our identified audit risks

Our audit plan identified a number of significant and other audit risks and our planned approach. We have set out below a summary of the work undertaken over these risks and our conclusions.

Audit plan identified risk and work completed	Our conclusion
<p>Management override of controls</p> <p>Under ISA (UK&I) 240 there is presumed risk that the risk of management over-ride of controls is present in all entities (fraud risk).</p> <p>Work undertaken</p> <p>Completed walkthrough of the controls and procedures in place around journal entries</p> <p>Reviewed the key accounting estimates, judgements and decisions made by officers.</p> <p>Tested journal entries with a focus on unusual posting sources, times or amounts identified using our IDEA data analysis software</p> <p>Reviewed unusual and/or significant transactions.</p>	<p>Key accounting estimates: We did not identify any significant areas of bias in key judgement around pension accounting by officers and judgements were consistent with prior years.</p> <p>The key accounting estimate considered was around pension accounting. We obtained and reviewed the PWC review around the methods and assumptions used by Hymans Robertson, and noted no issues that impact our audit. The value of the liability increased from £0.68 million to £1.2 million, primarily driven by the reduction in the discount rate from 3.5% to 2.6% in the year.</p> <p>Journals: We made inquiries of those members of staff who can post and authorise journals related to inappropriate or unusual activity with no concerns noted. We also targeted large and/or unusual journals and noted no issues from our testing.</p>
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA 240 (UK&I) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. HITRANS's income is composed of £0.25 million of service income, £0.94 million grant funding and £0.20 million from revenue generation.</p> <p>Work undertaken</p> <p>Completed walkthrough of the controls and procedures in place around sales invoicing and sales ledger</p> <p>Agreed revenue to supporting documentation and cash receipts in the year / post period end to gain comfort over validity of these transactions</p> <p>Considered the recoverability of any outstanding balances at year end</p>	<p>We rebutted the risk of fraud related to the grant funding stream from the Scottish Government given the nature of the funding received. We completed the following procedures around revenue:</p> <ul style="list-style-type: none"> - For Scottish Government grant funding we agreed this to the allocation letter and income receipted to bank, and assessed compliance with the terms of the grant. - For Partnership funding we agreed to the contributions and cash receipted - We completed detailed substantive testing on income balances not received in the form of grants for example contributions towards various schemes including Skye Airport and SPARA 2020 projects. <p>No issues noted from our review of the treatment of revenue in the year.</p>

Audit plan identified risk and work completed	Our conclusion
<p>Completeness of operating expenditure</p> <p>Operating expenses are understated or not recorded in the right period. This risk also relates to Practice Note 10 (revised) in respect of public sector entities which outlines that auditors should also consider the risk that misstatement may occur by the manipulation of expenditure recognition (Fraud risk).</p> <p>Work undertaken:</p> <p>Completed walkthrough of the controls and procedures in place around purchase ordering, procurement and general payment and recording of expenditure.</p> <p>Reconciled creditors ledger to the general ledger and financial statements.</p> <p>Performed cut-off testing on pre-year end and post year end transactions to gain comfort around the completeness and accuracy of recognised expenditure.</p>	<p>We have concluded through the performance of our year end procedures that the expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers / the Local Government (Scotland) Act 1973 and that the expenditure is valid.</p> <p>Through our pre and post year end cut off testing on a sample basis we did not identify any expenditure that was incorrectly accounted for.</p> <p>Staff costs and other operating costs were substantively tested with no issues noted.</p>

The narrative elements of your annual report and accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Accounts and Report. We have considered the consistency of this narrative with our understanding and the financial statements, and also compliance with Local Government SORP and remuneration guidance, and have set out our observations below:

Management commentary	Corporate Governance Statement	Remuneration report
<ul style="list-style-type: none"> • The report outlines performance analysis and highlights the key issues facing HITRANS • All required disclosures included in line with Code of Practice on Local Authority Accounting • Financial performance analysis included is in line with our understanding and work performed. 	<ul style="list-style-type: none"> • All key required elements included within the corporate governance statement. • Follow up commentary was provided on previous significant matters noted related to the implementation of management action plans. 	<ul style="list-style-type: none"> • The remuneration report has been completed in line with the Local Authority Accounts (Scotland) Regulations 2014 and the CIPFA Local Government Code • We have audited the financial information included in the remuneration report (marked audited information). We have no matters we wish to bring to your attention.



Judgements and estimates

In addition to our identified significant and other audit risks we consider other aspects of your financial statements in particular key areas of judgement. We have summarised below our observations in these areas:

Accounting Policies

- Accounting policies are in accordance with the Local Government Code of Audit Practice and we consider these to be appropriate to HITRANS.

Accounting estimates and judgements

- Actuarial assumptions for defined benefit scheme are set out below:
 - Pension increase rate of 2.4% (2015/16 2.2%)
 - Salary increase rate of 4.4% (2015/16 4.2%)
 - Discount rate of 2.6% (2015/16 3.5%)
- We have obtained and reviewed the PWC review of Local Government Actuarial assumptions and noted that all assumptions fall within a reasonable range.

Going Concern

- HITRANS has an agreed budget of £0.823 million for 2017/18 and continues to discuss potential additional grant funding with Scottish Government.
- Given the nature of HITRANS as a public body receiving funding from the Partners and Scottish Government grant income, we do not have reason to consider HITRANS not continuing to operate over the next 12 months from the account signing date.

Timing of transactions and period in which they are recorded (Cut off assertion)

- Through our substantive audit testing we did not identify any concerns over timing of transaction or the period in which they were recorded.

Impact on the financial statements of any uncertainties

- No uncertainties have been identified which have an impact on the financial statements.

Overview of HITRAN's arrangements



Understanding HITRANS as an organisation

Recognising the Code of Audit Practice during the course of our work we have met with officers, attended Partnership meetings, reviewed Committee minutes and associated papers to understand the key operational aspects of HITRANS and potential future risks and challenges. In this section we provide commentary over certain aspects of HITRANS arrangements, including relevant observations and conclusions.

Financial Management

Performance tracked closely to budget in the year, with gross income and expenditure £62,000 (4.2%) lower than budget, primarily driven by the North Bridge link no longer being delivered by HITRANS. There continues to be a key focus on budgetary control recognising the tight financial constraints under which HITRANS and the wider Local Government sector are operating.

Financial Sustainability and Going Concern

Funding for 2017/18 was agreed in February 2017 as per below:

	2016/17 budget £000s	2017/18 budget £000s	Move ment £000s	
Partnership contributions	200	200	-	Agreed at 2016/17 levels
Scottish Government	523	523	-	Agreed at 2016/17 levels
SUSTRANS Active Travel	100	100	-	Agreed at 2016/17 levels
SUSTRANS Community Links	600	-	(600)	Project complete
Total	1,423	823	(600)	

Expenditure and income are always aligned. Expenditure remains broadly in line, with the exception of the significant reduction in research funding driven by the end of Community Links.

Active Travel

Active Travel has been delivered in partnership with SUSTRANS. It provides £100,000 per annum of funding from the national Community Links project to support the delivery and development of local projects. A range of projects were delivered in year, including a variety of cycle projects, Active Travel maps and the Moray Active Travel Hub Feasibility Study. This funding has been renewed for 2017/18.

Grant conditions

Funding is received regularly in the form of grants. There is a risk that the conditions of these grants are not met, and therefore a review of grant conditions is routinely performed to ensure that the terms have been met, and that grant income is only recognised for the portion of the grant for which the conditions (usually incurred spend) have been met.

Fraud and Irregularity

We considered this element from a Highland Council level, given that this is the framework under which VJB operates. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found that Highland Councils arrangements for the prevention and detection of fraud and other irregularities to be adequate. There is a fraud policy in place and fraud updates are regularly circulated to staff.

Appendix 1 Audit Adjustments

Uncorrected or corrected misstatements

There were no corrected or uncorrected misstatements identified.



Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow HITRANS Partnership Committee to evaluate the impact of these matters on the financial statements. There were no material disclosure misstatements. Management have streamlined a number of disclosures following discussions around the unaudited accounts for example eliminating immaterial disclosures around accumulated comprehensive absence reserves.



Appendix 2 Follow up on prior year recommendations

We have undertaken a follow up of outstanding recommendations from prior years raised by the previous external auditors, Audit Scotland. The results of our work are outlined below:

Prior year finding	Action in 2016/17	Status
<p>Expenditure cut-off</p> <p>Issue: Audit testing identified a number of instances where expenditure relating to 2016/17 had been incorrectly accounted for in the 2015/16 accounts.</p> <p>Recommendation: Final accounts processes should be amended to ensure that expenditure is accounted for in the correct year.</p>	<p>No issues were noted around cut-off during our current year testing.</p>	<p> Green</p>
<p>Budget Monitoring</p> <p>Issue: There are no clear links between the high level budget monitoring reports and individual projects reported to members</p> <p>Recommendation: HITRANS should review its monitoring reports to ensure there are clear links between its revenue budget monitoring reports, research, development and delivery programme, and its report on individual projects.</p>	<p>The changes to the layout of the CIES for 2016/17 has made a clear link between the annual accounts and the management reporting during the year.</p> <p>A new risk register was introduced to all HITRANS Partnership Board reports that requires a specific link to be made to the budget line from which a project is funded.</p>	<p> Green</p>



Not implemented (red)



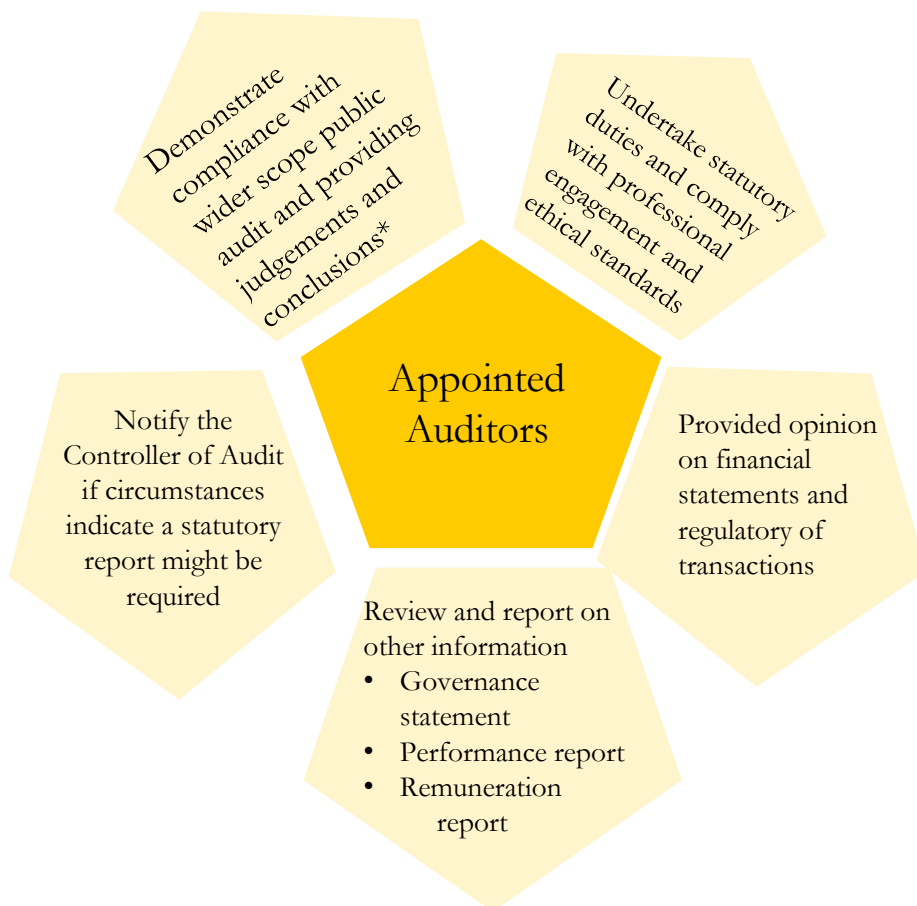
Partially implemented (amber)



Fully implemented (green)

Appendix 3 Reminder of Responsibilities

The Code of Audit Practice sets out responsibilities of the audited body (pages 10, 11 and 12) across: Corporate governance; financial statements and related reports; standards of conduct for prevention and detection of fraud and error; financial position; and value for money (as described in the Scottish Public Finance Manual). As appointed auditors our responsibilities are set out on page 13 and are summarised below.



An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with ISA's and the Code and may not be all that exist

Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

HITRANS has not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our work. We have not been made aware of any incidences of fraud or corruption.

* We have applied the smaller body status allowable under the Code of Audit Practice to HITRANS. However, we have been alert to potential risks relating to: financial management; financial sustainability; governance and transparency; and value for money and have provided commentary within the section on our understanding of HITRANS as an organisation.





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