



The Highlands and Islands Transport Partnership (HITRANS)

External Audit Plan for the financial year ending 31 March 2019

Partnership Committee February 2019

DRAFT

Joanne Brown
Engagement Leader

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Our audit at a glance



Materiality is set at 2% of HITRANS' 2018/19 gross expenditure budget (£16,000). We have calculated overall materiality in line with budgeted gross expenditure as this is recognised as a common and appropriate benchmark upon which to base materiality in the public sector. The materiality threshold is unchanged from the prior year (2017/18: 2%).



Performance materiality is set at 75% and trivial is 5% of materiality. This reflects minimal audit adjustments in prior year and our understanding of HITRANS in year 3 of our audit cycle.



Significant audit risks are: management override of controls; and the risk of fraud in expenditure recognition as set out in International Auditing Standards (ISA UK) practice note 10.

An audit
underpinned by
quality and adding
value to you



Our audit is undertaken in accordance with the Audit Scotland Code of Audit Practice and ISAs (UK). For smaller bodies the Audit Scotland Code of Practice permits auditors to not apply the full wider scope audit. In our judgement, taking into account the nature of HITRANS operating activity and income and expenditure streams, we feel it is appropriate to treat you as a smaller body under the Code. We will consider HITRANS' financial sustainability and governance arrangements as part of our audit work.

Contents

Section	Page
1. Overarching principles of our audit	4
2. Audit approach and materiality	5
3. A risk based audit methodology	6
4. Wider scope audit – smaller body audit approach	7
Appendices:	
1. Key audit deliverables and our team	9
2. Audit process	10
3. Fees and independence	11
4. Fraud	12
5. Respective responsibilities	13
6. Communication of audit matters to those charged with governance	14

Overarching principles of our audit

Our audit is risk based and undertaken in accordance with the International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016 ('the Code').

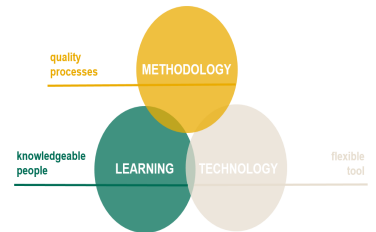
Our overall objective is a effective, quality-focused external audit which adds value through wider insights and challenge. Our audit foundations are:

- ✓ professional scepticism
- ✓ a focus on audit risks and key areas of officer judgement
- ✓ Delivering a quality audit through our experienced public sector audit team, use of data analytics to focus our audit and understanding of the organisation
- ✓ clear and upfront communications, with regular communication during the year
- ✓ reporting with focused actions which will support you in improving your controls/operations

Adding value

Our aim is to add value to HITRANS through our external audit work. This will be delivered through delivering a high quality audit. Specifically for HITRANS we will also undertake the following arrangements:

- **Robust and effective audit methodology:** Our ISA compliant audit methodology is tailored to **focus audit resource on significant risk areas** and key estimates and judgements.
- **Investing in our people:** Our resourcing model is designed to ensure you have a **skilled, experienced and knowledgeable audit team**.
- **Investing in technology:** We continue to invest in data analysis and audit software to deliver more **efficient ISA compliant audit processes**.



We will share relevant Audit Scotland and Grant Thornton publications with senior officers and the Partnership Board, identifying particular areas for consideration. We will pro-actively work with officers during the year to discuss any new or emerging matters, such as the new revenue standards which come into effect from 31 March 2018.



Key audit deliverables

2018/19 Deliverables as set out in the Audit Scotland planning guidance (October 2018)

- Confirmation of agreed fee by end of February 2019.
- Submission of progress reports to Audit Scotland on a quarterly basis.
- Current issues returns to Audit Scotland (21 January 2019, 22 March 2019, 19 July 2019 and 18 Oct 2019).
- Submission of fraud cases to Audit Scotland on a quarterly basis.
- Submission of annual audit report and audited accounts (deadline 30 September 2019).

Planned Audit Scotland publications which may be relevant to HITRANS

- Local government in Scotland: Challenges and performance 2019 (To be published spring 2019).
- Scotland's City Region and Growth Deals (To be published autumn 2019).

External Audit deliverables for 2018/19 – HITRANS Partnership

- External Audit Plan (this document).
- Annual Report to those Charged with Governance and the Controller of Audit (September 2019).
- Audit opinion (September 2019).
- Management letter of representation (September 2019).

Audit approach and materiality



We undertake your audit in accordance with International Standards on Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). On an annual basis we are required to give an opinion as to whether the Financial Statements:

- give a true and fair view
- have been properly prepared in accordance with relevant legislation and standards
- audited parts of the remuneration and staff report have been prepared in accordance with the guidance
- the wider information contained in the financial statements e.g. Governance Statement; Management Commentary and Remuneration Report

Basis for materiality

We calculated financial statement materiality based on HITRANS' 2018/19 gross expenditure budget (£822,000). We have determined materiality to be **£16,000** (2017/18: £29,000), which equates to approximately **2%** of your gross expenditure budget in 2017/18. This is based on our judgement of our consideration of material to the user of the account based on understanding of HITRANS. We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Performance materiality

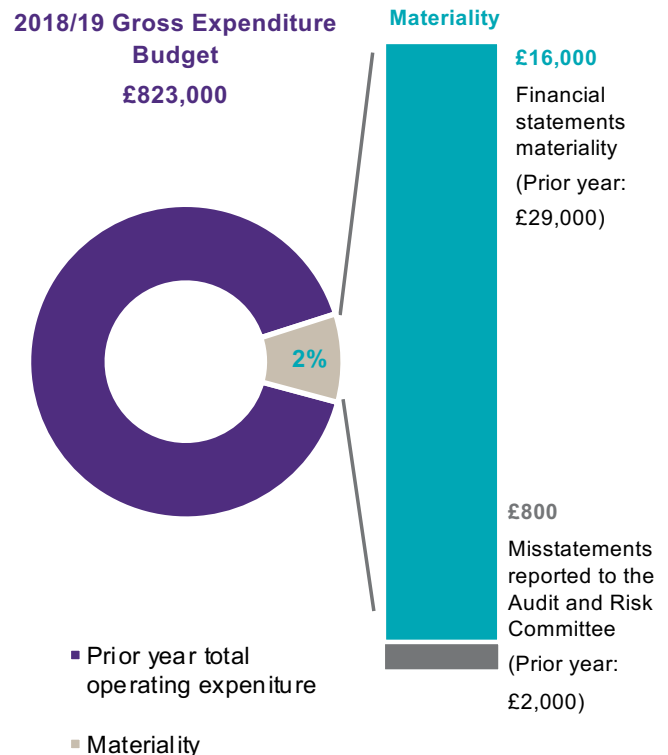
Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. Based on our audit experience in 2017/18, we have set performance materiality at 75% of total materiality and this remains unchanged from prior year (2017/18: 75%). Performance materiality determines those accounts which testing will be undertaken on and the level of sample testing performed where applicable.

Reporting to those charged with governance

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Partnership Board any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. We have determined this threshold to be **£800**. (2017/18: £2,000).

Systems of Internal financial controls

We will look to gain an understanding over the internal controls in place over your significant classes of financial transactions including revenue and expenditure. As the Highland Council process your financial transactions we will build upon our understanding of the financial control processes in place.



A risk based audit methodology

Understanding HITRANS and its environment

This is our third year as the external auditors of HITRANS appointed under the Audit Scotland framework. In 2017/18, HITRANS had net costs of services of £0.26m. HITRANS income is primarily through government and other grant funding. HITRANS was established under the Regional Transport Partnership (Establishment and Constitution) (Scotland) Order 2005. The organisations strategic aim is to develop transportation systems for the region covering Highland, Mora, Comhairle Nan Eilean Sar, Orkney Islands and Argyll & Bute Council areas.

HITRANS continues to work with its varies partner to support the delivery of its 15 year strategic plan. The strategy is underpinned by an annual business plan which defines the range of regional and national projects that are being delivered.

HITRANS recognises the financial constraints faced by public sector bodies and, as a result, has made no provision for increases in constitution council funding. Additionally, that there is a need to work with constituent partners in order to develop and deliver medium to longer term financial plans.

Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Overview of our significant audit risks identified at planning and our proposed approach

Risk area	Description of risk	Planned response
Risk of fraud in revenue recognition	As set out in ISA 240, there is a presumed risk that revenue may be misstated due to improper recognition of revenue. HITRANS is grant funded. Given the funding is well forecasted and agreed directly to funding letters, it is our opinion that there is an inherently lower risk of fraud as the opportunity or incentive for risk is reduced. We therefore rebut the presumed risk around revenue recognition	
Fraud in expenditure recognition as set out in Practice Note 10.	As set out in Practice Note 10 (revised), which is applicable to public sector entities, there is a presumed risk that operating expenditure may be understated or not treated in the correct period (risk of fraud in expenditure.. As payroll expenditure is well forecast and agreeable to underlying payroll systems there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on non-pay expenditure. We consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of non-pay expenditure.	<ul style="list-style-type: none"> Perform cut off procedures over year end transactions. We will test in detail post year end transactions and recording. We will analytically review expenditure incurred around the year end to determine if there is any indication of manipulation or misrepresentation. Walkthrough of the key expenditure controls in place. Regularity – Expenditure incurred in accordance with the type/nature of HITRANS as an organisation.
Management override of controls	As set out in ISA 240, across all entities there is a presumed risk of fraud being perpetrated by management through its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. override of controls is present in all entities.	<ul style="list-style-type: none"> A focus on understanding how/where management override of controls may occur. Review of the controls over journal entries using our data analyser tool to focus on higher risk journals. Understanding key areas of judgement and accounting estimates within the financial statements and the basis for these judgements and the application of accounting policies. Reviewing unusual and/or significant transactions that are out with the normal course of business for the entity to understand the rationale for these transactions.

A summary of our audit approach and methodology is contained in Appendix 2.

Wider scope audit – Audit dimensions and Best Value

Our responsibilities under Audit Scotland’s Code of Audit Practice extend beyond the audit of the financial statements.

The Code sets out four dimensions that frame wider scope audit work into identifiable areas. Alongside Best Value, the audit dimensions set a common framework for our audit work and we review and conclude on the four dimensions and that there are organisational arrangements in place to secure Best Value. Audit Scotland Audit Planning guidance outlines key areas for consideration. Relevant to the organisation we will consider the following:

- EU Withdrawal;
- Changing landscape for public financial management;
- Dependency on key suppliers; and
- Openness and transparency.

We will consider the relevance and impact of each of these areas to HITRANS and report our conclusion on these if significant to the organisation.



Wider scope approach - Smaller Body

For smaller bodies the Audit Scotland Code of Practice permits auditors to not apply the full wider scope audit. In our judgement, taking into account the nature of HITRANS operating activity and income and expenditure streams, we feel it is appropriate to treat you as a smaller body under the Code. However, in accordance with Audit Scotland planning guidance, we will update our understanding of your arrangements for ensuring financial sustainability as well as your governance arrangements in place to support disclosures contained within the annual governance statement included within your financial statements.

Going concern considerations

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570). We will review managers assessment of the going concern assumption and evaluate the disclosures in the financial statements.

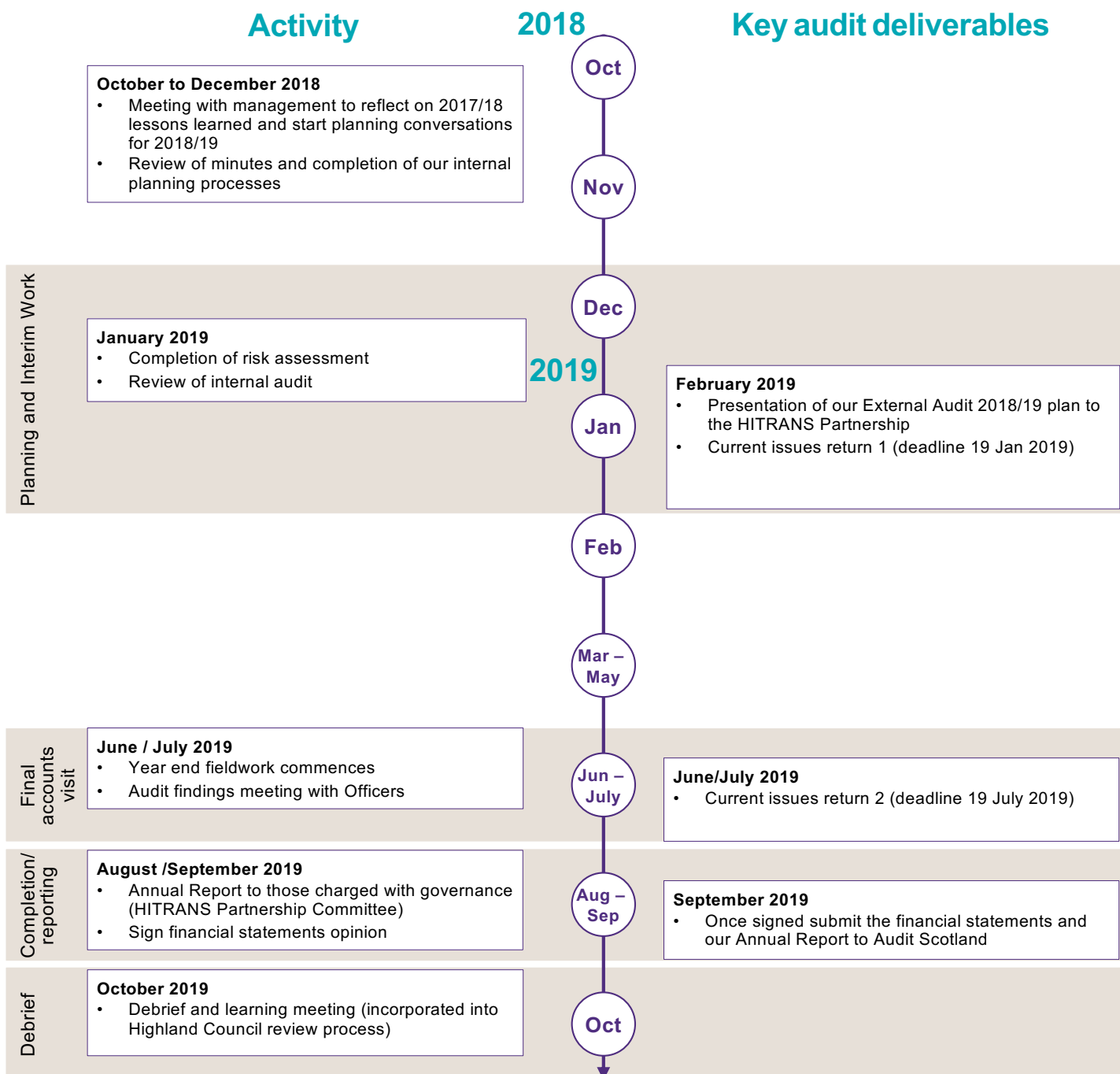
Working with Internal Audit

We will aim to not duplicate the work of your internal auditors. We will consider the internal audit plan for 2018/19 and identify any particular areas of risks that we either need to reflect in our approach. We will continue to review internal audit work throughout the year and maintain an ongoing, open, dialogue with internal audit.

Appendices

- Key audit deliverables and our team
- Audit process
- Fees and independence
- Fraud arrangements
- Respective responsibilities

Key audit deliverables and our team



Our team

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In addition, we will use our accounting technical team as required.

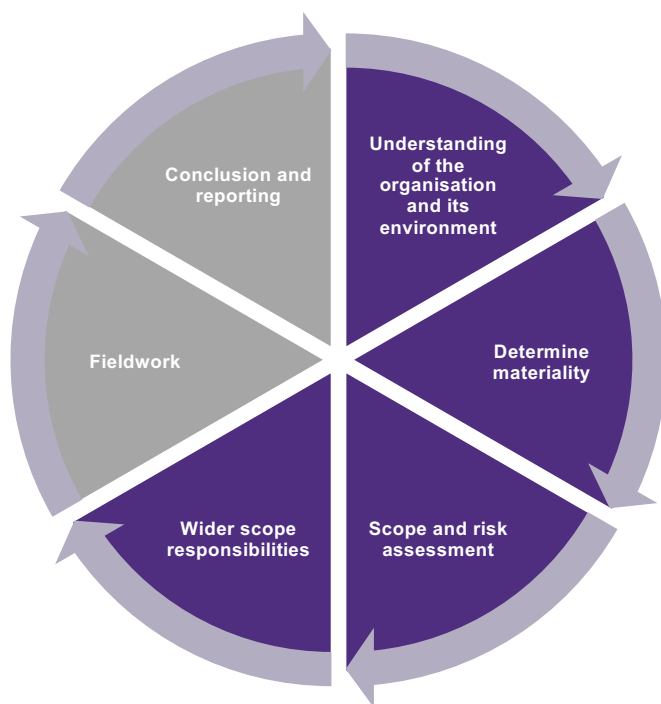
Audit process

Fieldwork, conclusion and reporting

Our audit fieldwork will be conducted in accordance with ISAs and the Code of Audit Practice. Our fieldwork is designed to provide sufficient assurance to provide an opinion on the true and fair view of the financial statements and allow us to conclude on the areas of wider scope. We will conclude our audit procedures and provide an independent audit opinion on the financial statements. Our key conclusions and findings from our audit work will be reported to you through our annual audit report.

Understanding of the organisation and its environment

This is our third year as the external auditors of HITRANS appointed under the Audit Scotland framework. In this time we have built on our knowledge of your business and the environment in which you operate. Our understanding of the organization and its environment is provided on **page 6**.



Determine materiality

Fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. 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. We determine your materiality during our audit planning process and continue to assess the appropriateness of this value throughout the audit. More detail around your materiality is provided on **page 5**.

Wider scope

The Code sets responsibilities for auditors of public bodies which extend beyond the audit of the financial statements, Auditors are required to consider and report on wider audit dimensions. In our judgement, we feel it is appropriate to treat you as a smaller body under the Code. However, we will update our understanding of your arrangements for ensuring financial sustainability as well as your governance arrangements in place to support the delivery of HITRAN's strategic outcomes as part of our audit. Our consideration of the Wider scope is provided on **page 7**.

Scope and risk assessment

The scope of our audit work is in accordance with the Code and International Standards on Auditing.

Our audit work is risk based and during our audit planning we identify significant audit risks.

We consider the adequacy of the design of controls in place over your key significant classes of financial transactions, performing walkthroughs of these processes. As the Highland Council administer financial transactions and accounting on behalf of HITRANS we will build upon our understanding of the Council's internal financial controls.

Fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	8,440
Pooled Costs	820
Contribution to Audit Scotland costs	530
Contribution to Performance Audit and Best Value	0
2018-19 Fee	9,790

The audit fee is calculated in accordance with guidance issued by Audit Scotland. In accordance with the Audit Scotland guidance we can increase the fee by up to 20% from the base fee set by Audit Scotland, depending on risk factors identified by us as your external auditors. We cannot reduce the fee from the baseline set out by Audit Scotland. The above proposed fee, set at the base fee, has been agreed with management. The fee is based on the following assumptions:

- supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- the scope of the audit, and HITRANS' activities will not change significantly from planned
- HITRANS will make available management and accounting staff to help us locate information and to provide explanations. We reserve the right to charge an additional fee for any additional work.
- We will only receive (and audit) 3 sets of accounts (1st draft; amended draft and final)
- Specific balances such as pensions are supported by an independent specialist

Fees for other services

Service	Fees £
At planning stage we confirm there are no non-audit fees	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Annual Report to those charged with governance at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.

We are appointed auditors of the Highland Council and see no threat to our independence. We can confirm no independence concerns have been identified.

Fraud arrangements

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at HITRANS.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relations to management override of controls.
- Leading a discussion with those charged of governance (for HITRANS this is assumed to be the Audit and Risk Committee) on their view of fraud. Typically we do this when presenting our audit plan and in the form of management and those charged with governance questionnaires.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is HITRANS' responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we work with HITRANS to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on a quarterly basis.

Respective responsibilities

As set out in the Code of Audit Practice (pages 10 to 16) there are a number of key responsibilities you as an organisation are responsible for, and others, as appointed auditors we are responsible for. These are summarised below:

Area	HITRANS' Responsibilities
Corporate governance	<ul style="list-style-type: none"> • Establishing arrangements for proper conduct of its affairs • Legality of activities and transactions • Monitoring adequacy and effectiveness of arrangements (inc role of those charged with governance)
Financial statements	<ul style="list-style-type: none"> • Preparing financial statements which give a true and fair view of their financial position • Maintaining accounting records and working papers • Putting in place systems of Internal Control • Maintaining proper accounting records • Preparing and publishing an annual governance statement, management commentary and remuneration report • Effective systems of internal control as well as financial, operational and compliance controls – supporting achievement of objectives and secure value for money
Financial position	<ul style="list-style-type: none"> • Proper arrangements to ensure financial position is soundly based and responsibility to ensure arrangements secure best value
Fraud and error	<ul style="list-style-type: none"> • Establishing appropriate arrangements for prevention and detection of fraud, error, irregularities, bribery and corruption and affairs are properly managed

Our responsibilities



- Undertake statutory duties and comply with professional engagement and ethical standards
- Provide an opinion on financial statements and where appropriate regularity of transactions
- Review and report on, as appropriate, other information eg annual governance statements, management commentary, remuneration reports
- Notify the Controller of Audit when circumstances indicate a statutory report may be required
- Demonstrate compliance with wider public audit scope

How do we do this in practice



- By reviewing and providing judgements and conclusions on HITRANS' arrangements including those across the wider scope of audit dimensions.
- Consideration of the effectiveness of performance management arrangements
- Suitability and effectiveness of corporate governance arrangements in year
- Financial position and arrangements for ensuring financial sustainability in the medium to longer term
- Review of other information in line with our knowledge and understanding of HITRANS
- Ongoing dialogue and engagement with Audit Scotland during the year

Weaknesses and risks identified by us as your auditors are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by us of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to HITRANS Management and the Partnership Committee.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of HITRANS' accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while our Annual Report to those Charged with Governance will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to HITRANS Management and the Partnership Committee.



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