

Highlands and Islands Transport Partnership

Financial year ending
31 March 2022

External Audit Planning overview

Partnership Board

4 February 2022



Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our initial audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the organisation or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2016). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Introduction

Purpose

This document provides an overview of the planned scope and timing of the external audit of Highlands and Islands Transport Partnership (HITRANS) for those charged with governance. For 2021/22 our planning process has been delayed as a result of Covid-19. This document summarises our initial risk assessment of significant financial statement risks. We anticipate completing our annual planning procedures by 25 February 2022 with a plan circulated to the Partnership Board by 4 March 2022 and submission to Audit Scotland by 31 March 2022.

We are appointed by the Accounts Commission as the external auditors of HITRANS for the 6 year period (2016/17 until 2021/22)

Respective responsibilities

Audit Scotland has issued a document entitled Code of Audit Practice ('the Code') dated 2016 covering this audit appointment period. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities, and that of HITRANS are summarised in Appendix 1 of this plan. We draw your attention to this and the Code.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on HITRANS's financial statements that have been prepared by management with the oversight of those charged with governance (the Partnership Board).

Our audit approach is based on a thorough understanding of HITRANS and is risk based.

Wider Scope Audit – smaller body arrangements

In accordance with Audit Scotland's Code of Practice, we feel it is appropriate to continue to treat you as a smaller body under the Code. In 2020/21 we will consider HITRANS 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.

Financial statement audit risks

We have not yet concluded our audit risk assessment. However, based on our audit planning, in accordance with the ISAs (UK) and FRC Practice Note 10 we have identified the following significant financial statement audit risks:

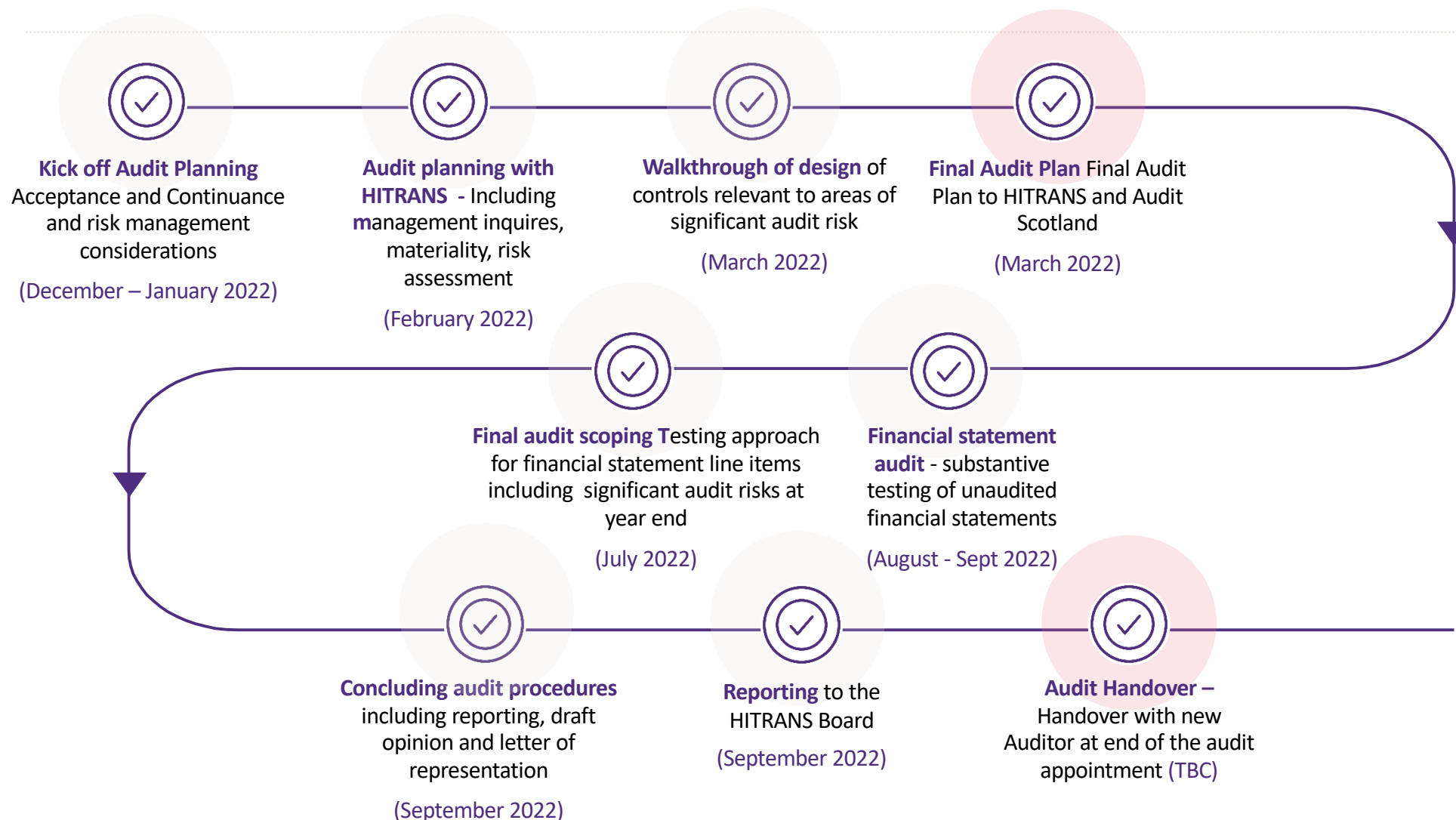
- Management override of controls (ISA UK 240)
- Risk of fraud in expenditure (cut-off) (FRC PN10)
- Risk of misstatement of defined benefit pension scheme liabilities

We have rebutted the risk of fraud in revenue recognition as the majority of funding is via the Scottish Government. Our final risk assessment will be included in the final audit plan.

Our Audit Fee

Audit fees were shared by Audit Scotland with HITRANS in December 2021. Following conclusion of our planning procedures we will agree our final audit fee with Management and communicate this within the final audit plan. Audit fees are paid to Audit Scotland who pay us. We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

Audit approach



Significant financial statement audit 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 [Subject to completion of audit planning]

Management Override of Controls (as required within Auditing Standards – ISA 240)

Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override HITRANS internal controls, related to individual transactions.

Our work focuses on critical estimates and judgements as set out within the financial statements, including accounting policies. In addition, we specifically consider cut-off (expenditure) and the use of manual journals during the year, and in creating the financial statements where controls may be overridden by management. These are inherently the areas in which management has the potential to use their judgement to influence the financial statements.

Risk of Fraud in Expenditure (as recommended in FRC Practice Note 10 for Public Sector entities)

Operating expenditure is 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 material non-pay expenditure streams including research and strategy development costs and European Project costs. We consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of these expenditure streams and the completeness of expenditure.

Our testing includes a specific focus on year end cut-off arrangements, where it may be advantageous for management to show an enhanced/different financial position in the context of reporting in-year to Scottish Government and the need to achieve the financial targets set.

Significant financial statement audit risks (continued)

IAS 19 Defined Benefit Pension Liabilities (valuation)

The Partnership participates in the Highland Council Pension Fund, a local government pension scheme (LGPS). The scheme is a defined benefit pension scheme and in accordance with IAS 19: Pensions, Partnership is required to recognise its share of the scheme assets and liabilities on the statement of financial position. Hymans Robertson UK LLP provide an annual IAS 19 actuarial valuation of the Authority's net liabilities in the pension scheme. There are a number of assumptions contained within the valuation, including: discount rate; future return on scheme assets; mortality rates; and, future salary projections. Given the material value of the scheme liabilities and the level of estimation in the valuation, there is an inherent risk that the defined benefit pension scheme liability could be materially misstated within the financial statements. In particular the risk that inappropriate assumptions are made within the actuarial valuation.

We will consider the work of the actuary (Hymans Robertson UK LLP), including the assumptions applied, using the work performed by PricewaterhouseCoopers (PwC) (commissioned on behalf of Audit Scotland to review actuarial assumptions proposed by LGPS actuaries), as well as local audit assessment. A appointed auditors over the Highland Council Pension Fund we will obtain assurances over the information supplied to the actuary in relation to the Partnership, including assets held and confirm joint assurances in respect of employer and employee contributions in the year. We will review and test the accounting entries and disclosures made within Partnership's financial statements in relation to IAS 19.

As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. HITRANS receives income from grants, predominantly via the Scottish Government, and partnership funding from constituent authorities. Grant Income is agreed to underlying grant funding agreements and constituent authority funding to initial allocations and formally agreed at the year end. Consequently, we consider there to be a lower opportunity to materially misstate this revenue stream. We therefore rebut the presumed risk of improper recognition of revenue.

We will communicate the final significant financial statement risks within our final audit plan in March 2022. The findings on these areas as well as any other significant matters arising from the audit will be communicated to you in our Annual Report to those Charged with Governance and the Controller of Audit in concluding our audit in September 2022.

Other matters

Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and planning guidance:

- We audit parts of your Remuneration Report in your Annual Report and check whether these sections of your Annual Report have been properly prepared (opinion)
- We read the sections of your Annual Report which are not subject to audit and check that they are consistent with the financial statements on which we give an opinion (opinion)
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are consistent with the financial statements and that the report is prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).
- We consider our other duties under the Code and planning guidance (2020/21), as and when required, including:
 - Supporting Audit Scotland in Section 22 reporting.
 - Providing regular updates to Audit Scotland to share awareness of current issues.
 - Participating in the Audit Scotland Local Authority Sector group.
 - Notifying Audit Scotland of any cases of money laundering or fraud
 - Review of Technical guidance prior to issue by Audit Scotland.

Internal control environment

Throughout our audit planning and fieldwork we will continue to develop our understanding of the overall control environment (design) as related to the financial statements. In particular we will:

- Consider procedures and controls around related parties, journal entries and other key entity level controls.
- Perform walkthrough procedures on key controls around identified risk areas including: Requisition funding; payroll expenditure; material non-pay expenditure streams (administration costs, property costs, supplies and services); journal entries; and, material areas of management estimate and judgement including defined benefit pension scheme liabilities.
- Our focus is design and implementation of controls only. We do place reliance on controls when it comes to our year end financial statement audit work.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern assessment

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important.

In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. In considering going concern we will refer to Audit Scotland's Going Concern publication (December 2020).

Within our wider scope work we will conclude on the Partnership's arrangements to ensure financial sustainability.

Wider Scope Audit – smaller body arrangements

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 the Partnership's operating activity and income and expenditure streams, we feel it is appropriate to continue 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.

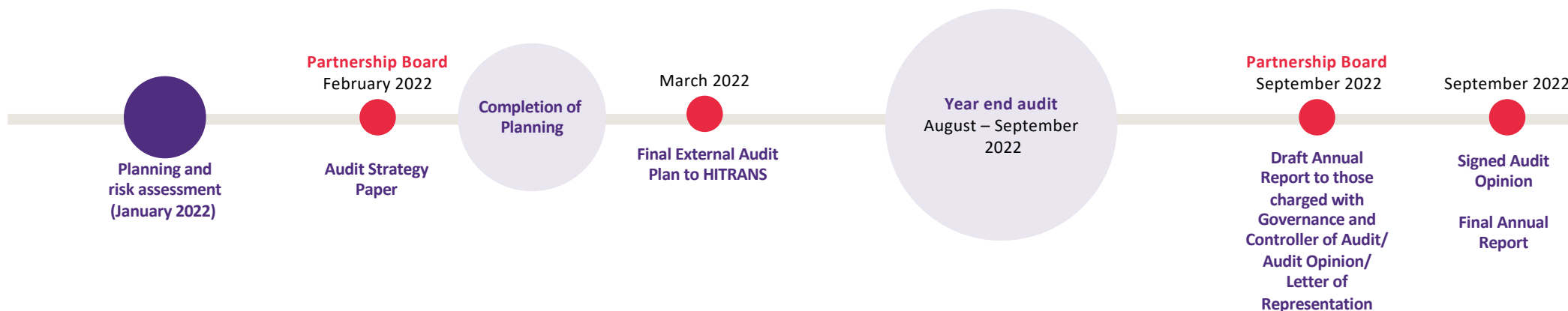
Accounting estimates

Under ISA (UK) 540 auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

To ensure compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit. Based on our knowledge of HITRANS we have identified the only material accounting estimate for which this is likely to apply as defined benefit pension schemes.

Audit timeline



Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available (or as otherwise agreed) over the planned period of the audit
- respond promptly and adequately to audit queries.

Quality and adding value through the audit

Our overall approach for the audit is clear and upfront communication, founded on our public sector credentials and a methodology to ensure delivery of a quality audit.

The diagram opposite summarises our key approach to adding value to you throughout our audit.

Our methodology is risk based. We comply with Auditing standards and as a Firm we are regulated by the FRC. We taking findings on audit quality seriously and continue to invest as a Firm through our audit investment plan. The audit investment plan is supported by a specific national Public Sector audit plan.

We comply with Audit Scotland's quality arrangements including submitting an annual quality report over our Audit Scotland portfolio. As part of Audit Scotland's quality arrangements, ICAS review our work on a rotational basis. Audit Scotland's quality report can be found at www.audit-scotland.co.uk

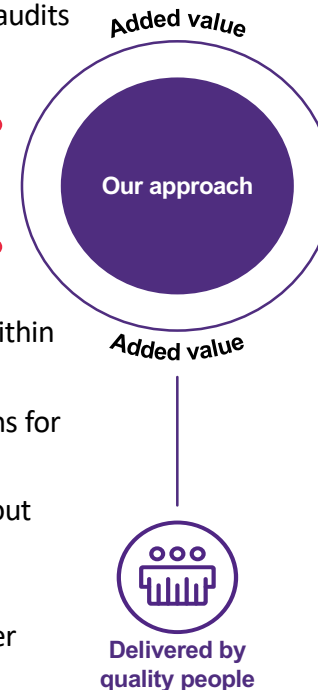
Our wider quality arrangements are set out in our annual transparency reports which are available on our website (www.granthornton.co.uk).

Project management

- Use of Inflo to track progress and deliverables throughout the audit
- Clear roles and ownership of responsibilities within our team
- Clarity over expectations and timetable
- Track record delivering public sector audits on behalf of Audit Scotland

Clear reporting

- Clear audit outputs at planning and within our final Annual Report
- Practical, risk based, recommendations for you to take forward
- Our judgements and conclusions set out transparently and in clear language
- Senior presence at Board meetings to present our findings and support wider dialogue



Pragmatism and early attention of issues

- Accessible and proactive engagement team
- Working with you to reach the right solution – flexing the workplan, recognising Covid-19
- Audit partner takes ultimate decision on technical matters, consulting with our technical experts

Public sector understanding

- Using our public sector insight to inform our audit and identify improvements you could make
- Regular meetings throughout the year sharing our observations and wider sector knowledge
- Wider scope conclusions to support you in considering key risks and the improvement actions to take

Independence

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence.

We encourage you to contact us to discuss these or any other independence issues with us.

We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard.

Our team complete annual fit and proper declarations including independence confirmations on a client by client basis as well as completing timesheets. The work of our Ethics team is overseen by the Ethics partner and all staff undergo ethics training in year.

Appendices

Responsibilities

The Code sets out auditor responsibilities and responsibilities of the audited body. Key responsibilities are summarised below. Please refer to the Code for further detail.

HITRANS

Responsibilities include:

- Preparing financial statements that give a true and fair view
- Maintaining accounting records
- Establishing and maintaining systems of internal control
- Effective internal controls including controls to achieve objectives and secure value for money
- Establish arrangements for proper conduct of affairs including legality of transactions
- Arrangements for prevention and detection of fraud, error, irregularity, bribery and corruption
- Appropriate corporate governance arrangements and arrangements to monitor the effectiveness of governance

External Audit

Responsibilities include:

- Comply with professional engagement and ethical standards
- Provide an ISA compliant audit and opinion on the financial statements including regularity of transactions
- Demonstrate compliance with the wider scope public audit as detailed in the Code and applicable guidance
- Liaise with and notify Audit Scotland when circumstances indicate a statutory report may be required. This includes sharing awareness of current and/or sector issues
- Notify Audit Scotland of any known or suspected frauds greater than £5,000
- Contribute to relevant performance studies (as set out in the planning guidance for the year)

Fraud responsibilities

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 Highlands and Islands Transport Partnership.

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 (the HITRANS' Board) 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 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. We also make inquires of internal audit around internal control, fraud risk and any known or suspected frauds in year.

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's 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.

In addition, as set out in the Audit Scotland Code of Audit Practice we have a role in reviewing HITRANS' arrangements in response to the National Fraud Initiative.

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

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the planning guidance) to inform the National Crime Agency if he knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at HITRANS we will report to the Auditor General as required by Audit Scotland.

