

Informing the audit risk assessment for Highland and Islands Transport Partnership 2021/22



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 audit 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 your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between HITRANS's external auditors and HITRANS's Partnership Board, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Partnership Board under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Partnership Board. ISA(UK) emphasise the importance of two-way communication between the auditor and the Partnership Board and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Partnership Board in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Partnership Board and supports the Partnership Board in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the HITRANS's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from HITRANS's management. The Partnership Board should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?	Ongoing COVID-19 pandemic.
2. Have you considered the appropriateness of the accounting policies adopted by HITRANS ? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	Accounting policies remain the same as 2020/21 financial year and continue to be appropriate to the organisation.
3. Is there any use of financial instruments, including derivatives? If so, please explain	No.
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	No.

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	No.
6. Are you aware of any guarantee contracts? If so, please provide further details	No.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No.
8. Other than in house solicitors, can you provide details of those solicitors utilised by HITRANS during the year. Please indicate where they are working on open litigation or contingencies from prior years?	No external solicitors have been engaged during the year and none are involved in any litigation relating to earlier years.

General Enquiries of Management

Question	Management response
9. Have any of the HITRANS's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	None.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Only advisors used were Highland Council for financial services and CnES for administrative, personnel and legal services.
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	Debtors to be reviewed at year end, to date none identified for provision of loss

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Partnership Board and management. Management, with the oversight of the Partnership Board, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Partnership Board should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As HITRANS's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Partnership Board regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Partnership Board oversees the above processes. We are also required to make inquiries of both management and the Partnership Board as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from HITRANS's management.

Fraud risk assessment

Question	Management response
<p>1. Has HITRANS assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the HITRANS's risk management processes link to financial reporting?</p>	<p>Yes. Risk register update provided to the Board annually in November. A risk statement is incorporated in all reports presented to Board meetings.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>All are mitigated through the segregation of duties.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within HITRANS as a whole, or within specific departments since 1 April 2021? If so, please provide details</p>	<p>None. Risk register update provided to the Board annually in November.</p>

Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>The primary point of Governance on all matters relating to Risk is the Partnership Board. HITRANS officers update the Risk Management Plan annually with approval required by the Partnership Board. This update is presented to the November Partnership Meeting. To ensure risk is managed on an ongoing basis officers present detailed reports to the Partnership Board each time it meets. Each Board report includes a Risk Register designed to demonstrate how risk is managed on an ongoing basis at a project level. The Risk Register covers any Risk in respect to: RTS Delivery; Policy; Finance; and Equality Impacts.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within HITRANS where fraud is more likely to occur?</p>	<p>No.</p> <p>No.</p> <p>No.</p>
<p>6. What processes do HITRANS have in place to identify and respond to risks of fraud?</p>	<p>HITRANS staff have a close working relationship with both HC and CnES and any issues are discussed on a regular basis.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for HITRANS, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Internal audit report on controls presented to the Board annually; segregation of duties; regular meetings with Finance Manager; regularly reporting to the Board on all material aspects of the Partnership. There are no areas of override of controls we are aware of.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>None.</p>

Fraud risk assessment

Question	Management response
<p>9. How does HITRANS communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>All staff are aware of the whistle-blowing policy and have been made aware of the risk register, financial regulations and contract standing orders. No issues have been reported for the current financial year.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Senior management however segregation of duties mitigate the exposure with Finance Manager approving all financial transactions and this post is independent of the organisation.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>None. HITRANS staff have a close working relationship with all Constituent Local Authorities and their respective advisors which allows identification of all related parties transactions.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Partnership Board?</p> <p>How does the Partnership Board exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Regular review of financial position, and monitoring statement presented to each Partnership Board meeting. HITRANS officials meet with Finance Manager regularly throughout the year. Internal audit report on controls presented to Board annually. No issues identified for the current financial year.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No.</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Partnership Board, is responsible for ensuring that HITRANS's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Partnership Board as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does HITRANS have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the HITRANS's regulatory environment that may have a significant impact on the HITRANS's financial statements?</p>	<p>HITRANS adhere to the Highland Council's financial regulations and Contract Standing Orders. Each HITRANS employee is aware of them and where they are accessed. HITRANS staff have a close working relationship with both HC and CnES and any issues are discussed on a regular basis. There have been no changes to the HITRANS regulatory environment.</p>
<p>2. How is the Partnership Board provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>HITRANS Audit & risk Committee only meets on a needs basis. There has been no reason for the Committee to meet in 2021/22. The risk register update is provided to HITRANS Board annually in November.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p>	<p>None.</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>Not aware of any.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does HITRANS have in place to identify, evaluate and account for litigation or claims?	HITRANS staff have a close working relationship with both HC and CnES and any issues are discussed on a regular basis.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No.

Related Parties

Matters in relation to Related Parties

HITRANS are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by HITRANS;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the HITRANS;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the HITRANS, or of any body that is a related party of the HITRANS.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the HITRANS must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in HITRANS's 2020/21 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and HITRANS • whether HITRANS has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	<p>No change.</p>
<p>2. What controls does HITRANS have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>HITRANS staff have a close working relationship with all Constituent Local Authorities and this allows identification of all related parties transactions.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Segregation of duties. All expenditure is approved by senior HITRANS officers and countersigned by Finance Manager on processing invoices and credit card payments in the financial system.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Segregation of duties. All expenditure is approved by senior HITRANS officers and countersigned by Finance Manager on processing invoices and credit card payments in the financial system.</p>

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government / NHS bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by HITRANS will no longer continue?</p>	<p>Management is in close communication with Scottish Government and would therefore have early awareness of Government intentions to disband HITRANS. At present under a commitment made by Scottish Ministers through the National Transport Strategy a review of Transport Governance is underway which is specifically designed to strengthen the regional role in transport policy and delivery. This workstream will consider the proposal submitted by HITRANS to enhance the organisation's role which we submitted through the Local Governance Review.</p>
<p>2. Are management aware of any factors which may mean for HITRANS that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>No</p>
<p>3. With regard to the statutory services currently provided by HITRANS, does HITRANS expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for HITRANS to cease to exist?</p>	<p>No Change</p>
<p>4. Are management satisfied that the financial reporting framework permits HITRANS to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>No</p>

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body'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 related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Partnership Board members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Partnership Board to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Other than accruals and IAS19, no further accounting estimates are required.
2. How does the HITRANS's risk management process identify and address risks relating to accounting estimates?	Risk register update provided to the Board annually in November.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Other than accruals and IAS19, no further accounting estimates are required.
4. How do management review the outcomes of previous accounting estimates?	Review of the 2020/21 accounts and application of same ie other than accruals and IAS19, no further accounting estimates are required.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	None.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>Sufficient experience internally provided by Highland Council accounting staff.</p>
<p>7. How does the HITRANS determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>Sufficient experience internally provided by Highland Council accounting staff.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>HITRANS officials meet with Finance Manager regularly throughout the year.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>Regular review of financial position, and monitoring statement presented to each Partnership Board meeting, HITRANS officials meet with Finance Manager regularly throughout the year.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	HITRANS officials meet with Finance Manager regularly throughout the year and draft financial outturn position discussed with HITRANS officials.
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Yes and are consistent with the previous financial year
12. How is the Partnership Board provided with assurance that the arrangements for accounting estimates are adequate ?	Regular review of financial position, and monitoring statement presented to each Partnership Board meeting.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
IAS 19	Hymans Robertson LLP are commissioned to produce IAS19 report. The 2020/21 IAS19 report has been reviewed and estimations used in the production of the report are appropriate to be used on the same basis for the 2021/22 report.	<ul style="list-style-type: none"> Instructions provided to actuary in accordance with IAS 19. Key assumptions discussed with Management to ensure appropriate (note based on actuarial experts input) The monitoring is performed according to the contract and the instruction. The output is reviewed and any significant changes, variances or queries raised with the expert 	Yes – External Expert	<p>The actuary provides recommended actuarial assumptions based on knowledge and understanding of the scheme.</p> <p>Sensitivity analysis included in actuarial valuation providing impact of application of alternative assumptions</p>	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting Method in year?
Expenditure Accruals	Expenditure incurred in 2021/22 will be reviewed to identify if any accruals are required and will be compared to the previous year's accounts. Also all expenditure processed in the 2022/23 period will be scrutinised to ensure that expenditure is charged to the appropriate accounting period. Any expenditure relating to 2021/22 will be accrued.	Separation/aggregation of duties allows for this to be done with HITRANS staff approving and thereafter processed and approved by Highland Council accounting staff.	No expert used	All amounts processed in 2022/23 relating to 2021/22 will be accrued. Sufficient experience in accounting rules is adequate.	No



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