Item:
3a

Report to Partnership Meeting 11 September 2026

FINANCE

HITRANS Internal Audit Annual Report 2025/26

Purpose of Report

To present the HITRANS Internal Audit Annual Report 2025/26 to Members and invite the Partnership Board to note the findings and annual Internal Audit opinion. The full Annual Report is reproduced at Appendix A.

Background

The Highland Council Internal Audit Service provides internal audit services to HITRANS. The Annual Report provides the Internal Audit opinion for the period 1 April 2025 to 31 March 2026 and is intended to inform HITRANS' Annual Governance Statement.
The HITRANS Annual Report 2025/26 was finalised and shared with HITRANS by Internal Audit on 25 May 2026. The Partnership Board meeting on 11 September 2026 is the first formal Partnership Board meeting following receipt of the report and it is therefore being presented at this meeting for formal consideration.

Internal Audit Annual Report 2025/26

The Annual Report records the work undertaken by Internal Audit during 2025/26, including review of the adequacy and effectiveness of systems of internal control, testing of a sample of expenditure transactions and an overview of budgeted income. It also considers HITRANS governance and risk-management arrangements and records the assurance provided by the Partnership Director as part of the Annual Accounts process.

Internal Audit Opinion

Internal Audit concludes that, on the basis of the work undertaken during the year, HITRANS' key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy.

The formal audit opinion is that reasonable assurance can be placed upon the adequacy and effectiveness of HITRANS' framework of governance, risk management and control for the year to 31 March 2026. This opinion provides relevant assurance in support of the Partnership's Annual Governance Statement and the 2025/26 Annual Accounts.

Governance and Risk Management

The report notes the governance arrangements set out in the HITRANS 2025/26 Business Plan, including the Scheme of Delegation, Financial Regulations and Contract Standing Orders. It also records that the Risk Management Framework Policy was agreed by the Partnership Board in April 2025 and that the latest risk register update was reported to the Board on 6 February 2026.

The Annual Report is reproduced in full at Appendix A.

Recommendation

Members are invited to:

1. Note that the HITRANS Internal Audit Annual Report 2025/26 was finalised and shared with HITRANS on 25 May 2026 and is being presented to the first formal Partnership Board meeting following its receipt;
2. Note the Internal Audit opinion that reasonable assurance can be placed upon the adequacy and effectiveness of HITRANS' framework of governance, risk management and control for the year to 31 March 2026; and
3. Note the HITRANS Internal Audit Annual Report 2025/26 reproduced in full at Appendix A.

Risk Register

Area	**Impact**	**Comment**
RTS Delivery	Neutral/Positive	Effective governance, risk management and internal control arrangements support HITRANS in delivering the Regional Transport Strategy and associated programmes effectively and accountably.
Policy	Positive	Consideration of the Internal Audit Annual Report supports good governance and provides the Partnership Board with independent assurance on the adequacy and effectiveness of HITRANS' governance, risk management and control arrangements.
Financial	Positive	Effective internal audit and control arrangements support sound financial management, appropriate stewardship of public funds and the identification and management of financial risk. There are no direct additional financial implications arising from this report.
Equality	Neutral	There are no direct equality implications arising from consideration of the Internal Audit Annual Report. Effective governance arrangements nevertheless support the Partnership in ensuring equality

Report by:	Ranald Robertson
Designation:	Partnership Director
Date:	31 August 2026
Background Paper:	Appendix A - HITRANS Internal Audit Annual Report 2025/26

The Highland Council
Comhairle na Gàidhealtachd

HITRANS

Internal Audit Annual Report 2025/26

1. INTRODUCTION

1.1 The purpose of this report is to provide an annual Internal Audit opinion for the period 1st April 2025 to 31st March 2026, and a report that can be used by the Highlands and Islands Transport Partnership (HITRANS) to inform its Annual Governance Statement. HITRANS is the statutory regional transport partnership covering Comhairle nan Eilean Siar, Orkney, Highland, Moray and most of the Argyll and Bute area.

1.2 This report has also been produced to meet the requirements of the Global Internal Audit GIAS (the GIAS) which came into effect from 1st January 2025 and apply to all internal audit service providers. CIPFA subsequently issued "The Application Note: Global Internal Audit GIAS in the UK Public Sector" which changed this date to 1st April 2025. Therefore, this is the first annual report produced under the GIAS.

2. ANNUAL GOVERNANCE STATEMENT

2.1 Internal Control

Internal control is defined as *"the whole system of checks and controls, financial or otherwise, established by management in order to provide reasonable assurance*" regarding the achievement of one or more of the following objectives:

- The reliability and integrity of information.
- Compliance with policies, plans, procedures, laws, regulations and contracts.
- The safeguarding of assets.
- The economical and efficient use of resources.
- The accomplishment of established objectives and goals for operations or plans.

Any system of control can only provide reasonable, and not absolute assurance that control weaknesses or irregularities do not exist, or that there is no risk of material errors, losses, fraud or breaches of laws and regulations. Accordingly, the partnership should seek continual improvement in the effectiveness of its systems of internal control.

It is the responsibility of senior management to establish an appropriate and sound system of internal control, and to monitor the continuing effectiveness of that system.

2.2 Internal Audit

The GIAS define internal auditing as *"an independent, objective assurance and advisory service governance, risk management and control processes".* It also states that:

Internal auditing enhances the organisation's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

Internal auditing is most effective when:

- It is performed by competent professionals in conformance with the GIAS, which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the board.
- Internal auditors are free from undue influence and committed to making objective assessments.

The Internal Audit Section operates in accordance with the GIAS in the UK Public Sector (the GIAS). Details of the assessment of conformance with the GIAS and the results of the Quality Assurance and Improvement Programme is included within the Highland Council's Internal Audit Annual Report 2025/26. This report was considered by the Council's Audit Committee on 27/05/26.

The planned work undertaken by the Internal Audit Section during the year to 31st March 2026 consisted of:

- A review of the adequacy and effectiveness of the systems of internal control for the financial year 2025/26.
- Review of a random sample of expenditure financial transactions during the year to verify that that the expected controls had been complied with. 2 transactions totalling £202,422.64 were examined and were found to be satisfactory.
- An overview was also undertaken to ensure that the budgeted income had been received and is properly accounted for. It was noted that the last revenue budget monitoring statement considered by the Board on 24/04/26 covered the period up to 28/02/26. The covering report addressed the shortfall in the expected income for projects which lower than the budget. This was attributed to delays in payments from partners and other payments not being received until the end of the financial year.

2.3 Governance arrangements

HITRANS recognises that good governance is essential to any public body and their governance arrangements are set out in their 2025/26 business plan. This details the various policies and procedures within the partnership including their Scheme of Delegation, Financial Regulations, Contract Standing Orders, through to their arrangements for interaction with stakeholders and HITRANS' powers and functions.

2.4 Risk Management

A new Risk Management Framework Policy was agreed by the Partnership Board in April 2025. This includes details of the risk management process covering roles and responsibilities, risk identification, risk assessment, risk appetite and the risk register. Details of a number of risk areas are also detailed.

The Policy states that the risk register will be reviewed and updated regularly, and reported to the HITRANS Board on an annual basis. The register identifies risks under the types of: Strategic, Management/ Operational, and Financial and provides the following information:

- Nature of the risk
- Inherent risk score, risk rating (High/ Low/ Medium), and controls
- Residual risk score, risk rating (High/ Low/ Medium), risk owner, and actions.

The latest risk register update was provided to the Board on 06/02/26 which showed a total of 11 risks with the following residual risk ratings:

Risk type	**Residual risk numbers**			**Total**
	High	**Medium**	**Low**	
Strategic	1	2	1	4
Management/ Operational	0	1	3	4
Financial	0	1	2	3
Total	**1**	**4**	**6**	**11**

It should be noted that the 1 high risk relates to the risk that “Stakeholders may not focus efforts towards delivery of the Regional Transport Strategy”.

2.5 Assurance from the Partnership Director

As part of the Annual Accounts process, the Partnership Director of HITRANS was asked to provide assurance that the following statements are valid:

- That Financial Monitoring Statements are regularly reviewed at management meetings.
- That Staff have been made aware of the Partnership’s Financial Regulations and Contract Standing Orders.
- That Staff have been made aware of the Partnership’s Code of Conduct, Information Systems Security, Fraud and Corruption and Whistle Blowing policies.
- That HITRANS has a robust Scheme of Delegation and that Staff have been informed of their supervisory and accountability responsibilities and that their responsibilities are documented in a Job Description.
- That Segregation of Duties is an important control mechanism operation within HITRANS and where it has not been possible to operate such a control a suitable alternative is in place.
- That appropriate targets have been established within HITRANS to measure financial and other performance.
- That a formal system of project management, including project governance operates within HITRANS.

This assurance was provided by the Partnership Director on 25/05/26.

2.6 Audit Opinion

On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However, as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, it is the audit opinion that reasonable assurance can be placed upon the adequacy and effectiveness of HITRANS’ framework of governance, risk management and control for the year to 31st March 2026.