

Highland and Islands Transport Partnership

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Highland and Islands Transport Partnership
September 2024

Contents

Key messages	3
Introduction	4
Part 1. Audit of 2023/24 annual accounts	6
Part 2. Wider Scope	12
Appendix 1. Action plan 2023/24	15

Key messages

2023/24 annual accounts

- 1 Audit opinions on the annual accounts are unmodified, i.e. the financial statements and related reports are free from material misstatement.
- 2 The management commentary, annual governance statement and the audited part of the remuneration report were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.
- 3 Despite identifying issues with the accounts presented for audit, the 2023/24 annual report and accounts were certified in line with the agreed audit timetable.
- 4 We identified donated assets of 105 e-bikes with a value of £435k at 31 March 2024 which had not been included in the unaudited primary financial statements or notes to the accounts.
- 5 We will review the fee level for the 2024/25 audit to reflect the extent of the issues encountered this year but expect management to take corrective action to ensure similar issues are not encountered next year.

Wider scope

- 6 We identified several issues in our audit of purchase card expenses including a lack of audit trail, identification of inappropriate expenditure and a lack of controls over approval of expenditure.
- 7 HiTrans has no medium or long-term financial plan and needs to develop a strategic approach to planning.
- 8 The Partnership Director needs to take immediate action to address the issues identified during the 2023/24 audit and to promote a culture of Best Value across the organisation. Management has accepted the findings from the audit and agreed actions to address the weaknesses reported.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of The Highland and Islands Transport Partnership (HiTrans).
2. The scope of the audit was set out in an Annual Audit Plan presented to the April 2024 meeting of HiTrans. This Annual Audit Report comprises:
 - significant matters arising from an audit of HiTrans annual accounts
 - conclusions on wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#), which for less complex bodies includes conclusions on financial sustainability and Best Value.
3. This report is addressed to the HiTrans and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment

4. Patricia Fraser has been appointed by the Accounts Commission as auditor of HiTrans for the period from 2022/23 until 2026/27. The 2023/24 financial year was the second of the five-year appointment.
5. We would like to thank board members and staff in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the remainder of the five-year appointment.

Responsibilities and reporting

6. HiTrans has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. HiTrans is also responsible for compliance with legislation and putting arrangements in place for governance and propriety.
7. The responsibilities of an independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the Code of Audit Practice and supplementary guidance and International Standards on Auditing in the UK.
8. The weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues raised and to maintain adequate systems of control.

9. This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

Auditor Independence

10. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2032/24 audit fee of £12,560 as set out in our 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

11. We add value to HiTrans by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice identified.

Part 1. Audit of 2023/24 annual accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

Main judgements

Audit opinions on the annual accounts are unmodified , i.e. the financial statements and related reports are free from material misstatement.

The management commentary, annual governance statement and the audited part of the remuneration report were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.

We identified donated assets of 105 e-bikes with a value of £435k at 31 March 2024 which had not been included in the unaudited primary financial statements or notes to the accounts.

We will review the fee level for the 2024/24 audit to reflect the extent of the issues encountered this year but expect management to take corrective action to ensure similar issues are not encountered next year

Audit opinions on the annual accounts are unmodified

12. The HiTrans Board approved the annual accounts for the year ended 31 March 2024 on 20 September 2024. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report was prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014
- the management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Despite identifying issues with the accounts presented for audit, the 2023/24 annual report and accounts were certified in line with the agreed audit timetable

13. Issues were identified with the accounts presented for audit, particularly in relation to the omission of donated assets. These issues impacted upon the audit resources required to deliver the 2023/24 audit although finance staff did provide good support to the team during the audit process. This allowed us to complete the final accounts audit in line with the agreed audit timetable, and the 2023/24 annual report and accounts were certified on 20 September 2024.

We will review the fee level for the 2023/24 audit to reflect the extent of the issues encountered this year but expect management to take corrective action to ensure similar issues are not encountered next year

14. As detailed in our annual audit plan, in determining the fee for the 2023/24 audit we took account of the risk exposure of HiTrans and the planned management assurances in place. Our fee was also set based on an assumption that HiTrans had effective governance arrangements, would prepare comprehensive and accurate accounts for audit, and there would be no major change in respect of the scope of the audit during the year.

15. Due to the extent of the issues we identified during the year, both in terms of the financial statements and wider audit issues, we had to use additional resources to deliver the 2023/24 audit. We will take account of this when setting the fee for the 2024/25 audit although we expect management to take corrective action to ensure similar issues are not encountered next year.

Overall materiality was assessed on receipt of the annual accounts as £90,000

16. The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the accounts, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

17. Our initial assessment of materiality was carried out during the risk assessment phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£90k
Performance materiality	£63k
Reporting threshold	£5k

Source: Audit Scotland

18. The overall materiality threshold was set with reference to gross expenditure, which was judged as the figure most relevant to the users of the financial statements.

19. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 70% of overall materiality, reflecting the low level of errors in previous years, the lack of significant estimation in the accounts and the non-complex nature of the body.

20. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected. The final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

21. Under ISA (UK) 260, we communicate significant findings from the audit to Highland and Islands Transport Partnership Board including our view about the qualitative aspects of HiTrans accounting practices.

22. The Code of Audit Practice also requires us to highlight key audit matters, which are defined in ISA (UK) 701 as those matters judged to be of most significance. The significant findings, including key audit matters, are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
<p>1. Donated assets</p> <p>We identified donated assets of 105 e-bikes with a value of £435k at 31 March 2024 which</p>	<p>Management adjusted the accounts to correctly reflect ownership of the donated assets.</p> <p>Recommendation 1</p>

Issue	Resolution
<p>were not included in the unaudited primary financial statements or notes to the accounts.</p> <p>As a result income in the CIES and non-current assets in the balance sheet were understated by £435k.</p>	<p>HiTrans should ensure the Annual Accounts comply with proper accounting practices (refer Appendix 1, action plan).</p>
<p>2. Purchase payment card expenses</p> <p>We identified several issues during our audit of expenses including a lack of audit trail, inappropriate expenditure and a lack of controls over approval of expenditure.</p>	<p>We are satisfied that the value of expenses which have been concluded as unsatisfactory is minimal.</p> <p>Recommendation 3</p> <p>Internal audit should perform further work to identify the extent of the issues with purchase card expenses and work with the Partnership Director and management to strengthen controls in this area (refer Appendix 1, action plan).</p>
<p>3. Grant Income</p> <p>We identified grant income of £120k which had been received in March 2024 but had also been accrued at the year end.</p> <p>As a result both income in the CIES and debtors in the balance sheet were overstated by £120k.</p>	<p>Management adjusted the accounts to correct the error.</p>

Source: Audit Scotland

Audit work responded to the risks of material misstatement identified in the annual accounts

23. We have obtained audit assurances over the identified significant risks of material misstatement to the annual accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements identified in the 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Identified significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Test journals at the year-end and post-closing entries and focus on significant risk areas.</p> <p>Consider the need to test journal entries and other adjustments throughout the year.</p> <p>Evaluate significant transactions outside the normal course of business.</p> <p>Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.</p> <p>Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year</p> <p>Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</p> <p>Focussed testing of accounting accruals and prepayments.</p>	<p>We are satisfied that there is no material misstatement arising from this risk.</p> <p>However, audit testing identified items of expenditure which were considered to be inappropriate and therefore outwith the normal course of business (refer Appendix 1, action plan point 3).</p>

24. In addition, we identified one “area of audit focus” in our 2023/24 Annual Audit Plan where we considered there to be other risks of material misstatement to the financial statements:

- **Valuation of IAS19 pension liability:** The liability requires the use of an actuarial methodology based on a range of assumptions including

financial and demographic assumptions. Small movements in these can result in material changes to valuations.

25. We kept these areas under review throughout our audit. Based on the findings of the audit procedures performed, the IAS19 valuation was correctly reflected in the unaudited accounts and there are no matters which we need to bring to your attention.

There were two material adjustments required to the financial statements

26. We identified donated assets of 105 e-bikes with a value of £435k at 31 March 2024 which were not included in the unaudited primary financial statements or notes to the accounts. As a result, income in the CIES and non-current assets in the balance sheet were understated by £435k. Management adjusted the Accounts to correctly reflect ownership of the donated assets.

27. We identified grant income of £120k which had been received in March 2024 but had also been accrued at the year end. As a result both income in the CIES and debtors in the balance sheet were overstated by £120k. Management adjusted the Accounts to remove the duplicate income.

28. Other than the two corrected misstatement, we did not identify any errors above our reporting threshold.

Some progress was made on the prior year recommendations

29. HiTrans has made some progress in implementing the prior year audit recommendations relating to medium-term financial planning and reviewing standing orders on a regular basis. Although medium term financial planning is at an early stage, HiTrans is beginning to look ahead to ensure it is planning effectively so that it can continue to deliver services.

30. One prior year recommendation relating to regular review of standing orders has been actioned in 2023/24.

31. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#)

Part 2. Wider Scope

For less complex bodies, wider-scope audit work considers the financial sustainability of the body and the services that it delivers over the medium to longer-term, and the arrangements for securing Best Value.

Conclusion

We identified several issues in our audit of purchase card expenses including a lack of audit trail, identification of inappropriate expenditure and a lack of controls over approval of expenditure.

The Partnership Director needs to take immediate action to address the issues identified during the 2023/24 audit and to promote a culture of Best Value across the organisation.

HiTrans has no medium or long- term financial plan and needs to develop a strategic approach to planning.

HiTrans reported a year end surplus of £376k on the provision of services

32. HiTrans has reported difficulties in setting budgets for due to the unpredictability of expenditure and income profiles, but HiTrans Director monitors the outturn position on a regular basis and scrutinises ledger transactions on a continuing basis, identifying and resolving any anomalies at an early stage. During 2023/24 HiTrans expenditure and income for the year were both greater than the agreed budgets mainly due to additional expenditure and grant funding of £ 2.1 million for European projects.

33. HiTrans reported a year end surplus on the provision of services of £376k, with net expenditure of £4,275 million and net income of £4,651 million.

34. General Fund reserves increased from £103k at 31 March 2023 to £684k at 31 March 2024, an overall increase of £581k. However, it is worth noting that £71k of the total reserves balance represents usable General Fund reserves with £613k attributable to unusable reserves.

HiTrans has begun planning for medium-term financial plan

35. We have not presently identified any risk to financial sustainability of HiTrans but the public sector is facing continuing funding pressures and HiTrans will find it increasingly challenging to secure sufficient additional funding to deliver on its priorities and outcomes.

36. To date, HiTrans has prepared financial plans on an annual basis. In these fiscally challenging times, planning over the medium-term is essential for HiTrans to understand and manage any risks or threats to its financial sustainability. We are pleased to note that HiTrans is beginning to look ahead to ensure it is planning effectively so that it can continue to deliver services. This is reflected in the 2024/25 Business Plan.

Recommendation 2

HiTrans should continue to progress developing a medium-term financial plan.

We identified several issues in our audit of purchase card expenses including a lack of audit trail, identification of inappropriate expenditure and a lack of controls over approval of expenditure

37. Our audit testing in 2023/24 covered purchase payment expenses included in non-pay expenditure costs. We tested a total of 53 payments relating to travel and hospitality and found several issues including:

- A lack of audit trail for 18 payments.
- Identification of expenditure that did not meet the priorities and objectives of the organisation: Although of minimal value overall, alcohol was included in 19 receipts and there were payments of tips included in 4 receipts. While spending on alcohol is not specifically disallowed per HiTrans approved expenses policy, our view is that it is inappropriate use of public funds.
- A lack of controls over approval of expenditure.
- A need to demonstrate consideration of value for money relating to hospitality.

38. Our testing of purchase card expenses is not exhaustive and only covers the financial year 2023/24. The issues identified may have been present in prior years.

Recommendation 3

Internal audit should perform further work to identify the extent of the issues with purchase card expenses and work with the Partnership Director and management to strengthen controls in this area.

39. HiTrans has adopted the financial regulations, and standing orders of Highland Council but has its own expenses policy. We noted that the expenses policy does not disallow the purchase of alcohol.

Recommendation 4

Management should review the standing orders, financial regulations and policies to ensure they are appropriate for the operations of HiTrans.

The Partnership Director needs to take immediate action to address the issues identified during the 2024/25 audit and to promote a culture of Best Value across the organisation

40. HiTrans is required to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

41. As detailed in this report, we have identified instances during the 2023/24 audit that indicate that HiTrans does not fully demonstrate good financial management in its business activities. The Partnership Director needs to take immediate action to address these issues and to promote a culture of Best Value across the organisation.

42. Management has accepted the findings from the audit and agreed actions to address the weaknesses reported.

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Donated assets</p> <p>We identified donated assets of 105 e-bikes with a value of £435k at 31 March 2024 which were not included in the unaudited primary financial statements or notes to the accounts.</p> <p>It is the responsibility of HiTrans to ensure assets and liabilities are properly accounted for and presented in the Annual Accounts.</p> <p>There is a risk the financial statements are materially misstated.</p>	<p>HiTrans should ensure the Annual Accounts comply with proper accounting practices (refer paragraph 26).</p>	<p>Accepted</p> <p>The e-Bikes have been accounted for within the HiTrans accounts. There will be a closer link within the HiTrans team and the Finance team with regards to financial practices.</p> <p>Responsible officer: Treasurer</p> <p>Agreed date: Immediately</p>
<p>2. Medium-term financial plan</p> <p>To date, HiTrans has prepared financial plans on an annual basis. In these fiscally challenging times, planning over the medium-term is essential for HiTrans to understand and manage any risks or threats to its financial sustainability.</p> <p>We are pleased to note that HiTrans is beginning to look ahead to ensure it is planning effectively so that it can continue to deliver services.</p>	<p>HiTrans should continue to progress developing a medium-term financial plan (refer paragraphs 34-35).</p>	<p>Accepted</p> <p>HiTrans will work with other RTPs to understand if there is an approach we can follow collectively to fully address this issue for 2025-26</p> <p>Responsible officer: Partnership Director</p> <p>Agreed date: 31 January 2025</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>This is reflected in the 2024/25 Business Plan.</p> <p>There is a risk that HiTrans cannot deliver on the priorities and outcomes set out in its Regional Transport Strategy.</p>		
<p>3. Purchase card expenses</p> <p>We identified several issues in our audit of purchase card expenses including a lack of audit trail, identification of inappropriate expenditure and a lack of controls over approval of expenditure.</p> <p>There is a risk that the use of public funds does not meet the priorities or objectives of HiTrans.</p>	<p>Internal audit should work with the Partnership Director and management to strengthen controls in this area (refer paragraphs 36-37).</p>	<p>Partially Accepted</p> <p>All PC expenses are approved by the Partnership Director or his nominated management team before being forwarded to the FO at HC for processing. The checks are made against diaries which are all shared, this contains information regarding the meeting and who attended.</p> <p>During the current financial year HiTrans staff will be set up on CIA/Tech 1 which is the new financial system so that the audit trail of the approval can be better recorded and demonstrated.</p> <p>Responsible officer: Partnership Director</p> <p>Agreed date: March 2025</p>
<p>4. Key governance documents</p> <p>HiTrans has adopted the financial regulations, and standing orders of Highland Council but has its own expenses policy. We noted that the expenses policy does not disallow the purchase of alcohol.</p> <p>There is a risk that key governance documents do not reflect the priorities of HiTrans.</p>	<p>Management should review the standing orders, financial regulations and policies to ensure they are appropriate for the operations of HiTrans (refer paragraph 38).</p>	<p>Accepted</p> <p>Expense Allowance Policy will be revised to disallow the purchase of alcohol and reduce the maximum allowance for meals to support Best Value.</p> <p>Responsible officer: Partnership Director</p> <p>Agreed date: 1 October 2024</p>

Follow-up of prior year recommendations

Issue/risk	Agreed action	Update
<p>1. Expenditure</p> <p>We performed a review of expenditure in the financial ledger and substantively tested a total of 15 items.</p> <p>We found some items of expenditure which had been approved by HiTrans Director but did not fully comply with the policies and objectives of HiTrans.</p> <p>We also identified items of expenditure which had been processed through individuals' expenses without receipts.</p> <p>There is a risk of misappropriation or misuse of public funds that do not meet the priorities or objectives of HiTrans.</p>	<p>HiTrans is always mindful on what budgets are spent on, and always ensure they and their partners are getting good value for money. Managers have been reminded that receipts should be attached to all expenses, missing receipts are in the minority.</p> <p>Original Date: By 2023/24.</p>	<p>Superseded by recommendation 3 above.</p>
<p>2. Financial sustainability</p> <p>To date, HiTrans has prepared financial plans on an annual basis due to partner bodies providing annual funding on a consistent basis.</p> <p>In these fiscally challenging times, planning over the medium term is essential for HiTrans to understand its financial prospects and manage any risks or threats to financial sustainability.</p> <p>There is a risk to financial sustainability and the ability of HiTrans to deliver on its priorities and outcomes.</p>	<p>A medium-term financial plan will be produced in line with the 2024/25 budget setting.</p> <p>Original Date: March 2024</p>	<p>Ongoing</p> <p>We have highlighted our report that HiTrans is beginning to look ahead to ensure it is planning effectively so that it can continue to deliver services. This is reflected in the 2024/25 Business Plan.</p>
<p>3. Standing Orders</p>	<p>Standing Orders are reviewed when any changes</p>	<p>Complete</p> <p>The Standing Orders are reviewed annually, however</p>

Issue/risk	Agreed action	Update
<p>HiTrans has adopted Highland Council Standing Orders.</p> <p>We found that the Standing Orders have not been reviewed by HiTrans since 2016.</p> <p>There is a risk that the Standing orders may not be complete or up to date.</p>	<p>are communicated to HiTrans.</p>	<p>they should be updated per recommendation 4 above.</p>

Highland and Islands Transport Partnership

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit: www.audit-scotland.gov.uk/accessibility



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk