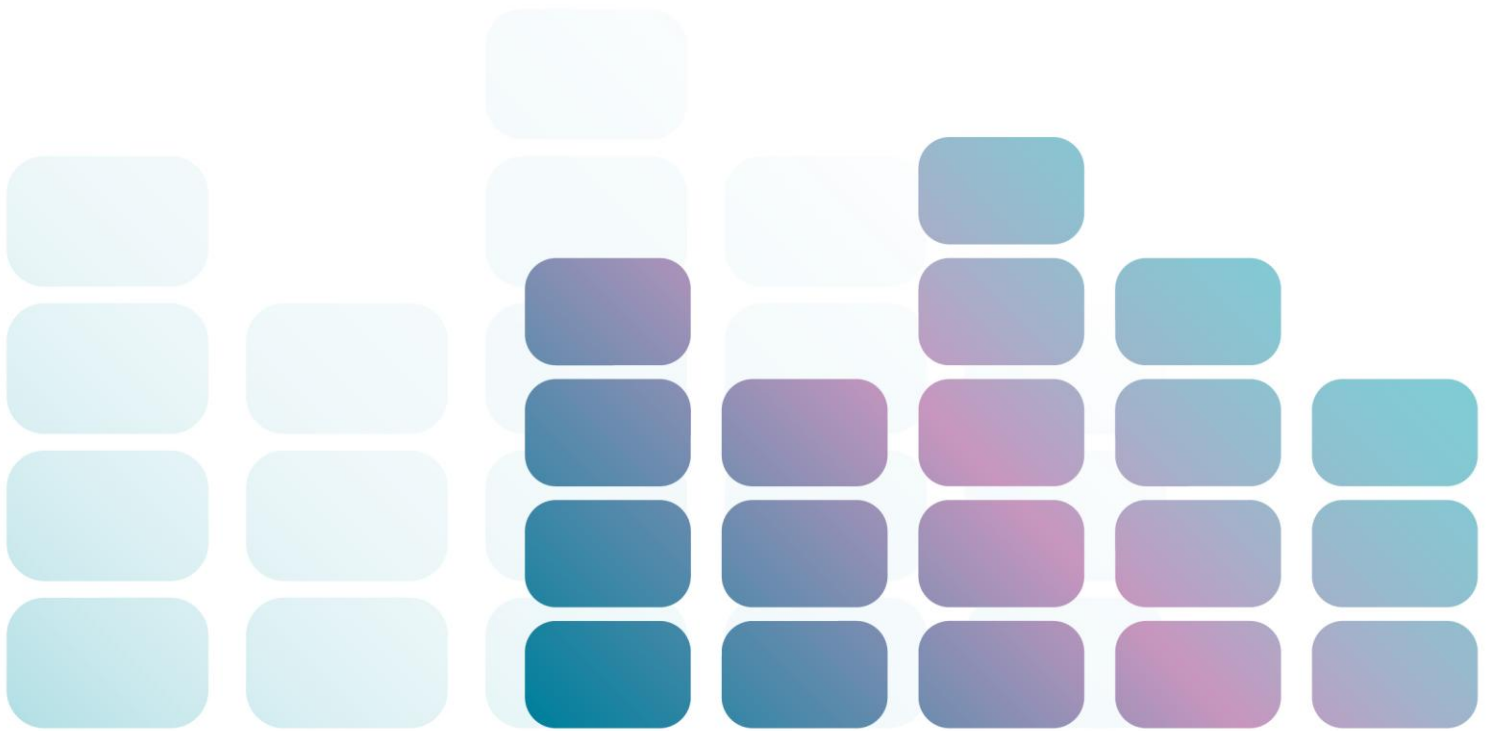


Highlands and Islands Transport Partnership

2024/25 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Highlands and Islands Transport Partnership and the Controller of Audit
November 2025

Contents

Key messages	3
Introduction	4
Audit scope and responsibilities	5
Audit of the annual accounts	7
Financial Sustainability and Best Value audit	14
Appendix 1	16
Appendix 2	21

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Key messages

Audit of the annual accounts

- 1 All audit opinions stated that the annual accounts were free from material misstatement.
- 2 We have three significant findings to report, two relating to errors in accounting treatment, and one relating to the identification of related party transactions. All audit adjustments required to correct the financial statements were processed by Highlands and Islands Transport Partnership.

Financial Sustainability and Best Value audit

- 3 Highlands and Islands Transport Partnership has effective and appropriate arrangements in place for securing financial sustainability. During 2024/25 it approved a five-year medium term financial plan.
 - 4 Highlands and Islands Transport Partnership has made improvements to policy documents to ensure it has effective and appropriate arrangements in place for securing Best Value.
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Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2024/25 audit of Highlands and Islands Transport Partnership's annual accounts and the wider scope areas specified in the [Code of Audit Practice \(2021\)](#).
2. The Annual Audit Report is addressed to Highlands and Islands Transport Partnership, hereafter referred to as 'HITRANS', and the Controller of Audit, and will be published on [Audit Scotland's website](#) in due course.

Appointed auditor and independence

3. Patricia Fraser, of Audit Scotland, was appointed as external auditor of HITRANS for the period from 2022/23 until 2026/27. During the year there was a change in engagement lead, and Pamela Morrison, of Audit Scotland, was appointed as external auditor of HITRANS for the period from 2024/25 until 2026/27. As reported in the Annual Audit Plan, the audit team are independent of HITRANS in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team from HITRANS, including no provision of non-audit services.

Acknowledgements

4. We would like to thank HITRANS and its staff, particularly those involved in preparation of the annual accounts, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the five-year audit appointment.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An opinion on statutory other information published with the financial statements in the annual accounts, namely the Management Commentary and Annual Governance Statement.
- An opinion on the audited part of the Remuneration Report.
- Concluding on the financial sustainability of HITRANS and a review of the Annual Governance Statement.
- Reporting on HITRANS arrangements for securing Best Value.
- Provision of this Annual Audit Report.

Responsibilities and reporting

6. The Code of Audit Practice sets out the respective responsibilities of HITRANS and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information reported within the annual accounts, and concluding on HITRANS' arrangements in place for the wider scope areas and Best Value.

8. The matters reported in the Annual Audit Report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve HITRANS from its responsibilities outlined below.

9. The Annual Audit Report includes an agreed action plan at [Appendix 1](#) setting out specific recommendations to address matters identified and includes details of the responsible officer and dates for implementation.

HITRANS' responsibilities

10. HITRANS has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of annual accounts, comprising financial statements that gives a true and fair view and other specified information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

National and performance audit reporting

11. The Auditor General for Scotland and the Accounts Commission regularly publish national and performance audit reports. These cover a range of matters, many of which may be of interest to HITRANS. Details of national and performance audit reports published over the last year can be seen in [Appendix 2](#).

Audit of the annual accounts

Main judgements

All audit opinions stated that the annual accounts were free from material misstatement.

We have three significant findings to report, two relating to errors in accounting treatment, and one relating to the identification of related party transactions. All audit adjustments required to correct the financial statements were processed by Highlands and Islands Transport Partnership.

Audit opinions on the annual accounts

12. HITRANS annual accounts were approved by the Partnership Board and certified by the appointed auditor on 7 November 2025. The Independent Auditor's Report is included in HITRANS annual accounts, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.



Audit timetable

13. The unaudited annual accounts and all working papers were received on 26 June 2025 in accordance with the agreed audit timetable.

Audit Fee

14. The audit fee for the 2024/25 audit was reported in the Annual Audit Plan and was set at £12,800. There have been no developments that impact on planned audit work required, therefore the audit fee reported in the Annual Audit Plan remains unchanged.

Materiality

15. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual accounts.

16. The concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual accounts. Auditors set a monetary

threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

17. Materiality levels for the audit of HITRANS were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. Materiality levels were reassessed and updated on receipt of the unaudited annual accounts and can be seen in [Exhibit 1](#).

Exhibit 1

2024/25 Materiality levels for Highlands and Islands Transport Partnership

Materiality	HITRANS
Materiality – set at 2% of gross expenditure.	£75,000
Performance materiality – set at 60% of materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required.	£45,000
Reporting threshold – set at 5% of materiality.	£4,000

Source: Audit Scotland

Significant findings and key audit matters

18. ISA (UK) requires auditors to communicate significant findings from the audit to those charged as governance, which for HITRANS is the Partnership Board.

19. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

20. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

21. The significant findings and key audit matters to report are outlined in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters

Significant findings and key audit matters	Outcome
<p>Accounting treatment of bike docks payment</p> <p>HITRANS incorrectly recognised a £58k payment for a capital asset as expenditure in 2024/25. As the asset had not been received by the year-end it should not be capitalised.</p> <p>As a result of this expenditure was overstated by £58k and current assets were understated by the same amount.</p>	<p>Management has made the necessary adjustments in the audited 2024/25 annual accounts. The impact of this is to reduce expenditure by £58k and recognise a prepayment for the same amount, reflecting the timing of asset ownership.</p> <p>This has reduced the total comprehensive expenditure by £58k and increased net assets by the same amount.</p> <p>A review of the expenditure transaction listing did not identify any further transactions of a similar nature.</p> <p>Recommendation 1 (Appendix 1, action plan)</p>
<p>Reversal of 2023/24 accrued income included in expenditure</p> <p>Audit testing found the reversal of 2023/24 accrued income had been incorrectly coded to expenditure in the 2024/25 annual accounts. This was a coding error and resulted in both income and expenditure being inflated by £679k.</p>	<p>Management has made the necessary adjustments in the audited 2024/25 annual accounts. This has reduced the value of income and expenditure by £679k, having a nil effect on the total comprehensive expenditure.</p>
<p>Related party transactions</p> <p>Our audit work found that the controls in place for identifying and disclosing related party relationships and transactions could be strengthened by considering the Partnership Director's register of interest.</p> <p>We also noted that the related parties note disclosure in the annual accounts could be improved by confirming that Board members and senior employees were considered.</p>	<p>Review of the Partnership Director's register of interest confirmed that the related parties note is complete.</p> <p>The related parties disclosure has been updated to reflect consideration of the senior employee and Board members' transactions.</p> <p>Recommendation 2 (Appendix 1, action plan)</p>

Qualitative aspects of accounting practices

22. ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of HITRANS accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

Accounting policies

23. The appropriateness of accounting policies adopted by HITRANS was assessed as part of the audit. These were considered to be appropriate to the circumstances of HITRANS, and there were no significant departures from the accounting policies set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Accounting estimates

24. Accounting estimates are used in number of areas in HITRANS financial statements, including the valuation of the pension asset. Audit work considered the process management of HITRANS has in place around making accounting estimates, including the assumptions and data used in making the estimates, and the use of any management experts. Audit work concluded:

- There were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable.
- There was no evidence of management bias in making the accounting estimates.

Disclosures in the financial statements

25. The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional levels of detail provided for disclosures around areas of greater sensitivity, such as valuation of the pension scheme.

Significant matters discussed with management

26. All significant matters identified during the audit and discussed with HITRANS management have been reported in the Annual Audit Report.

Audit adjustments

27. [Exhibit 2](#) outlines the two audit adjustments that were required to the financial statements to correct misstatements that were identified from the audit.

28. Management of HITRANS processed audit adjustments for all misstatements identified greater than the reporting threshold. As a result, there are no uncorrected misstatements to report.

Significant risks of material misstatement identified in the Annual Audit Plan

29. Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in [Exhibit 3](#).

Exhibit 3**Significant risks of material misstatement to the financial statements**

Risk of material misstatement	Planned audit response	Outcome of audit work
<p>Fraud caused by management override of controls</p> <p>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>The audit team will:</p> <ul style="list-style-type: none"> • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end. • Consider the need to test journal entries and other adjustments throughout the year. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focused testing of accounting accruals and prepayments. 	<p>Audit work performed found:</p> <ul style="list-style-type: none"> • No inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting. • No significant issues were identified from testing of journal entries. • There were no significant transactions outside the normal course of business. • The controls for identifying and disclosing related party transactions could be strengthened, see Exhibit 2. • No significant issues were identified with changes to methods and underlying assumptions used to prepare accounting estimates and there was no evidence of management bias. • No significant issues were identified from testing income and expenditure transactions at year end. • No significant issues were identified from testing accounting accruals and prepayments. <p>Conclusion: We did not identify any instances of management override of controls.</p>

Source: Audit Scotland

30. We report in [Exhibit 3](#) how we have responded to the significant risk of material misstatement identified in the annual audit plan. We also identified one area of audit focus in the annual audit plan which is reported as a key audit matter:

- Pension valuation – we utilised the work of PwC as auditor expert in assessing the reasonableness of the methodology used and assumptions made by the actuary Hyman Robertson LLP, in arriving at the IAS 19 pension valuation as at 31 March 2025. We have reviewed the assumptions applied by the actuary in arriving at the asset ceiling cap and are satisfied that this is in accordance with IFRIC 14. We assessed the scope, independence and competence of the actuary engaged in providing pension estimates and reviewed the appropriateness of the actuarial assumptions and their results and compared these with similar organisations. No issues were noted from this work. We also considered management’s arrangements for ensuring the reasonableness of the professional estimations and the accuracy of information provided to the actuary. We concluded the arrangements were adequate.

Prior year recommendations

31. HITRANS has made progress in implementing the agreed prior year audit recommendations as further detailed in [Appendix 1](#).

Financial Sustainability and Best Value audit

Conclusion

Highlands and Islands Transport Partnership has effective and appropriate arrangements in place for securing financial sustainability. During 2024/25 it approved a five-year medium term financial plan.

Highlands and Island Transport Partnership has made improvements to policy documents to ensure it has effective and appropriate arrangements in place for securing Best Value.

Audit approach to wider scope and Best Value

Wider scope

32. The Annual Audit Plan reported that HITRANS was considered to be a less complex body for the wider scope audit. Therefore, the wider scope audit does not cover all four wider scope areas and is instead limited to concluding on the financial sustainability of HITRANS.

Best Value

33. Under the Code of Audit Practice, the duty on auditors to consider the arrangements an audited body has in place to secure Best Value applies to audited bodies that fall within section 106 of the Local Government (Scotland) Act 1973, which HITRANS does.

34. Consideration of the arrangements HITRANS has in place to secure Best Value have been carried out alongside the wider scope audit.

Conclusions on Financial Sustainability

35. The 2025/26 budget was approved at the February 2025 Partnership Board meeting. The 2025/26 budget shows a balanced year end position, with income and expenditure increasing by £0.996 million (27.8 per cent) from 2024/25. The increase in expenditure relates to programme costs, that is being met through additional grant funding.

36. We note that income and expenditure are monitored regularly throughout the year and generally on a monthly basis. Changes in expectations around the estimated outturn of income and expenditure

items against budgeted figures are reported to the Partnership Board at their quarterly meetings as part of the revenue monitoring.

Medium-Term Financial Plan

37. We reported in our 2023/24 Annual Audit Report that HITRANS prepared financial plans on an annual basis and we recommended it should continue to progress developing a medium-term financial plan. In February 2025 a five-year financial plan, covering the period up to 2029/30, was presented to the Partnership Board. This is a rolling five-year plan and provides a range of scenarios for key variables used in the budgeting and planning for HITRANS.

38. The medium-term plan considers activities deliverable through core funding, and those enabled by project specific grant funding. It also considers risk to delivery of key performance indicators, behaviour change, and economic and social wellbeing.

39. We consider that current arrangements are sufficient to demonstrate the ongoing financial sustainability of HITRANS.

Conclusions on Best Value

40. We reported in our 2023/24 Annual Audit Report that the Partnership Director should take immediate action to address issues identified in the audit and promote a culture of Best Value across the organisation. Management agreed to revise the Expense Allowance Policy to disallow the purchase of alcohol and reduce the maximum allowance for meals.

41. A revised expense policy was introduced by management on 1 October 2024. Management considered a best value review across the policy and confirmed that no reimbursement will be made for the cost of any alcohol purchased.

42. An internal audit review of HITRANS purchase card expenses during October 2024 and February 2025 found a high level of compliance with the updated allowance policy. It also confirmed that effective controls are in place to ensure that purchase card expenses are appropriate with purchases validated by supporting documentation.

43. During our audit of the 2024/25 financial year, we noted that several key governance documents were outdated, with some not having been reviewed for up to ten years. Management undertook a review of HITRANS' governance documents and policies in Spring 2025, following the introduction of a new expenses policy. Work is ongoing to ensure all governance documents are updated and maintained appropriately.

Appendix 1

Action plan 2024/25

2024/25 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
<p>1. Accounting treatment of capital assets</p> <p>HITRANS incorrectly recognised a £58k payment for a capital asset as expenditure in 2024/25. As the asset had not been received by the year-end it should not be capitalised.</p> <p>As a result of this expenditure was overstated by £58k and current assets were understated by the same amount.</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>Risk: The financial statements are materially misstated.</p>	<p>HITRANS should ensure the Annual Accounts comply with proper accounting practices.</p>	<p>Agree action: A new Asset Management Framework was introduced in April 2025 (post year-end), which strengthens the processes around recognition, tracking, and accounting of capital assets. This framework will ensure that any delays in the delivery of equipment or assets are promptly identified and reported, with appropriate accounting treatment applied at the earliest opportunity. This will be supported through additional checks within year end accounting processes to help to identify any pre-payments that should be included within the accounts to prevent recurrence of similar circumstances and ensure compliance with proper accounting practices.</p> <p>Responsible officer: Partnership Director and Partnership Treasurer</p> <p>Agreed date: March 2026</p>

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
<p>2. Related Parties</p> <p>Our audit work found that the controls in place for identifying and disclosing related party relationships and transactions could be strengthened by considering the Partnership Director's register of interest.</p> <p>We also noted that the related parties note disclosure in the annual accounts could be improved by confirming that Board members and senior employees were considered.</p> <p>Risk: The related party relationships and transactions may not be fully identified or appropriately disclosed in the financial statements.</p>	<p>HITRANS should enhance its related party identification and disclosure procedures by incorporating the Partnership Director's register of interests into the review process. It should also ensure that all Board members and senior employees are explicitly considered when preparing the related parties note in the annual accounts.</p>	<p>Agree action: The HITRANS website has been updated to include the Partnership Director's Register of Interests, ensuring greater transparency and more robust identification of related party relationships. This update was completed on 16 October 2025. Going forward, the review of related party disclosures will explicitly include reference to the Partnership Director's register, and confirmation that all Board members and senior employees have been considered during preparation of the annual accounts.</p> <p>Responsible officer: Partnership Director</p> <p>Agreed date: 16 October 2025</p>

Follow-up of 2023/24 recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
<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.</p> <p>Agreed action: Closer link with the HITRANS team and the Finance team with regards to financial practices.</p> <p>Responsible officer: Treasurer</p> <p>Agreed date: Immediately</p>	<p>Ongoing</p> <p>Officers developed an Asset Management Plan that was approved by the Partnership Board in April 2025. The plan will support recording of assets moving forward.</p> <p>See 2024/25 Recommendation 1</p>

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
<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>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>HITRANS should continue to progress developing a medium-term financial plan.</p> <p>Agreed action: 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>	<p>Implemented</p> <p>HITRANS presented its five-year medium term financial plan at the February 2025 Partnership Board meeting. This was then approved as part of the Business Plan by the Partnership Board in April 2025.</p> <p>The financial plan also considers risk to delivery of key performance indicators, behaviour change, and economic and social wellbeing.</p>

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
<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</p> <p>Agreed action: 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>Implemented</p> <p>Internal Audit conducted a detailed review of HITRANS Purchase Card expenses and management process that found a high level of compliance with the updated allowance policy. It also confirmed that effective controls are in place to ensure that purchase card expenses are appropriate with purchases validated by supporting documentation. The period covered by the audit was October 2024 to February 2025.</p> <p>Our testing of purchase card expenses over this period did not identify any issues.</p> <p>After investigation by Highland Council, it has not been possible to set HITRANS staff up on the CIA/Tech 1 and any action to amend this would need to rest with Highland Council as it relates to their system.</p>

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
<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.</p> <p>Agreed action: 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>	<p>Implemented</p> <p>A new Expense Allowance Policy was implemented with effect from 1 October 2024. This complies fully with the recommendation of the Audit and the implementation of the policy was validated by the Internal Audit of the policy and process which found that the new Expense Allowance Policy had been followed.</p> <p>Management undertook a review of HITRANS' governance documents and policies in Spring 2025 to ensure these were up-to-date and appropriate.</p>

Appendix 2

Supporting national and performance audit reports

Report name	Date published
Local government budgets 2024/25	15 May 2024
The National Fraud Initiative in Scotland 2024	15 August 2024
Transformation in councils	1 October 2024
Fiscal sustainability and reform in Scotland	21 November 2024
Public service reform in Scotland: how do we turn rhetoric into reality?	26 November 2024
Auditing climate change	7 January 2025
Local government in Scotland: Financial bulletin 2023/24	28 January 2025
Transparency, transformation and the sustainability of council services	28 January 2025
Sustainable transport	30 January 2025

Highlands and Islands Transport Partnership

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