

Highlands and Islands Transport Partnership

Report to Members and the Controller of Audit on the 2006/07 Audit



9 October 2007



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Introduction

1. This report summarises the findings from our 2006/07 audit of Highlands and Islands Transport Partnership. The scope of the audit was set out in our audit fee letter issued on 1 February 2007.
2. The financial statements of the Partnership are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. It is the responsibility of the Partnership to prepare financial statements that present fairly its financial position and the income and expenditure for the year.
3. The members and officers of the Partnership are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
 - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed;
 - the Partnership's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests;
 - the Partnership has adequate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability;
 - the systems of internal control provide an appropriate means of preventing or detecting material misstatement, error, fraud or corruption;
 - the Partnership has proper arrangements for securing best value in its use of resources.



Financial statements

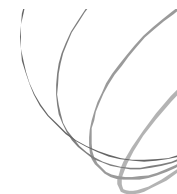
Introduction

4. In this section we summarise key outcomes from our audit of the Partnership's financial statements for 2006/07. We also summarise key aspects of the Partnership's reported financial position and performance to 31 March 2007.
5. We audit the financial statements and give an opinion on:
 - whether they present fairly the financial position of the Partnership and its expenditure and income for the year; and
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
6. We also review the Statement on the System of Internal Financial Control by considering the adequacy of the process put in place by the Partnership to obtain assurances on systems of governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the Partnership.

Overall conclusion

7. We have given an **unqualified** opinion on the financial statements of Highlands and Islands Transport Partnership for 2006/07.
8. A first draft of the unaudited financial statements was submitted to the Controller of Audit on 27 June prior to the deadline of 30 June. The first draft had classified grants made to Highlands and Islands Transport Partnership for constituent authorities as capital grants and as such they were excluded from the Income and Expenditure Account. This classification was incorrect and as a result a revised draft of the financial statements incorporating a re-classification of these items was submitted to the Controller of Audit by the deadline of 30 June 2007. The Treasurer should review procedures for preparing financial statements to ensure all income and expenditure is accurately reflected in future financial statements.

Action point 1



9. The Partnership is required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the 'SORP'). The SORP requires all bodies to provide an objective analysis in the income and expenditure account whereas the Partnership uses a subjective analysis. I acknowledge that guidance on the presentation of the income and expenditure account was unavailable at the time the financial statements were prepared. I would suggest the format of the income and expenditure account is reviewed prior to the preparation of the 2007/08 financial statements to ensure compliance with the SORP. In my view, although the analysis is inconsistent with the SORP the financial statements present fairly the financial position at 31 March 2007.

Action point 2

Financial position

Going concern

10. The Partnership's balance sheet at 31 March 2007 shows net liabilities of £19,000. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on the financial statements. One of the indicators that may give rise to going concern considerations is an excess of liabilities over assets.
11. The net liability position is due to the requirements of Financial Reporting Standard 17 (retirement benefits) where there is an obligation to recognise the Partnership's full pension obligations in the year they are earned. This technical accounting requirement has had no impact on the underlying basis for meeting current and ongoing pension liabilities which will be met from employer's contributions and investment returns. In common with similar authorities, the Partnership has considered it appropriate to adopt a going concern basis for the preparation of the financial statements.

Revenue performance 2006/07

12. The Board's total revenue expenditure for 2006/07 amounted to £5.43 million. This was met by partners' contributions of £0.2 million, specific grants of £5.115 million from Scottish Executive and other income and interest of £0.115 million.
13. The Treasurer summarises performance against budget in his Report to the Partnership contained in the financial statements. Overall there was an overspend of £0.047 million against a budget of £5.383 million.



Financial outlook – pension liabilities

14. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long and the estimation process is complex involving many areas of uncertainty that are the subject of assumptions. An Audit Scotland report on public sector pension schemes published in June 2006 highlighted that the combined funding shortfall and unfunded liabilities of the six local government pension schemes in Scotland may be as high as £53 billion.
15. In accounting for pensions, FRS 17 is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in future liabilities being recognised in the annual accounts. The Partnership's estimated pension liabilities at 31 March 2007 exceeded its share of the assets in the Highland Council Pension Fund by £19,000.

Legality

16. Each year we request written confirmation from the Treasurer that the Partnership's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The Treasurer has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of other senior officers, the financial transactions of the Partnership were in accordance with the relevant legislation and regulations governing its activities.
17. There are no additional legality issues arising from our audit which require to be brought to members' attention.



Governance

Introduction

18. In this section we comment on key aspects of the Partnership's governance arrangements during 2006/07.

Overview of arrangements in 2006/07

19. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviours at the upper levels of the organisation. The Partnership has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.
20. A Statement on the System of Internal Financial Control is included within the annual financial statements, and highlights the Treasurer's view that reasonable assurance can be placed upon the adequacy and effectiveness of the Partnership's internal financial control system.
21. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.

Systems of internal control

22. The Partnership's financial transactions are processed through Highland Council's financial systems. It is the responsibility of the Council's management to maintain adequate financial systems and associated internal controls. The auditor evaluates significant financial systems and associated internal controls both for the purpose of giving an opinion on the financial statements and as part of a review of the adequacy of governance arrangements.
23. Our review of these systems was conducted as part of the audit of Highland Council, supplemented by specific audit work on the Partnership's financial statements.
24. Our review highlighted that two invoices totalling £0.272 million from a constituent authority were paid twice by HITRANS. This arose due to the constituent authority submitting original invoices on each occasion. We would suggest the Treasurer reviews procedures to minimise the possibility of this recurring.

Action point 3



Prevention and detection of fraud and irregularities

25. The Partnership does not have in place its own arrangements for the prevention and detection of fraud and corruption, but complies with the relevant policies of Highland Council.



Final Remarks

26. Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of the Board. The action plan sets out management's response to the identified risks.
27. The members of Highlands and Islands Transport Partnership are invited to note this report. We would be pleased to provide any additional information that members may require.
28. The co-operation and assistance given to us by officers of the Partnership is gratefully acknowledged.

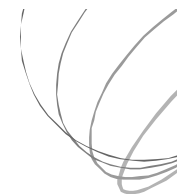
Audit Scotland
9 October 2007



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
1	8	<p>Financial statements</p> <p>An initial review of the financial statements identified the incorrect classification of grants made to Highlands and Islands Transport Partnership for constituent authorities. A revised draft of the financial statements incorporating a re-classification of these items was submitted to the Controller of Audit by the deadline of 30 June 2007.</p> <p><i>Risk: the financial statements do not fairly reflect all HITRANS' financial transactions.</i></p>	<p>The Treasurer will review procedures for preparing financial statements to ensure all income and expenditure is accurately reflected in future financial statements</p>	Treasurer	March 2008
2	9	<p>Financial statements</p> <p>The Statement Of Recommended Practice (SORP) requires all bodies to provide an objective analysis in the income and expenditure account whereas the Partnership uses a subjective analysis. I would suggest the format of the income and expenditure account is reviewed prior to the preparation of the 2007/08 financial statements to ensure compliance with the SORP.</p> <p><i>Risk: the financial statements do not comply with accounting requirements.</i></p>	<p>In our view, the SORP does not contain an appropriate format for transport partnerships at present.</p> <p>We will pursue this issue at a national level with a view to getting agreement on a standard format for transport partnerships for the 2007/08 financial statements.</p>	Treasurer	March 2008



Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
3	24	Systems of internal control Two invoices totalling £0.272 million from a constituent authority were paid twice by HITRANS. This arose due to the constituent authority submitting original invoices on each occasion. <i>Risk: the financial statements overstate HITRANS' financial expenditure.</i>	The Council has this constituent authority on its accounts payable system as separate suppliers under its English and Gaelic names. We will remove one of the suppliers from the accounts payable system.	Treasurer	November 2007