

# Highlands and Islands Transport Partnership

Report to Members and the Controller of Audit on the 2007/08 Audit



23 September 2008

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# Introduction

1. This report summarises the findings from our 2007/08 audit of Highlands and Islands Transport Partnership. It covers the key outcomes from our audit of the financial statements and review of the Partnership's governance arrangements. In each section we also provide an outlook on future issues and our views on potential risks. The scope of the audit was set out in our annual audit plan issued on 15 February 2008.
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 2007/08. We also summarise key aspects of the Partnership's reported financial position and performance to 31 March 2008.
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 2007/08.
8. The Joint Board is required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the 'SORP'). Overall, we were satisfied that the financial statements were prepared in accordance with the SORP. There were no adjustments made to the figures included in the un-audited financial statements provided for public inspection.
9. In our Report to Members and the Controller of Audit on the 2006/07 Audit we referred to one matter where the financial statements did not comply with the SORP, i.e. providing a subjective objective analysis in the income and expenditure account whereas the SORP requires an objective analysis. We acknowledged that guidance on the presentation of the income and expenditure account was unavailable at the time the financial statements were prepared. The format of the income and expenditure account was revised in 2007/08 to provide an objective analysis in compliance with the SORP.



## Financial position

### Revenue performance 2007/08

10. The Board's total revenue expenditure for 2007/08 amounted to £6.044 million. This was met by partners' contributions of £0.2 million, specific grants of £5.671 million from Scottish Executive and other income and interest of £0.173 million.
11. The Treasurer summarises performance against budget in his Report to the Partnership contained in the financial statements. Overall expenditure exceeded the budget of £5.889 million by £0.155 million (2.6%). This was offset by additional income of £0.155 million resulting in no variance from the net budget.

### Financial outlook – pension liabilities

12. 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 and involves many areas of uncertainty that are the subject of assumptions.
13. 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 assets at 31 March 2008 exceeded its share of the liabilities in the Highland Council Pension Fund by £9,000.
14. The actuary is required to make a three-year assessment of the contributions that should be paid by the employing authorities to maintain the solvency of the fund. The contribution levels are based on percentages of employee contributions, normally 6% of salary. The actuary's assessment shows that contributions from employing authorities are expected to rise from 280% of employee contributions in 2007/08 to 290% in the 2008/09 financial year.

## Legality

15. 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.
16. There are no additional legality issues arising from our audit which require to be brought to members' attention.



# Governance

## Introduction

17. In this section we comment on key aspects of the Partnership's governance arrangements during 2007/08.

## Overview of arrangements in 2007/08

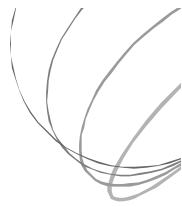
18. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviours at the upper levels of the organisation. The Partnership has a responsibility to put in place arrangements for the conduct of its affairs, to ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.
19. 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. The statement complies with accounting requirements and is consistent with the findings of our audit.

## Systems of internal control

20. 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.
21. Our review of these systems was conducted as part of the audit of the Highland Council, supplemented by specific audit work on the Partnership's financial statements. Overall there are no material issues of concern in relation to the operation of the main financial systems.

## Prevention and detection of fraud and irregularities

22. 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

23. 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.
24. The co-operation and assistance given to us by officers of the Partnership and Highland Council is gratefully acknowledged.

**Audit Scotland**  
**23 September 2008**