

# Highlands and Islands Transport Partnership

## Annual report on the 2012/13 audit



Prepared for members of Highlands and Islands Transport Partnership and the Controller of Audit  
October 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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# Key Messages

## 2012/13

We have given an unqualified opinion that the financial statements of Highland and Islands Transport Partnership ('the Partnership') for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

No significant issues were identified during the course of our audit.

Overall, the Partnership's arrangements for the prevention and detection of fraud were satisfactory during 2012/13.

## Outlook

We confirm the financial sustainability of the Partnership on the basis of its financial position at present, but going forward this will continue to be challenging with no increase in the funding from constituent councils for 2013/14 and similar levels of funding from other sources coupled with increasing cost pressures. This represents a challenge for the Partnership and expenditure during the year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage.

# Introduction

1. This report summarises the findings from the 2012/13 audit of Highlands and Islands Transport Partnership (the Partnership). The nature and scope of the audit were outlined in the Audit Plan presented to the Partnership Board in April 2013, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the public sector audit model.
2. Audit is an essential element of accountability and the process of public reporting. This report is addressed to members and the Controller of Audit and should form a key part of discussions with the Partnership Board. The report will be published on our website and its information may be used for the Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
3. The management of the Partnership is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
4. The co-operation and assistance given to us by Highland and Islands Transport Partnership members and staff is gratefully acknowledged.

# Financial statements

5. The Partnership's financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
6. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
  - whether they give a true and fair view of the financial position of the Partnership and its expenditure and income
  - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
7. We also review and report on, as appropriate, other information published with the financial statements, including the Explanatory Foreword, Statement on the System of Internal Financial Control and the Remuneration Report. This section summarises the results of our audit on the financial statements.

## Audit opinion

8. We gave an unqualified opinion that the financial statements of Highlands and Islands Transport Partnership gave a true and fair view of the state of the affairs of the Partnership as at 31 March 2013 and of the income and expenditure for the year then ended.

## Legality

9. Through our planned audit work we consider the legality of the Partnership's financial transactions. In addition, the Treasurer has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the Partnership's management team, the financial transactions of the Partnership were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

## Statement on the system of internal financial control

10. We are satisfied with the disclosures made in the Statement on the System of Internal Financial Control and the adequacy of the process put in place by the Partnership to obtain the necessary assurances. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts.

## Remuneration report

11. We are satisfied that the Remuneration Report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2012/13 financial statements include all eligible remuneration for the relevant Partnership officers and elected members.

## Accounting issues

12. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code). We are satisfied that the Partnership prepared its 2012/13 financial statements in accordance with the 2012/13 Code.

## Accounts submission

13. The Partnership's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Audited accounts were finalised by the target date of 30 September 2013 and are now available for presentation to members and publication.

## Presentational and monetary adjustments to the unaudited accounts

14. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements. The effect of these adjustments is to increase the Partnership's income and debtors by £33,000. However, as the Partnership is not permitted to hold any reserves, the government grant income has been reduced and creditors have been increased by the same amount and so there is no impact on the surplus on the provision of services, or the net assets (and reserves) recorded on the Balance Sheet.
15. One monetary error was identified which was not processed through the financial statements by management. If adjusted this would have the effect of reducing the Partnership's expenditure by £6,567. However, as the Partnership is not permitted to hold any reserves, grant income would be reduced by the same amount and so there is no impact on the surplus on the provision of services, or the net assets (and reserves) recorded on the Balance Sheet.
16. It is our responsibility to request that all errors be corrected although the final decision on this matter rests with those charged with governance taking into account advice from officers and materiality. The misstatement set out above is immaterial to the financial statements taken as a whole, and so management has decided not to amend the financial statements.

## Going concern

17. The Partnership's balance sheet at 31 March 2013 has an excess of liabilities over assets of £0.163 million, largely due to the accrual of pension liabilities in accordance with International Accounting Standards 19 (IAS 19). In common with similar public bodies, the Partnership has adopted a 'going concern' basis for the preparation of its financial statements as the pension liabilities are based on long-term actuarial projections and do not require immediate funding

other than through increased employers' contributions which are already built into the Partnership's budgets and plans. We are satisfied that the process that the Partnership has undertaken to consider the organisation's ability to continue as a going concern is reasonable.

## Outlook

18. A consultation exercise is currently underway in terms of the Local Authority Accounts (Scotland) Regulations. It is likely that for 2013/14 local authorities, if they do not already do so, will require an Audit Committee or similar committee whose remit includes audit or governance, to formally meet by 30 September to approve the statement of accounts.



# Financial position

19. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
20. Auditors consider whether audited bodies have established adequate arrangements and examine:
  - financial performance in the period under audit
  - compliance with any statutory financial requirements and financial targets
  - ability to meet known or contingent, statutory and other financial obligations
  - responses to developments which may have an impact on the financial position
  - financial plans for future periods.
21. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

## Financial results

### Budgetary control

22. The Partnership's operating expenditure in 2012/13 was £768,000, an overspend of £25,000 (3%) against budget. The majority of this overspend relates to higher than expected expenditure on two part funded European projects. Actual income was £51,000 (9%) greater than budget, resulting in a £26,000 surplus for the year.
23. The Partnership's net operating expenditure (£200,000) differs from the Net Cost of Services (£211,000) disclosed in the Comprehensive Income and Expenditure Statement by £11,000. This is because reports prepared for the Partnership's monitoring purposes are prepared on a different basis from the accounting policies used in the financial statements. Note 12 to the accounts reconciles the figures in the budget monitoring report to the figures in the Comprehensive Income and Expenditure Statement.

### Reserves and funds

24. The Partnership is required to achieve a break-even position year on year in accordance with the requirements of the Transport (Scotland) Act 2005 for Regional Transport Partnerships. As a result, the £26,000 underspend of government grant has been included as a creditor at the year end.

## Outlook

### 2013/14 budget

25. The Partnership, like all public sector organisations, faces a challenging financial climate. A standstill budget was approved for 2013/14, with Grant-in-Aid from the Scottish Government (£522,750) and contributions from constituent authorities (£200,000) maintained at 2011/12 and 2012/13 levels. The Partnership continues to actively pursue other sources of finance such as grants from the European Development Fund to enable it to deliver its transport strategy.

# Governance and accountability

26. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
27. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
28. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
  - corporate governance and systems of internal control
  - the prevention and detection of fraud and irregularity
  - standards of conduct and arrangements for the prevention and detection of corruption.

## Corporate governance

### Processes and committees

29. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account on service delivery and support the modernisation agenda. The Partnership Board has oversight of the financial resources and receives budget monitoring reports at each meeting. The responsibilities of the Partnership Director, Partnership Treasurer and the Highlands and Islands Transport Partnership in relation to budget monitoring and review are set out in the Partnership's Financial Regulations.
30. The Partnership Board consists of five members representing the constituent authorities and three members from external bodies appointment under the Nolan rules. All members have voting rights on transport strategy related issues but only members representing the constituent authorities can vote on financial matters. The Board meets four times a year.

### Internal control

31. Internal audit plays a key role in the Partnership's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. Our overview of the internal audit service provided by the Highland Council's Internal Audit section confirmed that the section operates in accordance with the CIPFA code of practice for internal audit in local government.

32. The Partnership's financial transactions are processed through The Highland Council's financial systems. Our review of these systems was conducted as part of the council audit, supplemented by specific audit work on the Partnership's financial statements. We did not find any significant control weaknesses in relation to the operation of the Partnership's main financial systems. We also placed reliance on the Head of Internal Audit and Risk Management's opinion that 'reasonable assurance can be placed upon the adequacy and effectiveness of the Assessor's internal control systems for the year to 31 March 2013.'

## Risk management

33. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks. Risk management supports decision making and contributes to performance.
34. The Partnership Board agreed a Risk Management Strategy in February 2011 and a risk register was prepared and submitted to the Board in April 2011. Each risk is given a rating, which is a combination of the likelihood of the risk occurring and its associated impact, with remedial actions outlined against each risk. The risk register is subject to regular review with the latest version submitted to the Partnership Board in October 2012, the next review of the risk register is expected in November 2013.

## Prevention and detection of fraud and irregularities

35. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
36. The Partnership has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: adoption of The Highland Council's Anti-fraud and Anti-corruption Policy, and a code of conduct for members.
37. The Partnership does not have a history of fraud or corruption and overall the arrangements in place are appropriate to the organisation.

## Standards of conduct and arrangements for the prevention and detection of corruption

38. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

## Equalities Act

39. The Equality Act 2010 introduced a new 'General Duty' to encourage public sector bodies to mainstream equality within their core work. In May 2012, the Scottish Government introduced nine 'Specific Duties' aimed at supporting public bodies to better perform against the 'General Duty'. The 2012/13 Annual Audit Plan reported the requirement for the Partnership to implement new requirements as a result of these 'Specific Duties'. The Partnership has made good progress and produced two reports: Mainstreaming of Equality Duty, which shows how equality will become part of the Partnership's structure, and Equality Outcomes, which defines the equality outcomes.

# Best Value, use of resources and performance

40. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
41. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
  - a performance audit which may result in the publication of a national report
  - an examination of the implications of a particular topic or performance audit for an audited body at local level
  - a review of a body's response to national recommendations.
42. This section includes a commentary on the performance management arrangements within the Partnership

## Management arrangements

### Regional Transport Strategy

43. The Regional Transport Strategy spans a period of 15 years from 2008 - 2022. Annual reports are submitted to the Partnership Board setting out progress made against projects and developments it has engaged in, its performance against the allocated budget and an update on the performance against the Regional Transport Strategy. At the time of our audit the 2012/13 annual report was not yet available.
44. The Partnership has put in place a formal review and assessment approach for monitoring progress on achieving the targets set out in the Regional Transport Strategy. Progress is reported annually to the Partnership Board, with the next report due in November 2013. These reports act as an early warning system to enable the Partnership to take remedial action if progress against targets slips.

### National Transport Strategy

45. The Minister for Transport and Veterans and the Regional Transport Partnership (RTPs) Joint Chairs Forum met in March 2012 where it was agreed to establish a Working Group between the seven RTPs, Transport Scotland and Scottish Government. It was proposed that the group would look at various issues of joint interest, including those raised in the National Transport Strategy and in Regional Transport Strategies, with a view to working in partnership and maximising the role of RTPs to deliver the agenda for improving Scotland's transport systems.

46. The primary purpose of the Working Group is to establish how RTPs can assist in the delivery of the National Transport Strategy and the outcomes outlined below:
- improve journey times and connections between cities and towns and global markets to tackle congestion and provide access to key markets
  - reduce emissions to tackle climate change
  - improve quality, accessibility and affordability of transport, to give people the choice of public transport and real alternatives to the car.
47. The Group met regularly during 2012/13 and in March 2013 drafted a report covering a range of issues and recommendations for future development of the role and effectiveness of RTPs. At the time of writing discussions are on-going with Transport Scotland to finalise the report.

## National performance reports

48. Audit Scotland carries out a national performance audit programme on behalf of the Auditor General and Accounts Commission. Although the Partnership has not been directly involved in these reviews there are some significant areas that impact on the strategic direction of the Partnership and constituent councils. Some of the main national performance reports potentially impacting on the Partnership included:
- *Scotland's key infrastructure projects* issued in June 2013 highlighted that Transport Scotland and the Scottish Government must improve their public reporting on major projects
  - *Maintaining Scotland's Roads* issued in May 2013 highlighted that changes to improve the management of roads maintenance have yet to result in significant improvement in road conditions
  - *Improving community planning in Scotland* issued in March 2013 notes that a fresh drive to realise community planning's full potential, particularly in the light of severe budget pressures on all public services, has been outlined in a Statement of Ambition from the Scottish Government and the Convention of Scottish Local Authorities
  - *Major capital investments in Councils* issued in March 2013 highlighted that councils spend significant amounts of money on building and maintaining infrastructure - more than any other part of the public sector - but lack sufficient information for fully effective scrutiny.