

Highland and Islands Transport Partnership

Annual report on the 2013/14 audit



Prepared for members of Highland and Islands Transport Partnership and the Controller of Audit
October 2014

Introduction

1. This report summarises the findings from the 2013/14 audit of Highland and Island Transport Partnership (the Partnership). The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance.
3. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management. However this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of the Partnership and no responsibility to any third party is accepted.
4. The Appendix to this report is an action plan setting out the high level risks we have identified from the audit. Management have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the Partnership understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
5. 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. 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.
6. This report is also addressed to the Controller of Audit and will be published on our website after consideration by the Partnership.

Financial statements

7. Audited bodies' 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.
8. 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 audited bodies and their expenditure and income;
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the Explanatory Foreword by the Treasurer, the Statement on the System of Internal Financial Control and the Remuneration Report. This section summarises the results of our audit of the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of Highland and Islands Transport Partnership for 2013/14 give a true and fair view of the state of affairs of the Partnership as at 31 March 2014 and of income and expenditure for the year then ended.

Legality

11. 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

12. 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

13. 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 2013/14 financial statements include all eligible remuneration for relevant Partnership officers and elected members.

Accounting issues

14. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the 2013/14 Code). We are satisfied that the Partnership prepared its 2013/14 financial statements in accordance with the 2013/14 Code.

Accounts submission

15. The Partnership's unaudited financial statements were submitted for audit on 4 June 2014 and to the Controller of Audit by the deadline of 30 June. Final accounts preparation processes and working papers were generally good which enabled the audited accounts to be finalised by the target date of 30 September 2014.
16. The issues arising from the financial statements audit were included in a matters arising schedule issued to the Finance Manager on 10 September 2014 and responses were received on 22 September. A number of follow up queries were raised with finance staff following receipt of the responses, including further requests for evidence to support the inclusion of significant amounts of expenditure which had been invoiced on 31 March 2014. We first raised our request for supporting evidence for these amounts on 12 August 2014. After some discussion, the Finance Manager confirmed, on 25 September 2014, that there was no supporting evidence that the goods and services had been received in 2013/14 and agreed to amend the accounts accordingly (see paragraph 21 for further detail).

Significant findings and key judgements

17. During the course of the financial statements audit we identified a number of issues regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.

Presentational and monetary adjustments to the unaudited accounts

18. 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 was to decrease the Partnership's expenditure and creditors by £135,173. 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. As a result, there is no impact on the surplus/deficit on the provision of services, or the net assets (and reserves) recorded on the balance sheet.

Report to those charged with governance

19. We presented a verbal report to those charged with governance (ISA 260) to the Partnership Board on 26 September 2014. The primary purpose of the report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. 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 main points are set out in the following paragraphs:

Accounting for cut-off

20. Audit testing identified a number of instances where expenditure relating to 2014/15 had been incorrectly accounted for in 2013/14:
- an invoice from Velocity for the period 17 March 2014 to 16 March 2015 had been included incorrectly as 2013/14 expenditure. As a result, expenditure and creditors were overstated by £960 in the unaudited accounts. Officers agreed to amend the audited accounts to correct for this error
 - an invoice from Hays for the services of a temporary member of staff employed for 4 days in week ending 4 April had been included incorrectly as 2013/14 expenditure. As a result, expenditure and creditors were overstated by £1,029 in the unaudited accounts. Officers agreed to amend the audited accounts to correct for this error.

Refer Action Plan Point 1

21. The creditors balance included in the unaudited accounts also included £142,772 of expenditure which was invoiced on 31 March 2014. As part of our audit, we asked for evidence that these goods or services had been received in 2013/14. Evidence was provided which confirmed that £9,588 of this expenditure related to 2013/14, and that £4,335 related to goods and services received in 2014/15. Delivery notes (or equivalent evidence) could not be provided to confirm that the remaining expenditure (£7,849 - Lock It and £121,000 - IMTech) was incurred in 2013/14. As a result, expenditure, creditors and grant income were overstated by £133,184 in the 2013/14 unaudited accounts. Officers agreed to amend the 2013/14 audited accounts to remove this expenditure and the associated grant funding and to account for these amounts as part of the 2014/15 financial statements. The Partnership is permitted to carry forward this funding as the timing of the award meant there was insufficient time to utilise the full grant allocation in 2013/14.

Refer Action Plan Point 2

22. During our audit we also identified an instance where the Partnership's balance sheet included both a debtor and a creditor for the same transaction. An invoice for £900 had been included as a creditor when the invoice was received and as a prepayment when it was noted that it related to 2014/15. As a result, debtors and creditors were both overstated in the unaudited accounts. Officers agreed to amend the audited accounts to correct for this error.

Going concern

23. The Partnership's balance sheet at 31 March 2014 has an excess of liabilities over assets of £0.241 million 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

24. The revised Local Authority Accounts (Scotland) Regulations 2014 apply from 2014/15 onwards. The regulations set out what is required in respect of financial management and internal control, and the annual accounts themselves. The changes include the requirement for the unaudited accounts to be considered by the Partnership Board. This can take place after submission to the auditor and up to 31 August if necessary. The audited accounts must also be considered and approved for signature by the Partnership Board by 30 September with publication on the Partnership's website by 31 October.

Refer Action Plan Point 3

Financial position

25. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
26. 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.
27. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

2013/14 outturn

28. The Partnership's original budget for 2013/14, approved in February 2013, was £722,750. During the year the Partnership secured additional funding of £682,000 for specific projects including the bus investment project (£365,000) and the food port project (£145,000). This additional funding, together with the government grant carried forward from 2012/13 (£26,000), resulted in a revised budget of £1.431 million for 2013/14.
29. The Partnership's operating expenditure in 2013/14 was £1.194 million, an underspend of £237,000 (17%) compared to the revised budget. Research and strategy development costs were underspent by £268,000 due to the timing of the award of the additional funding which meant there was insufficient time to utilise the full grant allocation in 2013/14. The remainder has been carried forward to 2014/15. Actual income was £217,000 (15%) less than the revised budget, resulting in a £20,000 surplus for the year.
30. The net operating expenditure (£200,000) differs from the net cost of services disclosed in the comprehensive income and expenditure statement of £236,000 by £36,000. 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. This shows that the majority of the difference is due to the cost of retirement benefits based on cash flows in the budget monitoring reports, but based on the current service costs of benefits accrued in the year within the accounts.

Reserves and funds

31. 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 £20,000 underspend of government grant has been included as a creditor at the year end.

Financial planning

32. Scottish Government Grant in Aid funding has continued for 2014/15 at the same level as awarded for 2013/14 at £0.523 million. Similarly, the contribution from constituent authorities has been maintained at 2013/14 levels at £0.200 million. There is, therefore, a degree of financial stability in the short term, but the Partnership needs to continue to actively pursue other sources of finance such as grants from the European Development Fund to enable it to deliver its transport strategy.

Pensions funding

33. 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. In accounting for pensions, IAS19 is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying for them, even if the actual payment will be made years into the future. This requirement results in large future liabilities being recognised in the annual accounts.
34. The Partnership's estimated pension liabilities at 31 March 2014 exceeded its share of the assets in the Highland Council Pension Fund by £0.235 million (£0.159 million at 31 March 2013). The liability will be made good by increased contributions over the remaining working lives of the employees, as assessed by the scheme's actuary. The next triennial actuarial valuation of the fund takes place at March 2014 with initial results expected around October 2014.

Governance and accountability

35. 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.
36. 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.
37. 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

38. 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 has oversight of the financial resources and receives budget monitoring reports at each meeting. The responsibilities of the Partnership Director, Treasurer and the Highland and Islands Transport Partnership in relation to budget monitoring and review are set out in the Partnership's Financial Regulations.

Internal control

39. 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 generally operates in accordance with the Public Sector Internal Audit Standards. An action plan has been prepared to address the areas of non-compliance.

40. 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, except for the failure to maintain an adequate audit trail of when goods and services are received (see paragraphs 16 and 21). 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 Partnership's internal control systems for the year to 31 March 2014.'

Risk management

41. 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.
42. 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 November 2013.

Prevention and detection of fraud and irregularity

43. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion the Partnership's overall arrangements for the prevention of fraud are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

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

44. 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.

Best Value, use of resources and performance

45. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
46. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
47. 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.
48. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
49. This section provides commentary on the Best Value and performance management arrangements within the Partnership.

Management arrangements

Role of Regional Transport Partnerships

50. The Minister for Transport & Veterans and the Regional Transport Partnership (RTPs) Joint Chairs Forum met in March 2012 where it was agreed to establish a joint Working Group between the seven RTPs, Transport Scotland and Scottish Government. The group was established to examine how RTPs can further support the Scottish Government in delivering the National Transport Strategy and Government's wider economic, social and environmental strategic objectives. In June 2014 the RTP Chairs Forum approved the finalised version of the report from this Working Group.

51. The report sets out a framework and recommendations for:
- building more effective partnerships through stronger and more consistent strategic and policy liaison arrangements between the RTPs, CoSLA and the Scottish Government
 - improving integration of strategic land-use and transport planning
 - improving access to health and social care
 - delivering a “step change” for bus, integrated transport, ticketing and travel information
 - promoting and improving Active Travel
 - contributing to the development of rail, air, ferries/maritime and freight policy and delivery
52. These proposals are in the process of being considered for ministerial approval.

Regional Transport Strategy

53. Under the Transport (Scotland) Act 2005, the Partnership's key role and purpose is to develop and oversee the delivery of a Regional Transport Strategy (RTS) for the Highland and Islands region and to support the National Transport Strategy. The RTS spans a period of 15 years from inception and legislation provides for the periodic review and updating of the Strategy. The current RTS was approved in 2008 and covers the period up to 2022. It sets out the vision and objectives for addressing transport issues and needs in the Highland and Islands region and is underpinned by a number of sub-strategies and the RTS Delivery Plan.
54. 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. These reports act as an early warning system to enable the Partnership to take remedial action if progress against targets slips. The 2013/14 RTS monitoring work is underway, and will be reported to the Partnership Board at the November meeting. The 2013/14 annual report is due to be published in late December/early January.
55. Officers plan to refresh the RTS and submit it for approval to the April meeting of the Partnership Board. Following Board approval, the refreshed RTS will be sent to the Scottish Government for Ministerial sign off.

National performance reports

56. 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 public sector workforce*, issued in November 2013, examined how public sector bodies have made workforce changes, what savings they have made and what they need to do in the future.

- *Developing financial reporting in Scotland*, issued in July 2013, highlighted that public financial reporting will become increasingly important as the Scotland Act is implemented over the next three years and the Scottish Parliament attains its new fiscal and financial powers.
- *Scotland's key transport infrastructure*, issued in June 2013, examined how well the Scottish Government and Transport Scotland were controlling, monitoring and publicly reporting key transport infrastructure projects.

57. Audit Scotland encourages audited bodies to review national performance reports, assess local performance against them and identify actions required to improve performance. The Partnership has registered for Audit Scotland's report notification service. The Partnership Director reviews relevant reports and, where considered appropriate, assesses local performance against them and identifies actions required to improve performance. These improvement actions are reported to the Partnership Board.

Appendix: Action Plan

Key risk areas and planned management action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	20	<p>Audit testing identified a number of instances where expenditure relating to 2014/15 had been incorrectly accounted for in the 2013/14 accounts.</p> <p>Risk</p> <p>Potential misstatement of the financial statements. If amounts are material, the accounts may be qualified or the audit may not be completed by 30 September.</p> <p>Recommendation</p> <p>Final accounts processes should be amended to ensure that expenditure is accounted for in the correct year.</p>	<p>Management recognise the importance of accounting for income and expenditure in the correct financial year. There is a balance to be struck between early accounts closure and accuracy but every effort is made to ensure that the accounts submitted for audit are correct. No additional action is required in terms of existing processes.</p>	N/A	N/A

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
2	21	<p>No evidence could be provided to confirm when goods and services totalling £128,849 had been received.</p> <p>Risks</p> <p>The Partnership pays for goods and services it has not received. Expenditure is not accounted for in the correct financial year.</p> <p>Recommendation</p> <p>Internal control procedures should be amended to ensure that payments are only made on receipt of a goods received note or equivalent. These confirmations should be retained for audit purposes.</p>	<p>Internal control procedures will be reviewed to ensure that supporting evidence is available to make payment for goods and services received.</p>	<p>Finance Manager and Director</p>	<p>30 November 2014</p>

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	24	<p>The revised Local Authority Accounts (Scotland) Regulations require that the audited accounts be considered and approved for signature by the Partnership Board by 30 September.</p> <p>Risk The new requirements will not be met in 2014/15.</p> <p>Recommendation The Partnership should review its final accounts timetable and processes to ensure that the new requirements set out in the revised regulations can be met. The timing of the Partnership Board meeting should also be considered.</p>	<p>The finalisation of the accounts and audit is a partnership between HITRANS and Audit Scotland. A meeting will be held to discuss ways in which the audit process can be accelerated to enable the revised deadline to be met. The unaudited accounts were submitted on 4 June 2014 and so we do not consider there is an undue risk that the requirements will not be met in 2014/15.</p>	Finance Manager	30 September 2015