



The Highlands & Islands Transport Partnership

Annual audit report to
Members and the
Controller of Audit

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. (www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

The Accounts Commission has appointed of Maggie Bruce as the external auditor of The Highlands & Islands Transport Partnership for the period to 2015/16.

This report has been prepared for the use of The Highlands & Islands Transport Partnership and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the Partnership. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none">• The independent auditor's report on the 2014/15 financial statements is unqualified.• The financial statements have been prepared on the going concern basis. We are not aware of any events or conditions that may cast significant doubt on the Partnership's ability to continue as a going concern.• The financial statements submitted for audit did not comply with the requirements of the new accounting regulations. A more robust and challenging review process is required to improve the quality of the financial statements submitted for audit.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• The Partnership achieved a breakeven position.• The financial management arrangements are satisfactory for an organisation of its size.• The Partnership's financial position is currently sustainable. Although the Partnership continues to face financial pressures from reduced revenue funding and reductions in capital spend by partner councils, it has been successful in attracting additional external funding in recent years.
 <p>Governance and transparency</p>	<ul style="list-style-type: none">• The governance arrangements in place are appropriate to the organisation.• There were no issues of concern in relation to the operation of the Partnership's financial control systems.• The Partnership has appropriate anti-fraud arrangements in place.



Best Value

- A refreshed Regional Transport Strategy was due to be submitted to the Partnership Board for approval in April 2015. This refresh was commenced in 2014/15 and is now due for completion by 31 March 2016.
- Public performance reporting is undertaken through the Partnership's annual report. The 2013/14 annual report was published in March 2015, a year after the period it covered. The audited financial position was not included in the 2013/14 annual report.



Outlook

- The Partnership continues to face significant funding pressures. Effective arrangements for best value will be essential for efficient use of available resources, and strong governance and leadership will be needed to achieve continuous improvement.

Introduction

1. This report is a summary of the findings arising from our 2014/15 audit of The Highlands & Islands Transport Partnership (the Partnership). The report is divided into sections which reflect our public sector audit model.
2. The management of the Partnership is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of the Partnership, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. 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. This does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. The significant audit risks identified at the planning stage and how we address each risk at arriving at our opinion for the financial statements is set out in **Appendix I**.
6. Both local and national reports have been issued by Audit Scotland during the course of the year. These reports, summarised at **Appendices II and III**, include recommendations for improvements.
7. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that the Partnership understands its risks and has arrangements in place to manage these. The Partnership Board should ensure that they are satisfied with the proposed action and have a mechanism in place to assess progress and monitor outcomes.
8. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures. Consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
9. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 financial statements

Submission of financial statements for audit

10. We received the unaudited financial statements on 10 June 2015, a week later than the agreed timetable. Overall, working papers provided were of an acceptable standard although a reconciliation between the ledger and the accounts was not provided until we asked for it.
11. Delays in responding to audit queries, and the failure of the unaudited accounts to comply with the requirements of the Local Authority Accounts (Scotland) Regulations 2014, meant that the audit was not concluded in time to submit the audited accounts to the 4 September 2015 meeting of the Partnership Board. An additional meeting of the Partnership Board was convened on 24 September 2015 in order to meet the end of September deadline for approval of the audited accounts.

Overview of the scope of the audit of the financial statements

12. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the partnership on 10 April 2015.

13. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan. Due to the delays encountered and the additional work required to complete the audit, we propose to levy an additional fee of £1,000 for the 2014/15 audit of the Partnership.
14. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.
15. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

16. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
17. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
18. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of the Partnership we set our planning materiality for 2014/15 at £10,000 (1% of gross expenditure). We report all misstatements greater than £500. Performance materiality was calculated at £9,000, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.
19. On receipt of the financial statements we reviewed our planning and performance materiality levels and adjusted these to £16,000 and £14,000 respectively. We concluded that our original audit approach remained appropriate.

Evaluation of misstatements

20. All misstatements identified during the audit, which exceeded our misstatement threshold, have been amended in the audited annual accounts. These amendments do not impact on the net cost of services included in the Comprehensive Income and Expenditure Statement (CIES) or on the Net Liabilities reported in the Balance Sheet. They do, however impact on gross expenditure and gross income and on the debtors and creditor balances in the Balance Sheet.

Significant findings from the audit

21. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
 - the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
 - significant difficulties encountered during the audit
 - significant matters arising from the audit that were discussed, or subject to correspondence with management
 - written representations requested by the auditor
 - other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
22. During the course of the audit we identified the following significant issues that, in our view, require to be communicated to you.

Significant findings from the audit

Issue	Resolution
<p>1. Local Authority Accounts (Scotland) Regulations 2014: the financial statements submitted for audit did not comply with the requirements of the new accounting regulations:</p> <ul style="list-style-type: none"> • a management commentary had not been prepared. Instead an explanatory foreword had been included • an annual governance statement had not been prepared. Instead a statement on the system of internal financial control had been included • the statement of responsibilities had not been amended to reflect the new responsibilities set out in the new regulations • the unaudited accounts did not recognise the changes to the officers and members required to sign key sections of the accounts. <p>In addition, we noted that the unaudited accounts were not considered by a meeting of the Partnership Board by 31 August as required by the accounting regulations; and that the advertisement of the unaudited accounts for public inspection did not refer to the new regulations, instead giving notice under the previous (1985) regulations.</p> <p>In our opinion, the above failures to comply with the new accounting regulations demonstrate a lack of a robust and comprehensive review of the accounts prior to their submission for audit.</p>	<p>The management commentary, statement of responsibilities and annual governance statement have been revised to comply with the 2014 regulations and guidance issued by CIPFA and Scottish Ministers. The statement on the system of internal financial control has been removed. The accounting statements have been updated to include the names of the key officers and members who are required to sign them.</p> <p style="text-align: right;">Action point no. 1</p>

Issue	Resolution
<p>2. Going concern: auditors are required 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.</p> <p>The Partnership is a member of The Highland Council Pension Fund which is a multi-employer defined benefit scheme. In accordance with pensions accounting standard IAS19 (Retirement Benefits) the Partnership has recognised its share of the net liabilities for the pension fund in the balance sheet resulting in an net liabilities position (£0.856 million) on the balance sheet at the year end.</p>	<p>In common with similar public bodies, the Partnership has adopted a ‘going concern’ basis for the preparation of the financial statements as future actuarial valuations of the pension fund will consider the appropriate employer’s rate to meet the fund’s commitments. The actuary is required to make a 3-year assessment of the contributions that should be paid by the employing authorities to maintain the solvency of the fund. The most recent actuarial valuation took place as at 31 March 2014. We are satisfied that the process that the Partnership has undertaken to consider the organisation’s ability to continue as going concern is reasonable.</p>
<p>3. Accounting for cut-off: audit testing identified a number of instances where expenditure relating to 2015/16 had been incorrectly accounted for in the 2014/15 accounts. As a result, expenditure and creditors were overstated by £89,080 in the 2014/15 unaudited accounts.</p>	<p>Officers have agreed to amend the 2014/15 audited accounts to correct for these misstatements.</p> <p style="text-align: right;">Action point no. 2</p>
<p>4. Grant claim debtor: audit testing identified that debtors included £25,000 for staff costs claimed as part of the Food Port grant claim. Grant payments have been suspended and so there is no guarantee that the Partnership will receive this money. As a result, income and debtors were overstated by £25,000 in the unaudited accounts.</p>	<p>Officers have agreed to amend the 2014/15 audited accounts to correct for this misstatement.</p>

Financial management and sustainability

Financial management

- 23. In this section we comment on the Partnership's financial outcomes and assess the Partnership's financial management arrangements.
- 24. The Partnership sets an annual budget to meet its service and other commitments for the forthcoming financial year. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

- 25. The Partnership's original budget for 2014/15, approved in February 2014, was £977,750. During the year the Partnership utilised an additional £291,000 of the bus investment fund together with the government grant carried forward from 2013/14 (£20,000), resulting in a revised budget of £1.289 million for 2014/15.
- 26. The Partnership's operating expenditure in 2014/15 was £1.465 million, an overspend of £176,000 (14%) compared to the revised budget. Actual income was £204,000 (19%) more than the revised budget, resulting in a £28,000 surplus for the year.
- 27. The net operating expenditure (£200,000) differs from the net cost of services disclosed in the comprehensive income and expenditure statement of £229,000 by £29,000. 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.
- 28. During 2014/15, the Partnership received a final payment of grant (£147,107) in respect of its participation in the START (Seamless Travel Across Atlantic Area Regions) project. This amount had not been included as a debtor within the Partnership's annual accounts in previous years, and as a result this payment has been treated as windfall income in 2014/15. The Partnership Board agreed to use this income to fund a programme of projects which aligned with the original aims of the START project and fitted with the Partnership's Business Plan and RTS. None of these projects was delivered during 2014/15 as the income was used to fund overspends in the remainder of the Partnership's programme. We have been advised that these projects have been included for delivery in the 2015/16 Business Plan.

Action plan no. 3

29. As auditors, we need to consider whether the Partnership has established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the proper officer has sufficient status within the body to be able to deliver good financial management
 - financial regulations are comprehensive, current and promoted within the Partnership
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance
 - members provide a good level of challenge and question budget holders on significant variances.
30. The Treasurer, as the section 95 officer, is responsible for ensuring proper accounting records are kept. The Partnership Board has oversight of financial resources and receives budget monitoring reports at each meeting. The responsibilities of the Partnership Director, Treasurer and The Highlands & Islands Transport Partnership in relation to budget monitoring and review are set out in the Partnership's Financial Regulations which were last reviewed in February 2015.
31. Overall we have concluded that the partnership's financial management arrangements are satisfactory for an organisation of its size.

Financial sustainability

32. Financial sustainability means that the Partnership has the capacity to meet the current and future needs of its communities.
33. In assessing financial sustainability we are concerned with whether:
- spending is being balanced with income in the short term
 - long term financial pressures are understood and planned for
 - investment in services and assets is effective.

Reserves

34. 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. The Act requires that the net expenses of a Transport Partnership for each year are paid by its constituent councils. This means that any surplus be returned to the constituent councils through a reduction in requisitions, and that any deficit is funded by increased contributions from constituent authorities.
35. To date, the Partnership has treated underspends as a reduction to the grant received from the Scottish Government. This fails to comply with the requirements set out in the Transport (Scotland) Act 2005. We have been advised that the Partnership will review how it accounts for underspends prior to the conclusion of the 2015/16 financial year. There is no impact on the surplus on the provision of services or the net liabilities and reserves reported in the accounts.

Action plan no. 4

Financial planning

36. Scottish Government Grant in Aid funding has continued for the period 2015/16 at the same level as awarded for 2014/15 at £0.523 million. Similarly, funding from the constituent council has been maintained at 2014/15 levels at £0.200 million.
37. There is, therefore, a degree of financial stability in the short term but the Partnership continues to identify in its risk register the need to actively pursue other sources of finance to enable it to develop and deliver the Regional Transport Strategy.

Conclusion

38. Overall, we conclude that the Partnership's financial position is currently sustainable. The Partnership continues to face significant financial pressures from reduced revenue funding and reductions in capital spend by partner councils as councils seek to make financial savings. The Partnership has, however, been successful in attracting additional external funding in recent years. For example, £2.4 million was secured from the Scottish Government's Bus Investment Fund to improve bus services in East Inverness and £1 million was secured from Community Links to improve active travel infrastructure in Argyll & Bute.

Governance and transparency

39. Members and management of the Partnership are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.
40. 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.

Corporate governance

41. The Partnership's governance arrangements are centred on the Partnership Board. Standing orders, a scheme of delegation, financial regulations and risk management strategy are in place.
42. The Partnership's risk register is considered annually by the Board and covers risks in relation to the:
 - regional transport strategy development and delivery
 - management and operation of the partnership
 - financial pressures.
43. Overall the governance arrangements in place are appropriate to the organisation.

Internal control

44. 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's audit and supplemented by specific audit work on the Partnership's financial statements.
45. We did not identify any material weaknesses in the accounting and internal control systems which could adversely affect the ability to record, process, summarise or report financial and other relevant data so as to result in a material misstatement in the financial statements.

Internal audit

46. Internal audit provides members and management of the Partnership with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.
47. Our review of the Partnership's internal audit service, provided by the council's internal audit section, concluded that it operates in accordance with the majority of the Public Sector Internal Audit Standards. In order to achieve full compliance an external assessment is required to take place at least every five years. The Scottish Local Authorities Chief Internal Auditors Group has developed a framework for this assessment and plans are in place

for West Dunbartonshire Council to assess the Partnership's internal audit service during 2015/16.

48. We also placed reliance on the Head of Audit and Risk Management's opinion that 'full assurance can be placed upon the adequacy and effectiveness of the Partnership's internal control systems for the year to 31 March 2015'.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption and fraud

49. 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. In our opinion the overall arrangements in place are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

Transparency

50. The Partnership's website contains relevant information for the public including agendas and minutes of the Partnership Board meetings. The website includes financial and performance reports. We have not encountered any evidence to suggest that information is routinely withheld from public scrutiny.

Best Value

51. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The Partnership should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.
52. 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. The focus of the Partnership for demonstrating best value is the delivery of the Regional Transport Strategy and contributing to community planning.

Role of Regional Transport Partnerships

53. 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.

54. 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.
55. We noted in our 2013/14 annual audit report that the Working Group's report was in the process of being considered for Ministerial approval. Following discussions at a meeting between the RTP Chairs and the Minister for Transport and Islands in June 2015, a number of revisions and updates were made to the Working Group report and the revised report was given Ministerial approval on 1 September 2015. The report is also expected to inform a refresh of the National Transport Strategy which is being undertaken by Transport Scotland.

Regional Transport Strategy

56. 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.
57. 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.
58. We noted in our 2013/14 annual audit report that a refreshed RTS 2015-2036 was due to be submitted to the Partnership Board for approval in April 2015. This refresh was commenced in 2014/15 and is now due for completion by 31 March 2016.

Overview of performance targets in 2014/15

59. The Transport (Scotland) Act 2005 requires that Regional Transport Partnerships publish and submit to Scottish Ministers an Annual Report on the performance of their functions.

60. The 2013/14 Annual Report was published in March 2015, a year after the period to which it relates. The report sets out the Partnership's progress against its projects, its performance against the allocated budget and an update on performance against the Regional Transport Strategy. We noted, however, that although the audit was completed in September 2014, the unaudited financial position was included in the 2013/14 annual report. At the time of our audit, the 2014/15 annual report was not yet available.

Action plan no. 5

National performance audit reports

61. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which may be of interest to the Partnership. These are outlined in **Appendix III**. The Partnership Director reviews relevant reports, and where appropriate, assesses local performance against them and identified actions required to improve performance. These improvement actions are reported to the Partnership Board.

Appendix I – Significant audit risks

The table below sets out the audit risks we included in our annual audit plan and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Management assurance and audit procedure	Results and conclusions
Risk of material misstatement		
<p>Prior year issues: last year we identified a number of instances where expenditure relating to 2014/15 had been incorrectly accounted for in the 2013/14 unaudited financial statements. There is a risk that similar cut-off errors will be included within the 2014/15 unaudited financial statements.</p>	<p>Management assurance</p> <ul style="list-style-type: none"> • March and April transaction reports will be reviewed to ensure proper cut-off between financial years. <p>Audit procedure</p> <ul style="list-style-type: none"> • early financial statements planning meeting • increased audit testing in these areas • early discussion of emerging issues. 	<p>This was again the case in 2015/16. £89,080 of expenditure relating to 2015/16 had been included within the 2014/15 unaudited financial statements. These financial misstatements were corrected in the audited annual accounts.</p>

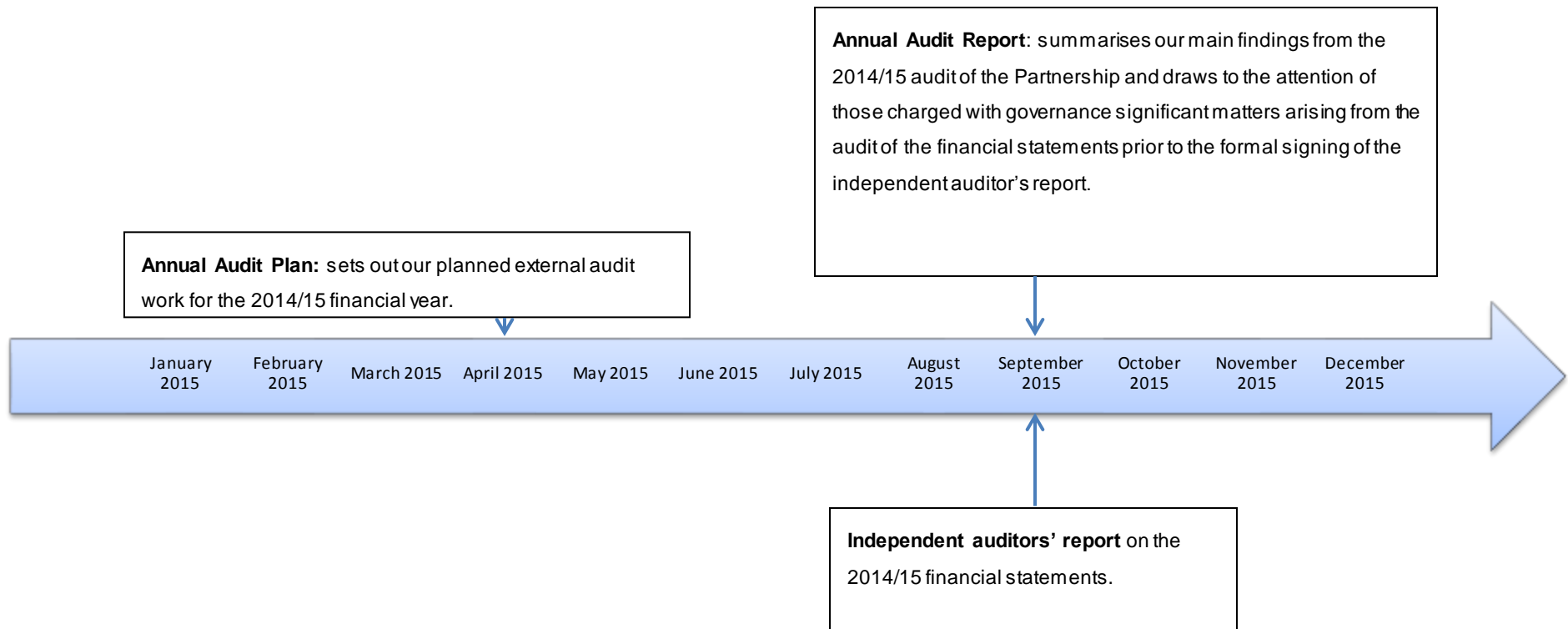
Audit Risk	Management assurance and audit procedure	Results and conclusions
<p>Annual assurance statement: the revised Local Authority Accounts Regulations require authorities to undertake an annual review of their system of internal control and report this in an annual governance statement. The Partnership has previously included a statement on the system of internal financial control instead of a wider annual governance statement within its annual financial statements.</p>	<p>Management assurance</p> <ul style="list-style-type: none"> an annual governance statement will be included in the unaudited financial statements. This will include the results of internal audit's review of the adequacy and effectiveness of the Partnership's framework of governance and control as set out in the Head of Audit & Risk Management's statement on internal control. <p>Audit procedure</p> <ul style="list-style-type: none"> early financial statements planning meeting early discussion of emerging issues. 	<p>The unaudited accounts did not contain an annual governance statement. A statement on the system of internal financial control was instead included as in previous years. Following discussion with the Treasurer, an annual governance statement was prepared and included in the audited accounts.</p>

Audit Risk	Management assurance and audit procedure	Results and conclusions
<p>Management override of controls: ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Management assurance</p> <ul style="list-style-type: none"> • there is no history of reported fraud within the Partnership • the Partnership uses The Highland Council's financial systems within which a robust set of internal controls operate • each year Internal Audit consider and test the adequacy and effectiveness of the Partnership's framework of governance and control, including arrangements for the prevention and detection of fraud. <p>Audit procedure</p> <ul style="list-style-type: none"> • detailed testing of journal entries • review of accounting estimates for bias • evaluation of significant transactions that are outside the normal course of business. 	<p>We undertook detailed testing of journal entries as part of our audit of debtors and creditors. We found that £89,080 of expenditure had been included within the 2014/15 unaudited accounts which related to 2015/16. This is an area that we will continue to focus on as part of our 2015/16 audit.</p> <p>We also reviewed accounting estimates included in debtors and creditors and found no evidence of bias in these.</p> <p>Audit testing did not find any evidence of transactions outwith the scope of the Partnership.</p>

Audit Risk	Management assurance and audit procedure	Results and conclusions
Risks identified from the auditor’s wider responsibility under the Code of Audit Practice		
<p>Financial pressures: Local Government and Scottish Regional Transport Partnerships continue to face real-term reductions in financing. Reduced funding from and reduced capital spend by partner councils will place considerable pressure on the Partnership's ability to provide services and ensure delivery of its Regional Transport Strategy by 2022.</p>	<p>Management assurance</p> <ul style="list-style-type: none"> • detailed budget reports are presented to each Partnership Board meeting • the Partnership is working to meet its efficiency targets and reduce core costs. <p>Audit procedure</p> <ul style="list-style-type: none"> • monitor progress and include reference in the annual report to members and the Controller of Audit. 	<p>Refer to the <i>financial management and sustainability</i> section of this report. The Partnership recorded a £28,000 underspend against its 2014/15 budget, and has been successful in securing additional funding in recent years.</p>

Appendix II

Summary of The Highlands & Islands Transport Partnership local audit reports 2014/15

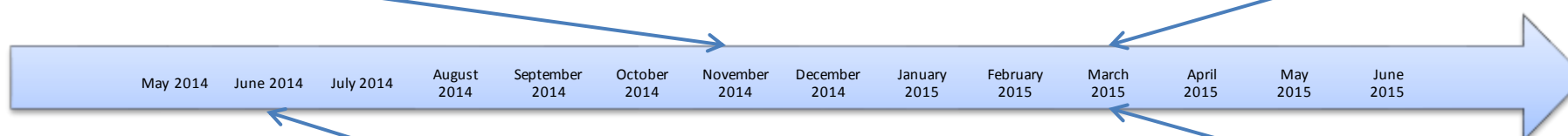


Appendix III

Summary of Audit Scotland national reports 2014/15

Community planning: Turning ambition into action – Many Community Planning Partnerships are still not clear about what they are expected to achieve. Local data should be used to help set relevant, targeted priorities for improvement that will address inequalities within specific communities.

Update on developing financial reporting - Following the Smith Commission the framework for Scotland's public finances is undergoing fundamental change. The Scottish Parliament will have enhanced financial powers from April 2015. The report emphasises the importance of comprehensive, transparent and reliable financial reporting for accountability and decision-making. The report also notes that while the audited accounts of public bodies across Scotland provide a sound base for financial reporting and scrutiny, there is no single complete picture of the devolved public sector's finances.



Scotland's public finances - a follow up: Progress in meeting the challenges – Leaders and managers must produce balanced budgets and hold people in their organisations to account for how the money is used and what is achieved. Councillors have an important role in ensuring that approved budgets are used to best effect. To do this they need good-quality and timely financial information. They need to take a longer-term view on: options available for services; services standards and affordability; and, the sustainability of financial plans.

An overview of local government in Scotland – A high level, independent view on the progress councils are making in managing their finances and achieving Best Value.

Appendix IV

Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 9/22	<p>Issue</p> <p>The financial statements submitted for audit did not comply with the requirements of the new accounting regulations.</p> <p>Risk</p> <p>The financial statements do not give a true, fair and balanced view of the Partnership's transactions and financial position.</p> <p>Recommendation</p> <p>A more robust and challenging review process needs to be put in place in future years to improve the quality of the financial statements submitted for audit.</p>	Management to be aware of the issue of new legislative and guidance changes and ensure that they are correctly applied.	Partnership Director and Treasurer	31 March 2016

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2 10/22	<p>Issue</p> <p>Audit testing identified a number of instances where expenditure relating to 2015/16 had been incorrectly accounted for in the 2014/15 accounts.</p> <p>Risk</p> <p>Potential misstatement of the financial statements. If amounts are material the accounts may be qualified or not 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

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
3 11/28	<p>Issue</p> <p>The START project final payment has not been used to fund the programme of projects as agreed by the Partnership Board. It is not clear how these projects will be funded in future years.</p> <p>Risk</p> <p>Projects are not completed in line with the agreed programme.</p> <p>Recommendation</p> <p>Board members should be advised why these projects were not delivered during 2014/15 and how they will be funded in future years.</p>	<p>The START windfall income projects have been rolled into the following areas of delivery for 2015/16:</p> <ul style="list-style-type: none"> • 2015/16 Business Plan – Smarter Choices Smarter Places Support • 2015/16 Business Plan – Real Time Information • Sustrans Active travel Grant • HiTravel BIF Project • East Inverness Bus Improvement Corridor BIF Project. 	Partnership Director and Treasurer	31 March 2016

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
4 12/35	<p>Issue</p> <p>The Partnership treats any underspend as a reduction in government grant instead of as a reduction in requisitions.</p> <p>Risk</p> <p>The Partnership is not complying with the requirements set out in the Transport (Scotland) Act 2005.</p> <p>Recommendation</p> <p>Any future underspends should be returned to the constituent authorities through a reduction in requisitions as required by the Transport (Scotland) Act 2005.</p>	<p>A review will be undertaken, prior to the conclusion of the 2015/16 financial year, of the approach each Regional Transport Partnership is taking to the treatment of any surplus or deficit in any given financial year. This will allow discussions to take place for the development of a cohesive and consistent approach to be adopted across all Regional Transport Partnerships.</p>	<p>Partnership Director and Treasurer</p>	<p>28 February 2016</p>

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
5 17/60	<p>Issue</p> <p>The 2013/14 annual report was not published until March 2015, a year after the period to which it relates. In addition, the financial position reported was not the audited position, despite the audit having been completed six months earlier.</p> <p>Risk</p> <p>The Partnership is not preparing its annual report in a timely manner and is not providing up to date information to its stakeholders.</p> <p>Recommendation</p> <p>Performance information should be available timeously to allow an assessment of how the partnership is performing. The audited financial position should be included within future annual reports.</p>	<p>The Annual Report publication includes the RTS Monitoring Report which relies on the publication of information from a number of national bodies for the comparable period. This means that the report is produced as expediently as possible when these other publications are available. The Partnership will review the indicators monitored for the RTS to establish if they can be reduced to permit earlier publication of the Annual Report with a publication target date of 31 December 2015.</p>	Partnership Director	31 December 2015