



# Highlands and Islands Transport Partnership (HITRANS)

External Audit Report to the Board and the Controller of Audit for the financial year ended 31 March 2020

Final Report – 30 November 2020

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# Our audit at a glance



The unaudited Annual Accounts were published on 29 June 2020. The Accounts included the draft financial statements, Management Commentary and Annual Governance Statement. Due to the impact of Covid-19, we agreed with Officers to delay the annual accounts and audit process. Under the powers contained within the Coronavirus (Scotland) Act 2020, HITRANS postponed the proposed publication of the audited annual accounts until November 2020.



The Management Commentary is in line with our understanding of the Highlands and Islands Transport Partnership ("HITRANS") and in particular the Regional Transport Strategy and the HITRANS' Business Plan. The Annual Governance Statement outlines HITRANS' scope of responsibility and governance framework in place, including effectiveness of governance arrangements in place. The statement has been prepared in accordance with the Delivering good Governance in Local Government Framework (2016). The remuneration report has been prepared in accordance with Local Authority Accounts (Scotland) Regulations 2014.



We have fulfilled our responsibilities per International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice throughout our work. This final report to the HITRANS Board and the Controller of Audit.

An audit  
underpinned by  
quality and adding  
value to you



We have issued an unmodified audit opinion on the annual report and accounts.



Significant audit risks were: management override of controls and the risk of fraud in expenditure recognition as set out in Financial Reporting Council's (FRC) Practice Note 10. An additional significant audit risk was identified in relation to Covid-19 which caused significant disruption to all public sector entities in the later half of March 2020.



Materiality was set at £52,340 for 2019/20. This was calculated using the materiality benchmark of 2% of gross expenditure as set out in our audit plan. We updated our materiality calculation based on the unaudited financial statements for 2019/20.

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### **Adding value through our external audit work**

First and foremost our objective is to ensure we deliver a quality external audit which fully complies with International Standards on Auditing (ISAs) UK and the Audit Scotland Code of Practice (2016). By ensuring our audit is efficient and effective, underpinned by our quality arrangements, gives you assurance over our opinion.

Through this Annual Report we seek to provide insight and commentary over certain aspects of HITRANS' arrangements, including our conclusions over the design of key financial controls as well as the financial statements.

We have continued to build on our working relationship with management and our understanding of HITRANS as an organisation. Despite the challenges of working remotely during the Covid-19 pandemic we were able to get the assurances required and complete our testing to conclude our audit.

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# Introduction

## Reporting

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2020.

Our work has been undertaken in accordance with International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016.

Our report is addressed to the Highlands and Islands Transport Partnership (“HITRANS”). In addition, in accordance with our reporting responsibilities the report is jointly addressed to the Controller of Audit/

Once the accounts have been laid before parliament, the finalised audit report will be made publicly available on the Audit Scotland website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk))

We would like to thank the HITRANS’ Officers as well as the Highland Council finance officers who provide administrative and accounting services for HITRANS for an effective year-end audit process and all their support and assistance throughout the audit process.

## Structure of this report

As set out in our Audit Plan presented to the HITRANS Partnership Committee in draft in February 2020 and Finalised on 31 March 2020, we consider in accordance with the Audit Scotland Code of Practice that HITRANS meets the smaller body definition. Therefore full wider scope is not considered relevant.

However, as required in the Code of Audit Practice our report concludes on our audit of the annual report and accounts and certain aspects of HITRANS’s arrangements as follows:

Financial statements including the Performance Report and Accountability Report (including governance statement) – Section 1

Disclosures in the governance statement and HITRANS’ financial sustainability – Section 2 and 3

## Covid-19

As a result of the Covid-19 pandemic we considered whether an additional financial statement audit risk was required. We have recognised a further financial statement risk in relation to Covid-19. Further details on the risk identified and our response and conclusion to the risks are included within the Responding to Significant Risks section of the report.

## Our opinion

For the financial year ended 31 March 2020 we have issued an **unqualified audit opinion on the financial statements** and that:

- The financial statements give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of the council and its group as at 31 March 2020 and of the income and expenditure of the council and its group for the year then ended;
- The financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code;
- The financial statements have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.
- The information given in the Annual Governance Statement for the financial year is consistent with the financial statements and prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).
- The information given in the Management Commentary for the financial year is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government Scotland Act 2003; and
- Audited parts of the Remuneration Report have been prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

## Materiality

Our audit approach was set out in our audit plan presented to the HITRANS Partnership Board in February 2020 and finalised on 31 March 2020. We updated our materiality calculation based on the unaudited financial statements for 2019/20. Overall materiality has been set at £52,340 approximately 2% of gross expenditure and performance materiality is set at £39,255, 75% of materiality. Our planned approach has not changed from that set out in our plan.

We report to management any difference identified over £2,300 which has been set at 5% of overall materiality. Below this threshold the adjustment is considered trivial.

Lastly we set a lower materiality level in respect of the remuneration report, given the interest to the users of the accounts. This was set at £2,500, linked to the bandings used.

## Internal Audit

As set out in our external audit plan our audit approach is to comply with the ISA's and we do not place formal reliance on the work of the Highland Council's Internal Audit Service, HITRANS' internal audit provider during 2019/20. We have reviewed the internal audit plan and individual reports issued to date, to consider if any impact on our audit approach. Internal Audit concluded "*On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, it is the audit opinion that Reasonable Assurance can be placed upon the adequacy and effectiveness of the HITRANS' framework of governance, risk management and control for the year to 31 March 2020*".

The findings of internal audit are consistent with our knowledge and experience of HITRANS. From our review we are satisfied that there were no areas arising from the work of internal audit that would impact on our audit opinion or require specific disclosure in the annual governance statement. We have no concerns that Internal Audit did not have sufficient capacity and capability to provide the internal audit service to HITRANS.

## Internal control environment

During the year we sought to understand HITRANS' overall control environment (design) as related to the financial statements. In particular we have:

- Sought to understand procedures and controls around related parties, journal entries and other key entity level controls including understanding of the controls in place at The Highland's Council, who administer financial transactions on HITRANS' behalf.
- Performed procedures around entity level controls and there are no significant matters that we wish to draw to your attention.
- Performed walkthrough procedures on key controls around identified risk areas including expenditure, journals, and the valuation of defined benefit pension schemes. We have also considered the impact of Covid-19 on financial reporting arrangements including the production of the accounts.

No material weaknesses in the accounting and internal control systems were identified based on our work undertaken during the audit which could have an adverse impact on HITRANS ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. We adopted a substantive based approach to the audit of the financial statements and therefore our review is limited to the design of controls rather than the operating effectiveness of these.

# Responding to significant risks

Risk area	Identified audit risks at planning
<b>Risk of fraud in expenditure recognition (as set out in FRC Practice Note 10)</b>	Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As payroll expenditure is well forecast and agreeable to underlying payroll systems, there is less opportunity for the risk of misstatement in this expenditure stream. Similarly for property costs, travel and support service costs we consider these to be well forecast and given their expected balance to be unlikely to be materially misstated. We therefore focus on non-pay expenditure including programme costs, including non-payroll research and development costs, and project costs. We consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of non-pay expenditure. Specifically for HITRANS this includes administration expenses and supplier and services as well as property costs.
Work completed	
<ul style="list-style-type: none"><li>• Walkthroughs of the controls and procedures over non-pay expenditure and other operating costs.</li><li>• Performed substantive testing (at an elevated risk level) expenditure recognised post year end to identify if there is any potential understatement.</li><li>• Testing post year end bank statements (as administered by the Highland Council) and review of minutes to identify any potential unrecorded liabilities.</li><li>• Reviewing any accruals and deferred income around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimate.</li></ul>	
Our conclusion	
<p>Based on our testing we conclude:</p> <ul style="list-style-type: none"><li>• We did not identify any exceptions in our cut-off testing of year end expenditure.</li><li>• We did not identify any exceptions in the completeness and accuracy of accruals, deferred income or provisions balances at the year end.</li><li>• Through our substantive procedures and sample testing we confirmed expenditure testing was in accordance with the nature of the organisation (regularity).</li></ul>	

## Risk area

### Management override of controls

## Identified audit risks at planning

As set out in ISA 240 there is a presumed risk that management (senior Officer) override of controls is present in all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override HITRANS controls for specific transactions.

We consider those key judgements that are most susceptible to significant audit risk of management override are those over expenditure recognition. These are areas where management has the potential to influence the financial statement through estimate and judgement.

## Work completed

- Considered the design of controls in place over key accounting estimates and judgements through performance of walkthrough procedures.
- Reviewed accounting estimates for management bias / indication of fraud that could result in material misstatement. This included review of estimates as at 31 March 2020 and retrospective review of those estimates as at 31 March 2019.
- Journals testing including:
  - Assessment of the design of controls in place over journal entries, including journal preparation, authorisation and processing onto the financial ledger;
  - Risk assessment of the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We tested these journals to ensure they are appropriate and suitably recorded in the financial ledger;
  - Considering areas of significant judgement or estimation for indication of management bias; and
  - Target testing of transactions around the financial year end, reviewing large journals and those which appear unusual to understand the rationale for the transaction.

## Our conclusion

Based on our testing we conclude:

- There was no evidence of management override in our testing of controls.
- HITRANS' financial statements include critical estimates and judgements around the the actuarial assumptions used in the valuation of defined benefit pension scheme net liabilities. We have raised an audit adjustment for Officers to highlight the valuation uncertainty in the financial statements around the valuation of property investments held within the Pension Funds assets and subsequently HITRANS' share of these. We did not identify any indication of management bias in the estimates made;
- We did not identify any unusual or significant transactions throughout the financial year or during the financial close period which were out with the ordinary operations of HITRANS.



## Risk area

### Defined benefit pension scheme

## Identified audit risks at planning

HITRANS participates in the Highland Council Pension Fund, a local government pension scheme. The scheme is a defined benefit pension scheme and in accordance with IAS 19: Pensions, HITRANS is required to recognise its share of the scheme assets and liabilities on the statement of financial position. As at 31 March 2019, HITRANS had pension fund liabilities of £1.022 million. Hymans Robertson UK LLP provide an annual IAS 19 actuarial valuation of HITRANS's net liabilities in the pension scheme. There are a number of assumptions contained within the valuation, including: discount rate; future return on scheme assets; mortality rates; and, future salary projections. Given the material value of the scheme liabilities and the level of estimation in the valuation, there is an inherent risk that the defined benefit pension scheme could be materially misstated.

## Work completed

- Assessed the adequacy of the design of the controls and procedures over the valuation of pension scheme liabilities, including information and instructions provided to the pension fund and actuary.
- Developed an understanding of the arrangements in place at HITRANS for reviewing the assumptions adopted by the actuary and suitability of these for HITRANS.
- We challenged the suitability and reasonableness of the underlying assumptions adopted by the actuary in arriving at the defined benefit pension scheme liability, including ensuring underlying data used is appropriate in informing the valuation.
- We tested the underlying data supporting the valuation to ensure these are consistent with HITRANS' underlying records.

## Our conclusion

Based on our testing we conclude:

- Using the work of PriceWaterhouseCoopers (PwC) central review of actuarial assumptions, we are satisfied that the assumptions adopted by HITRANS were reasonable and in line with acceptable range of assumptions;
- The underlying data to support the actuarial valuation appears complete and accurate;
- HITRANS has included valuation uncertainty within Accounting estimates and judgments note in the accounts (Note 1) in relation to the uncertainty over the valuation of property investments within HITRANS' share of defined benefit pension scheme assets. We are satisfied this has been disclosed appropriately alongside other key assumptions included in the defined benefit pension scheme valuation;
- The draft defined pension scheme liability included an allowance for the estimated impact that the "McCloud/Sargeant" legal case would have on scheme obligations. In June 2020, there was increased certainty surrounding the actual settlement approach which was likely to result in future obligations being less than originally estimated. As a result this represented more accurate information of the value of the obligations as at 31 March 2020 and therefore was required to be included in the accounts as an adjusting post balance sheet event. Officers obtained an updated actuarial valuation which reduced the defined benefit obligations by £14,000 as at 31 March 2020 and the adjustment is shown in appendix 1.

## Risk area

### Covid-19

## Identified audit risks at planning

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected current circumstances would have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and restrict the evidence we can obtain through physical observation;
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates;
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

## Work completed

- Worked with management to understand the implications the response to the Covid-19 pandemic has had on the organisation's ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations;
- Evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- Evaluated whether sufficient audit evidence could be obtained through remote technology;
- Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as recovery of receivable balances; and
- Evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.

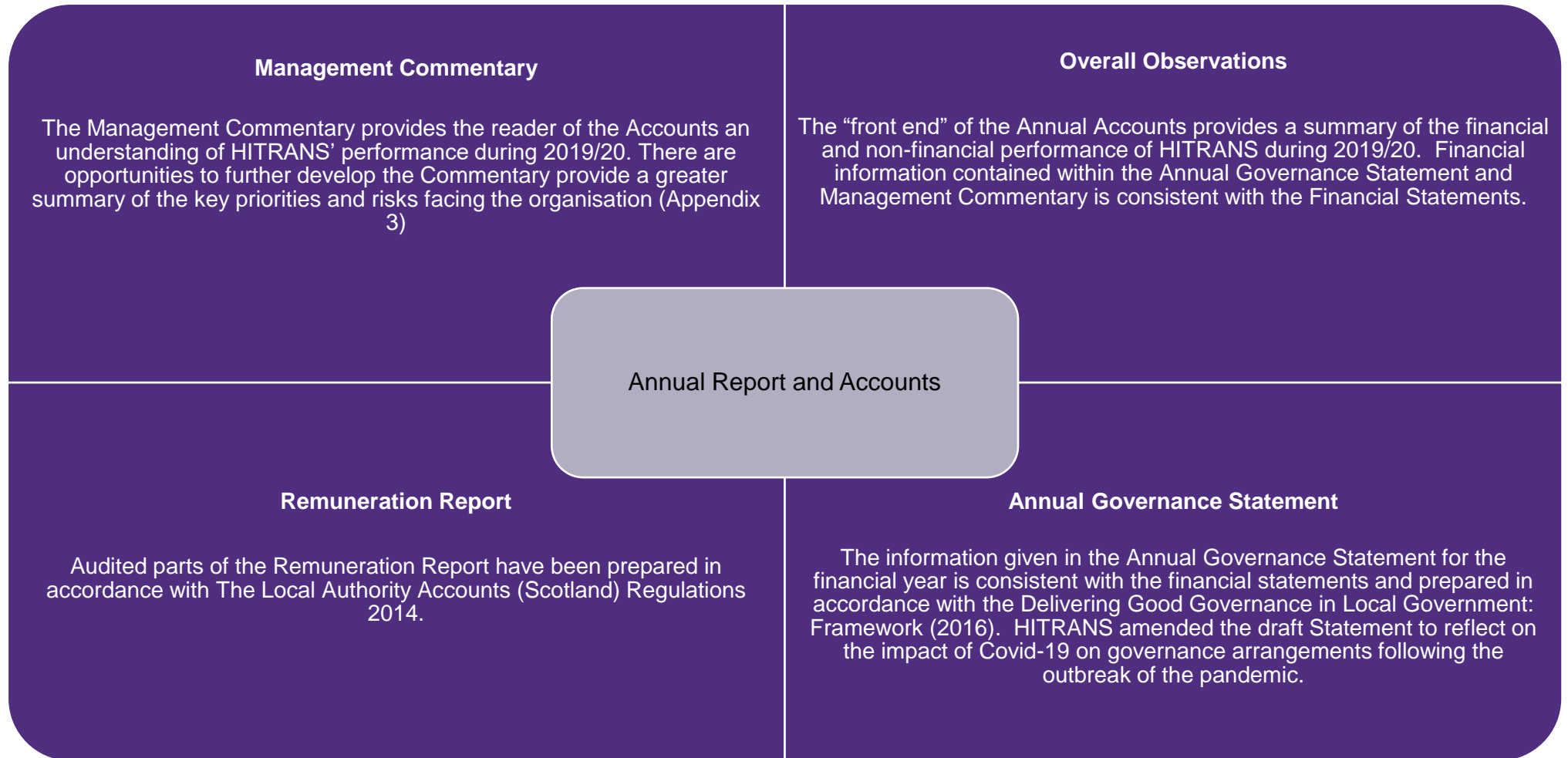
## Our conclusion

Based on our testing we conclude:

- Covid-19 and remote working did not restrict HITRANS' ability to prepare the financial statements or restrict the audit evidence required to complete the audit.
- The potential risk of Covid-19 on HITRANS did not impact on our assessment of materiality.
- Management's assumptions underpinning financial forecasts and the going concern assessment have adequately considered the potential impact of Covid-19.
- We have not identified any significant impact on HITRANS debtor recovery, although acknowledge that the majority of these are with other public bodies
- During the audit we raised a disclosure adjustment for management to recognise the impact of Covid-19 within the governance statement and other sections of the annual report and accounts commentary on Covid and the impact on the governance arrangements (appendix 1).

# Narrative elements of your annual accounts

In accordance with our responsibilities we have reviewed the narrative aspects of the annual accounts and report. We have considered the consistency of this narrative with our understanding of HITRANS and the financial statements and have set out our observations below. We have also audited the required information in the remuneration report (marked audited) and have no matters we wish to bring to your attention.



# Key aspects of your financial statements

We consider key aspects of your financial statements in relation to management judgements including estimates and where management may have particular options or choices in what accounting standards or disclosure requirements to apply. We have summarised our conclusions below.

No new International Financial Reporting Standards (IFRS) have been adopted in the year as the adoption of IFRS 16 for public bodies has been delayed by a year as a result of the Covid-19 pandemic. The Accounting Policies followed by HITRANS are in accordance with the 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom (the 2019/20 Code).

In relation to the audit risk of fraud in respect of expenditure recognition we tested HITRANS' cut-off arrangements and identified no issues with the recognition of post year end transactions or in accruals which could indicate a higher risk of potential fraud.

There were no material legal uncertainties at year-end.



HITRANS' accounts includes disclosure around critical estimates and judgements around the measurement of defined benefit pension obligations (actuarial assumptions) as well as the valuation of land and buildings. While we agree with Officers assessed areas of estimation and judgement, there is an opportunity to enhance the disclosure around these including sensitivity surrounding the estimate and potential impact. This is included within Appendix 1.

HITRANS financial statements report a net liabilities position as at 31 March 2020 of £0.768 million. The net liability position is primarily due to the Council's net defined benefit pension obligations of £0.765 million. This is a long term liability recognised in accordance with IAS 19. The actual settlement of defined benefit pension obligations is through agreed contribution rates set through the triennial valuation of the Pension Fund. HITRANS income is primarily through Scottish Government Grant funding, project funding as well as funding from constituent Council requests. In accordance with the Transport (Scotland) Act 2005, the level of funding from constituent Council's is set annually to support HITRANS meet its obligations as they fall due, including pension contributions. Officers have considered forecasts for a period of at least 12 months from the proposed date of signing and are satisfied that the organisation continues to represent a going concern. We are satisfied that HITRANS' use of the going concern basis of accounting is appropriate.

# HITRANS' financial arrangements

## Financial Position 2019/20

For the year ended 31 March 2020, HITRANS reported total comprehensive income for the year of £263,000 (2018/19: Expenditure £299,000). This included actuarial gains on pension assets of £484,000 and losses on pension scheme assets of £121,000 resulting on a deficit on the provision of services of £100,000 (2018/19: £108,000). After removing for adjustments between funding and accounting basis with respect of IAS 19 costs charged to services and employee leave accrual movements (taken to the Pension and Employee Statutory adjustment account respectively), the net surplus taken to the General Fund was £7,000 (2018/19: £nil). The financial performance for the year was in line with the overall breakeven budgeted position. However, this level of expenditure on EU projects and research and development costs was higher than budgeted but offset through grant and other income in the period. This reflects HITRANS approach to budget setting where costs in delivering projects is not committed until confirmation of funding. The outturn position meant constituent council requests received of £200,000 were £23,000 below budget.



## Covid-19 response and governance arrangements

HITRANS has an established governance framework in place consisting of policies, procedures and systems of internal control to support the delivery of HITRANS Business Plan and wider Regional Transport Strategy. HITRANS has an established Risk Management strategy which outlines the Partnerships approach to risk management. Officers monitor the management of risks with the Risk Register annually reported to the Board.

HITRANS governance documents are due to be subject to review every 2 to 3 years. The last formal review the documents was undertaken in 2016/17 and a formal review of documents has not been undertaken in 2019/20. While we have not identified any underlying issues around the governance arrangements in place at HITRANS it is important that key governance documents are kept under regular review to ensure that these remain fit for purpose for the organisation.



### *Action plan point 1*

Due to travel and social distancing measures introduced by the Government in response to the outbreak of Covid-19, meetings of the Partnership Board were held remotely through TEAMs in April and September 2020. Officers have continued to work remotely with support from the Highland Council's IT infrastructure supporting remote working. HITRANS have revised the 2020/21 Business Plan to reflect the response and impact of the pandemic including engaging with key partnership advisors to identify the potential impact on transportation services across the partnership as well as working closely with constituent authorities to support planned response to the pandemic. HITRANS recognises its role in supporting partnering authorities' response to the pandemic as well as future economic recovery.

## Financial sustainability

Like many public bodies, HITRANS faces financial challenges in balancing public sector funding constraints alongside increasing pressures on its cost base including pay and non-pay costs. Requisition funding from constituent council's and the Scottish Government is confirmed for a period of one year. For 2020/21 the draft budget was set at a breakeven position, on the assumption that Scottish Government and Council requisition funding would remain at the same levels as 2019/20 and that increases in staff and other operating costs would be offset through other income streams as well as efficiencies. While we recognise that HITRANS has continued to meet its financial targets, the financial challenges facing public sector bodies, including constituent councils, particularly in light of the impact of Covid-19, could put the level of future funding available to HITRANS. In addition, HITRANS continue to face rising cost pressures. As a consequence it is important that

While we recognise that HITRANS continues to receive one year settlements from constituent councils and the Scottish Government, we recommend that Officers look to develop financial forecasts and plans beyond one year to identify and plan for areas of financial pressure over the medium term and take strategic approach to address these. This is particularly important in the light of the existing financial challenges facing public bodies as well as the impact of covid-19 on cost base and future levels of funding.

*Action plan follow up point - 1*



# Appendices

- Audit adjustments
- Action plan and recommendations
- Follow up of prior year recommendations
- Audit fees and independence
- Fraud arrangements
- Communication of audit matters

# Audit adjustments

## Uncorrected and corrected misstatements

The following misstatements were corrected by Officers during the course of the audit and reflected in the draft financial statements

Item		Dr (£'000)	(Cr) (£'000)	Description
1	IAS 19 Defined benefit pension liability	14		<i>Being adjustment to reflect the impact of the SPPA consultation on McCloud remedy</i>
	Operating income		(13)	
	OCI - Remeasure ments		(1)	

During the course of our audit work we identified a number of disclosure adjustments required to the draft financial statements. The following are those adjustments that have been adjusted for in the updated draft accounts.

Item	Description	Adjusted
1	Annual governance statement	Minor disclosure amendments including further narrative on impact of Covid-19
2	Management Commentary	Some changes arising during the course of the audit around clarification of performance information
3	Accounting policies	Disclosures including enhancing income disclosures including Grant Funding received
4	Presentational adjustments	Presentational adjustments through Primary financial statements
5	Financial Instruments	Disclosure updated to ensure consistent with IFRS and the 2019/20 Code.
6	Accounting policies – valuation uncertainty	Disclosure adjustments to highlight the uncertainty surrounding the valuation of property assets within the pooled investment portfolio.
7	Related party disclosures	Related party disclosures updated to reflect the 2019/20 Code requirements including details on income, expenditure and closing balances due to/from related parties.
8	Event after the reporting date	Updated to disclose the impact of Covid-19.



The following misstatements were identified during the course of our audit. These were not corrected by Officers during the course of the audit on the grounds of not being material to the financial statements.

Item	Dr (£'000)	(Cr) (£'000)	Description
1	5		
CIES – Past Service cost			
Balance Sheet – Pension Liability		(5)	<i>Being estimated adjustment to include allowance for GMP equalisation as estimated by the actuary as being approximately 0.2% of funded liabilities (0.002*£2,620,000 = £5,240)</i>

## Disclosure misstatements – uncorrected

The following disclosure misstatements have not been corrected by Officers. We do not consider these to be material to the accounts and Officers have agreed to review during the preparation of next years financial statements:

**Significant Judgements:** HITRANS' currently disclose significant estimates and judgements within the notes to the financial statements. There are opportunities to enhance the disclosures around estimation uncertainty. Where a estimation uncertainty is disclosed, this should be areas where there is a significant risk of a material adjustment to the carrying amounts of assets and liabilities in the next financial year arising from the estimation. HITRANS should disclose information to allow the reader to fully understand the nature of the estimation uncertainty and how assumptions may impact on the value of the asset / liability.

**Management Commentary:** Opportunity to enhance disclosures around non-financial performance and risks and priorities facing the organisation.

We are satisfied that these are not material disclosure errors. Officers have proposed that recommendations will be taken forward to future years financial statements.

# External Audit Recommendations

We have set out below, based on our audit work undertaken in 2019/20, the one significant recommendation arising from our audit work.

## Recommendation

## Agreed management response

### 1. Governance documentation

HITRANS governance documents are due to be subject to review every 2 to 3 years. The last formal review the documents was undertaken in 2016/17 and a formal review of documents has not been undertaken in 2019/20. While we have not identified any underlying issues around the governance arrangements in place at HITRANS it is important that key governance documents are kept under regular review to ensure that these remain fit for purpose for the organisation.

Management response: A review of HITRANS Governance Documents will be undertaken by the Partnership Director and Treasurer for approval by the Partnership Board in February 2021.

Action owner: Partnership Director

Timescale for implementation: December 2020 – February 2021

# Follow up of external audit recommendations

During the year we have followed up on previous external audit recommendations. The results of this work is summarised below.

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## 1. Strategic Financial Planning

Due to annual funding settlement as well as restrictions on the organisation's ability to hold reserves, HITRANS financial plans are primarily based on an annual basis. Given the financial pressures facing the organisation it is important that medium to longer term financial plans are in place to ensure that HITRANS has a sustainable operating model in place to support service delivery.

With the draft Transport bill, there is potentially opportunity for HITRANS to retain reserves in the future providing an opportunity for more strategic financial planning and investment decisions.

### Follow up 2019/20: Outstanding

While we recognise that HITRANS continues to receive one year settlements from constituent councils and the Scottish Government, we recommend that Officers look to develop financial forecasts and plans beyond one year to identify and plan for areas of financial pressure over the medium term and take strategic approach to address these. This is particularly important in the light of the existing financial challenges facing public bodies as well as the impact of covid-19 on cost base and future levels of funding.

Action owner: Partnership Director

Timescale for implementation: Ongoing

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## 2. Management Commentary

The Management Commentary provides users of the accounts with information on HITRANS' financial and non-financial performance during the year and its financial outlook for 2019/20. While the Commentary includes a review of key developments and achievements, there is an opportunity to further develop the reporting in future years to provide performance against key performance outcomes.

We recommend that officers look to enhance the Management Commentary contained within the financial statements to provide quantifiable measures of performance against key priorities.

### Follow up 2019/20: Outstanding

The 2020/21 Management Commentary provides details on some of the key achievements during the year. However, there is an opportunity to quantify the extent to which planned outcomes and non-financial targets had been achieved. In addition, for future years' financial statements there is an opportunity to enhance the Management Commentary in providing greater detail around the priorities and risks facing HITRANS.

Action owner: Partnership Director

Timescale for implementation: June 2021

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# Audit fees and independence

## External Audit Fee

Service	Fees £
External Auditor Remuneration	8,640
Pooled Costs	840
Contribution to Audit Scotland costs	520
Contribution to Performance Audit and Best Value	-
<b>2019/20 Fee</b>	<b>10,000</b>

## Fees for other services

Service	Fees £
We confirm we have received no non-audit fees for the 2019/20 external audit	Nil

## Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.
- We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the ethical standards.
- We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.
- We can confirm no independence concerns have been identified.

## Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work ([joanne.e.brown@uk.gt.com](mailto:joanne.e.brown@uk.gt.com)). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to Elaine Boyd, Assistant Director, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

# Fraud arrangements

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at HITRANS.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relations to management override of controls.
- Leading a discussion with those charged of governance (for HITRANS this is assumed to be the Partnership Board) on their view of fraud. Typically we do this when presenting our audit plan and in the form of management and those charged with governance questionnaires.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

## Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the planning guidance) to inform the National Crime Agency if she knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at HITRANS we will report to the Auditor General as required by Audit Scotland.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is HITRANS' responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we work with HITRANS to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on a quarterly basis.

# Communication of audit matters

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table below.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern. <b>No matters on going concern identified.</b>	•	•
Views about the qualitative aspects of HITRANS' accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures. <b>Set out on page 9 and 10 of this report.</b>		•
Significant findings from the audit <b>None identified.</b>		•
Significant matters and issues arising during the audit and written representations that have been sought. <b>Letter of representation obtained. No significant matters and issues identified.</b>		•
Significant difficulties encountered during the audit <b>No difficulties encountered.</b>		•
Significant deficiencies in internal control identified during the audit <b>None identified</b>		•
Significant matters arising in connection with related parties <b>None identified</b>		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements <b>None identified</b>		•
Non-compliance with laws and regulations <b>None identified.</b>		•
Unadjusted misstatements and material disclosure omissions. <b>None identified.</b>		•
Expected modifications to the auditor's report, or emphasis of matter. <b>No modifications to the report.</b>		•



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our external audit. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the entity or all weaknesses in your internal controls.

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