

# Highlands and Islands Transport Partnership

Financial year ended 31 March 2021

Audit Report to the Members of the Highlands and Islands  
Transport Partnership and the Controller of Audit

Final External Audit Report - 15 December 2021



# Contents



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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 process. 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 Highlands and Islands Transport Partnership or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2016). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

# Key messages

This is our final report to Highlands and Islands Transport Partnership ('HITRANS') Board and the Controller of Audit and concludes our audit on the financial year ended 31 March 2021. We have issued an unmodified audit opinion on the annual report and accounts. We thank Officers for all their assistance during the audit process.

## 03 Other audit matters

Our final report summarises a number of other audit matters, including:

- We have concluded that the Highlands and Islands Transport Partnership ('HITRANS') meets the definition of a going concern, reflecting on FRC Practice Note 10 considerations.
- The accounts contain limited areas of estimation and judgement. The only significant estimate relates to the valuation of IAS 19 defined benefit pension scheme liabilities. Our testing over this did not identify any indication of management bias or error.
- We set out our roles and responsibilities on fraud. During the course of our work we did not identify fraud and/or material error.

There were a number of disclosure adjustments. These are detailed in Appendix 1 and not considered material to the accounts.

## 01 Materiality

We re-calculated our materiality based on the unaudited annual report and accounts. The benchmark of 2% of operating expenditure remained the same. This resulted in:

- Materiality of £54,580 and a performance materiality (75% of materiality) of £40,935.
- All audit adjustments above £2,700 were reported to management and captured in this report.
- We applied a lower materiality to the Remuneration Report reflecting the lowest disclosure bandings (being £1,000).

## 04 Wider Scope Audit

In accordance with the Code we determined that the Board meet the definition of a smaller body. This is based on the Board's income and expenditure transactions and balances held being relatively smaller than other public bodies and the financial statements are considered less complex.

In accordance with the Code we have concluded in this report on your governance statement and the Board's financial sustainability arrangements. During our audit we did not identify any further areas of wider scope risk.

## 02 Financial statement audit risks

At planning, in accordance with the ISAs (UK) and FRC Practice Note 10 we have identified the following significant financial statement audit risks:

- Management override of controls (ISA UK 240)
- Risk of fraud in expenditure recognition around the year end (FRC PN10)
- Risk of misstatement of defined benefit pension scheme liabilities.

We have no matters to bring to your attention arising from our work over these significant audit risks.

## 05 Our Audit Fee

Our audit fee, set out in our audit plan, of £10,240 was our final audit fee. There were no non-audit services (fees) during the year and we did not need to vary our agreed fee.

# Introduction

## Scope of our audit work

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2021 at HITRANS. The scope of our audit was set out in our External Audit Plan communicated to the Partnership Board in April 2021.

The main elements of our audit work in 2020/21 have been:

- An audit of the HITRANS' annual report and accounts for the financial year ended 31 March 2021; and
- Consideration financial sustainability and the Governance Statement, as required under the smaller body classification, within the Audit Scotland Code of Practice (2016).

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

This report is addressed to the Accountable Officer and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

## Responsibilities

The HITRANS Partnership Board is responsible for preparing an annual report and accounts which show a true and fair view and prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

The audit of the financial statements does not relieve Officers or the Partnership of your responsibilities. It is the responsibility of the Partnership to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We will consider how the Partnership is fulfilling these responsibilities.

The recommendations or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit 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.

## Adding value through our audit work

We aim to add value to HITRANS throughout our audit work. In delivering our audit we use a dedicated public sector audit team. This ensures our team have a comprehensive understanding of HITRANS and the wider public sector to focus on key areas of risk relevant to your financial statements.

As a result of the social distancing and travel restrictions implemented in response to the Covid-19 pandemic our audit work was delivered remotely. We continue to share recommended practices with management, where relevant, and contribute to wider discussions at the Partnership Board during the year.

# Audit of the annual report and accounts

## Key messages and judgements

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

There were no adjustments to the primary financial statements and one unadjusted misstatement in relation to the defined benefit pension scheme net liability.

We raised a number of minor disclosure adjustments. We do not consider these to be material. Further details are provided in [Appendix 1](#).

We would like to thank management for all their assistance during the year in ensuring the delivery of the audit, to the timescales agreed at the start of the financial year.

## Our audit opinion

For the financial year ended 31 March 2021 we have issued an **unmodified opinion** on the annual report and accounts. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the 2020/21 Code)
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 Code
- 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 Management Commentary, Annual Governance Statement and the Governance Compliance Statement for the financial year is consistent with the financial statements and have been prepared with statutory guidance issued under the Local Government in Scotland Act 2003; and, Delivering Good Governance in Local Government: Framework (2016).

## The audit process

As a result of the social distancing measures introduced in response to Covid-19 our audit work has been undertaken remotely with audits taking longer to complete throughout the year. Consequently, we agreed with Officers to undertake our detailed fieldwork throughout September, October and November to finalise the accounts in December. We received a good set of draft financial statements from Officers. We identified one unadjusted misstatement to the financial statements in relation to defined benefit pension scheme liabilities which is not considered material to the accounts. We also identified a number of disclosure adjustments in respect of the draft financial statements. A full listing of disclosure misstatements is detailed in [Appendix 1](#). We do not consider these to be material to the financial statements.

## Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. We updated our audit materiality to reflect the 2020/21 draft financial statements. It is set at £54,580, representing 2% of net operating expenditure. Performance materiality was set at £40,935, representing 75% of our calculated materiality. We report to management any difference identified over £2,700 (Being 5% of materiality). We applied a lower materiality to the Remuneration Report reflecting the lowest disclosure bandings (being £1,000).

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## Responding to significant financial statement risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p data-bbox="118 448 618 480"><b>Management override of controls</b></p> <p data-bbox="118 504 808 762">As set out in ISA 240 there is a presumed risk that management 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.</p> <p data-bbox="118 778 808 1078">We consider those key judgements that are most susceptible to significant audit risk of management override are those over the valuation of investments. These are areas where management has the potential to influence the financial statements through estimate and judgement. This includes manual journals as well as critical judgements or estimates.</p>	<ul data-bbox="824 448 2121 999" style="list-style-type: none"><li data-bbox="824 448 2121 520">• We considered the design of controls in place over key accounting estimates and judgements through performance of walkthrough procedures.</li><li data-bbox="824 528 2121 600">• We reviewed accounting estimates for management bias / indication of fraud that could result in material misstatement. This included review of estimates as at 31 March 2021.</li></ul> <p data-bbox="824 608 1196 639">Journals testing including:</p> <ul data-bbox="824 647 2121 999" style="list-style-type: none"><li data-bbox="824 647 2121 719">• Assessment of the design of controls in place over journal entries, including journal preparation, authorisation and processing onto the financial ledger;</li><li data-bbox="824 727 2121 911">• 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;</li><li data-bbox="824 919 2121 999">• Target testing of transactions around the financial year end, reviewing large journals and those which appear unusual to understand the rationale for the transaction.</li></ul> <p data-bbox="824 1015 994 1046"><b>Conclusion</b></p> <p data-bbox="824 1062 2121 1209">Through our audit procedures performed we found that there was no evidence of management override in our testing of transactions tested. We did not identify indication of fraud or inappropriate management bias in accounting estimates that could result in a material misstatement.</p>

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## Risks identified in our Audit Plan

### IAS 19 Pension Liabilities

The Partnership participates in the Highland Council Pension Fund, a local government pension scheme (LGPS). The scheme is a defined benefit pension scheme and in accordance with IAS 19: Pensions, Partnership is required to recognise its share of the scheme assets and liabilities on the statement of financial position.

Hymans Robertson UK LLP provide an annual IAS 19 actuarial valuation of the Partnership'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 liability could be materially misstated within the financial statements.

## Commentary

- From year end planning review our risk focused predominantly around the key assumptions used in the actuarial valuation, where there was an increased risk of material misstatement.
- We performed walkthroughs of the controls and procedures over the valuation of defined benefit pension liabilities, including Management oversight of the valuation;
- We considered the work of the actuary (Hymans Robertson UK LLP), including the assumptions applied, using the work performed by PricewaterhouseCoopers (PwC) (commissioned on behalf of Audit Scotland to review actuarial assumptions proposed by LGPS actuaries), as well as local audit assessment.
- As appointed auditors of Highland Council Pension fund, we obtained assurances over the information supplied to the actuary in relation to HITRANS, including assets held and membership data, and confirm joint assurances in respect of employer and employee contributions in the year.
- We performed substantive analytical procedures in the year over the pension fund movements, investigating any deviations from audit expectation.
- We reviewed the accounting entries and disclosures made within HITRANS' financial statements in relation to IAS 19.

### Conclusion

Through our audit procedures performed over the IAS 19 defined benefit pension liabilities recognised in the financial statements we are satisfied that these are free from material misstatement. We did identify an unadjusted misstatement in relation to HITRANS share of the pension scheme assets. As the actuary had included forecast investment information for one fund manager (rather than actual investment values as 31 March) the overall IAS 19 valuation for the scheme was understated. HITRANS share of this is estimated at £9,757. Consequently we have reported an unadjusted difference in the accounts. Through considering the work performed by PwC, we are satisfied that the assumptions applied by the actuary are reasonable.



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## Risks identified in our Audit Plan

### Risk of fraud in expenditure recognition (cut-off)

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. We therefore focus on material non-pay expenditure streams including research and strategy development costs and European Project costs. We consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of these expenditure streams and the completeness of expenditure.

Our testing includes a specific focus on year end cut-off arrangements, where it may be advantageous for management to show an enhanced/different financial position in the context of reporting in-year to Scottish Government and the need to achieve the financial targets set.

## Commentary

- We performed walkthroughs of the controls and procedures over non-pay expenditure streams including research and strategy development costs and European Project costs;
- Substantive testing of expenditure throughout the year to confirm its occurrence and accuracy of recording with a heightened risk around the year-end where we consider greatest incentive / opportunity for material misstatement;
- Focused substantive testing of non-pay expenditure recognised post year end to identify if there is any potential understatement to address the risk of cut-off; and
- Review of accruals and payables, where material, around the year end to consider if there is any indication of understatement or overstatement of balances held through consideration of accounting estimates.

### Conclusion

Through our audit procedures performed we did not identify any exceptions in our year end cut-off testing of expenditure. We did not identify any exceptions in the completeness and accuracy of accruals or payables balances at year end.

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We did not identify any further areas of significant risk through the course of our audit work.



## Significant estimates and judgements

The HITRANS' annual report and accounts contain limited areas of estimation and judgement. The one material area of estimation is in relation to IAS 19 defined benefit pension scheme liabilities.

Judgement or estimate	Summary of officer's approach	Audit Comments	Assessment
IAS 19 defined benefit pension scheme liabilities	The Pension Fund appoint Hymans Robertson UK LLP to provide an annual IAS 19 actuarial valuation of HITRANS' 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. Officers' engage Hymans to provide recommended assumptions and these are reviewed and approved to ensure appropriate for the authority. The final results are included in the annual accounts subject to Senior Officer and Board Member review.	Using the work of PricewaterhouseCoopers (PwC) we reviewed the key assumptions underpinning the actuarial valuation.  We are satisfied that the assumptions adopted were appropriate for HITRANS and that those applied were considered reasonable i.e. within our acceptable tolerances. While we identified a unadjusted misstatement in relation to the valuation of scheme assets (Appendix 1), we did not identify any indication of management (Officer) bias in the underlying assumptions applied in the estimate. We have also raised a disclosure misstatement for enhancing the disclosure in the accounts in relation to the assumptions.	●

### Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

### Internal control environment

In accordance with ISA requirements we have developed an understanding of the control environment in place within HITRANS. We did this through a walkthrough of key controls within HITRANS including expenditure, income, IAS 19 pension costs and journals. We identified no material weaknesses from this work which would have caused us to alter the planned approach as documented in our plan.

## Detecting Irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to HITRANS and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the CIPFA Code of Practice on Local Authority Accounting 2020/21 (the 2020/21 Code).
- We enquired of Officers and the HITRANS' Partnership Board, concerning HITRANS' policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of Officers (Management) and the Partnership Board, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of HITRANS' financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries that altered HITRANS' financial performance for the year and potential management bias in determining accounting estimates. Our audit procedures involved are documented within our response to the significant risk of management override of controls on Page 6.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in expenditure recognition and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - HITRANS' operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - HITRANS' control environment, including the policies and procedures implemented to ensure compliance with the requirements of the financial reporting framework.

## Other key elements of the financial statements

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of focus either in accordance with the Audit Scotland Code of Audit Practice or ISAs or through due to their complexity or importance to the user of the accounts.

<b>Issue</b>	<b>Commentary</b>
<b>Matters in relation to fraud and irregularity</b>	It is HITRANS' responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquires of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
<b>Accounting practices</b>	We have evaluated the appropriateness of HITRANS' accounting policies, accounting estimates and financial statement disclosures. Disclosures and accounting policies are in line with the 2020/21 Code and we have no matters to report.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
<b>Opinion on other aspects of the annual report and accounts</b>	The information given in the Management Commentary is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003. We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are consistent with the financial statements and that the report is prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Issue	Commentary
Matters on which we report by exception	<p>We are required by the Auditor General for Scotland to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.</p>
Annual Governance statement	<p>The governance statement outlines the governance framework in place at HITRANS. The Annual Governance Statement is consistent with the financial statements and the report is prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).</p> <p>There was no matters arising from our review of the governance statement that we want to draw attention to.</p>
Written representations	<p>A letter of representation has been requested from the Executive Chief Officer, Resources and Finance, including specific representations, which is included in the Partnership Board's papers. Specific representations have been requested from officers in line with prior years and confirms as auditors all records have been made available to us.</p>
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by HITRANS meets this criteria, and so we have applied the continued provision of service approach. In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered Officer's assessment of the appropriateness of the going concern basis of accounting and conclude that:</p> <ul style="list-style-type: none"> <li>• a material uncertainty related to going concern has not been identified</li> <li>• Officer's (Management's) use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

# Wider scope audit – Smaller body

As set out in our Audit Plan, HITRANS meets the definition of a smaller body in accordance with the Audit Scotland Code of Practice (2016). Therefore, as auditors we are required to include in our annual report commentary on arrangements as they relate to financial sustainability and the Annual Governance Statement. Our work on the Annual Governance Statement, and conclusions are set out on page 12 of this report. Below we have captured our commentary and conclusions on financial sustainability and other matters of interest during the year.

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant Thornton conclusion
Governance arrangements (Audit Scotland planning guidance consideration)	No significant risks identified within our audit planning.	<p><b>Governance</b></p> <p>During 2020/21 HITRANS governance arrangements continued to operate as intended, and as in prior year. As a result of the travel restrictions and social distancing measures introduced as a result of Covid-19, HITRANS have implemented remote working and governance arrangements during the year, including remote meetings of the Partnership Board. We did not identify any concerns around the governance arrangements in operation during the year.</p> <p>HITRANS has a suite of governance documents, including policies and procedures. In October and November 2021 these were subject to detailed review to ensure they remain fit-for-purpose and subject to approval from the Board in November 2021.</p>	We did not identify any concerns around HITRAN's governance arrangements or disclosures within the draft Governance Statement.

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant Thornton conclusion
Financial Sustainability, (as applicable to a smaller body)	No significant risks identified within our audit planning.	<p>For the year ended 31 March 2021, HITRANS reported total comprehensive expenditure for the year of £548,000 (2019/20: Income £263,000). This included actuarial losses on the pension scheme assumptions of £898,000 partly offset through the return on pension scheme assets of £449,000. The overall deficit on the provision of services was £99,000 (2019/20: £100,000). 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 deficit taken to the General Fund was £3,000 (2019/20: surplus £7,000). 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.</p> <p>HITRANS recognise wider risks in relation to pressures on finances to support the organisation continue to deliver its objectives. The Partnership Board approved the Business Plan and underlying budget for 2020/21. The budget includes £0.555 million of grants from Transport Scotland Active Travel Fund, contributions from SUSTRANS and European project grants. The Partnership is working towards identifying further cashable efficiency savings for 2021/22 and anticipates savings on a number of budget lines in 2021/22 when compared with 2020/21. The delivery of these is monitored by Officers and the Partnership Board.</p>	<p>Through our audit procedures we have not identified any significant risks in relation to HITRANS' financial sustainability.</p> <p>Officers recognise the financial pressures faced in delivering planned activities with funding available from external bodies or constituent authorities. The constituent authorities are required to Fund the Partnership's liabilities and therefore while there are recognised financial pressures, Officers focus is on operating within financial resources available.</p> <p>There is an opportunity to have greater focus on medium to longer term financial plans to ensure there continues to be a strategic approach to financial planning.</p> <p><i>Action plan follow up - 1</i></p>

# Appendices



# 1. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. We are pleased to report that there were no corrected misstatements to the primary financial statements. We identified one unadjusted misstatement to the primary financial statements in relation to defined benefit pension scheme assets. This misstatement is not considered material to the financial statements.

## Impact of unadjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

<b>Detail</b>	<b>Statement of Comprehensive Net Expenditure £'000</b>	<b>Statement of Financial Position £' 000</b>
Being understatement of HITRANS' share of the pension scheme assets within IAS 19 Pension liability as a result of the use of forecast investment values rather than the position as at 31 March 2021,	Cr IAS 19 – Return on scheme assets (10)	Dr IAS 19 Pension Liabilities 10
<b>Overall impact</b>	<b>(10)</b>	<b>10</b>

## Misclassification and disclosure changes

The table below provides details of substantive misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure	Auditor recommendations	Adjusted?
Governance statement	Consideration of the impact of Covid-19 on the organisation during the year.	✓
Statement of Cash Flows	The presentation could benefit from a note to the financial statements to support the disclosure of non-cash movements throughout the year.	✓
Assumptions made about the future and other major sources of estimation uncertainty	<p>International Financial Reporting standards prescribe the required disclosures in relation to critical judgements and separate consideration of accounting estimates.</p> <p>HITRANS should disclose judgements that Officers make when applying its accounting policies that have the most significant effect on carrying amounts in the financial statements. The draft financial statements included reference to “material valuation uncertainty” within the pension fund investments. However, this was no longer applicable as at 31 March 2021 and therefore required to be removed.</p> <p>Significant Estimates relate to assumptions and estimates at 31 March that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. There is an opportunity to enhance the disclosure to focus on those key areas of estimation that may have a significant risk of material misstatement in the next 12 months. This should focus on those key areas of assumptions such as pension fund discount rate or key assumptions in the valuation.</p>	<p><b>Partly</b> – Officers have updated disclosures to remove the reference to the material valuation uncertainty in relation to pension fund investments.</p> <p>However, there are further opportunities to enhance the disclosures in relation to significant estimates and judgements in accordance with the accounting standards. In particular we would expect a specific note to inform the reader of the accounts around the estimates and judgements in the financial statements. As auditors we are satisfied that this does not represent a material disclosure misstatement in the financial statements and Officers have agreed to review as part of the 2021/22 financial statements.</p>

There were minor presentational (rounding / formatting) changes recommended to Management. These are not considered material to the accounts.

# 2. Follow up of 2019/20 recommendations

We are pleased to report there were no audit recommendations arising from our audit work in the current year. We set out below our follow up of our 2019/20 recommendation and this is reflected below for information.

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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

**Initial management response:** 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.

### Follow up: Outstanding

The 2020-21 Business Plan identifies those areas of planned strategic spend and research activity into 2022/23, extending the financial forecast outlook beyond the annual budget period. However there is an opportunity to continue to develop financial planning arrangements to focus on a medium term outlook.

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## 2. 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.

**Initial 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.

**Follow up:** Closed

While the Partnership are satisfied that the core governance documentation remains fit for purpose, other priorities has meant that the review of corporate documentation was delayed in the year. The review of corporate documentation has been undertaken and being presented to the Partnership Board for approval on 12 November 2021.

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## 3. 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.

**Initial management response:** The 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.

**Follow up:** Closed

Officers continue to refine the Management Commentary to reflect key performance (financial and non-financial) in the year with context provided around the key risks (financial and Covid-19) facing the organisation in the year.

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# 3. Audit fees and independence

## External Audit Fee

<b>Service</b>	<b>Fees £</b>
External Auditor Remuneration	8,900
Pooled Costs	850
Contribution to Audit Scotland costs	490
Contribution to Performance Audit and Best Value	-
<b>2020/21 Fee</b>	<b>10,240</b>

## Fees for other services

<b>Service</b>	<b>Fees £</b>
We confirm that for 2020/21 we did not receive any fees for non-audit services	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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.
- 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 John Boyd ([john.p.boyd@uk.gt.com](mailto:john.p.boyd@uk.gt.com)), Audit Director, in the first instance or Joanne Brown, Head of Public Sector Assurance Scotland 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.

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \[grantthornton.co.uk\]](https://www.grantthornton.co.uk/transparency-report-2020)

# 4. 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	•	•
Views about the qualitative aspects of the HITRANS' accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•



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