

# Highlands and Islands Transport Partnership

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Highlands and Islands Transport Partnership and the Controller of Audit  
September 2023

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# Key messages

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## 2022/23 annual accounts

- 1 Audit opinions on the annual accounts are unmodified, i.e. the financial statements and related reports are free from material misstatement.
- 2 The management commentary, annual governance statement and the audited part of the remuneration report were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.

## Wider scope

- 3 The Highland and Islands Transport Partnership (The Partnership) demonstrates good financial management.
- 4 The Partnership has no medium or long term financial plan and needs to develop a strategic approach to planning.
- 5 The Partnership's governance framework is consistent with the principles of the CIPFA/SOLACE framework 'Delivering Good Governance in Local Government.' In line with good practice, the Partnership reviews the effectiveness of its governance framework annually.
- 6 The Partnership has appropriate arrangements in place to secure Best Value.

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# Introduction

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**1.** This report summarises the findings from the 2022/23 annual audit of the Highlands and Islands Transport Partnership (the Partnership). The scope of the audit was set out in an Annual Audit Plan presented to the April 2023 meeting of the Partnership. This Annual Audit Report comprises:

- significant matters arising from an audit of the Partnership's annual accounts
- conclusions on wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#), which for less complex bodies includes conclusions on financial sustainability and Best Value

**2.** This report is addressed to the Partnership and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

## Audit appointment from 2022/23

**3.** I, Patricia Fraser have been appointed by the Accounts Commission as auditor of the Partnership for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice](#) (the Code) which was introduced for financial years commencing on or after 1 April 2022.

**4.** My team and I would like to thank board members and staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

## Responsibilities and reporting

**5.** The Partnership has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The Partnership is also responsible for compliance with legislation putting arrangements in place for governance and propriety.

**6.** The responsibilities of an independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK.

**7.** The weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

**8.** This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

## **Auditor Independence**

**9.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £11,850 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**10.** We add value to the Partnership by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice identified.

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# Part 1. Audit of 2022/23 annual accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

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## Main judgements

Audit opinions on the annual accounts are unmodified , i.e. the financial statements and related reports are free from material misstatement.

The management commentary, annual governance statement and the audited part of the remuneration report were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.

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## Audit opinions on the annual accounts are unmodified

**11.** The Partnership approved the annual accounts for Highlands and Islands Transport Partnership for the year ended 31 March 2023 on 15 September 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and have been prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Code
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the applicable requirements
- we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

## Overall materiality was assessed on receipt of the annual accounts as £95,000

**12.** Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the accounts, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered

material by their nature. It is ultimately a matter of the auditor's professional judgement.

**13.** Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

## Exhibit 1

### Materiality values

Materiality level	Amount
Overall materiality	£95,000
Performance materiality	£71,000
Reporting threshold	£5,000

**14.** The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

**15.** Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75% of overall materiality based on our understanding of the Partnership and observations to date; the nature and extent of misstatements identified by the previous auditor and our expectations in relation to misstatements in the current period.

**16.** It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

## Significant findings and key audit matters

**17.** Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to the Partnership including our view about the qualitative aspects of the body's accounting practices.

**18.** The [Code of Audit Practice](#) also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

**19.** The significant findings and key audit matters are summarised in [Exhibit 2](#).

## Exhibit 2

### Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution / Recommendation
<p><b>1. Valuation of IAS pension asset/liability</b></p> <p>The IAS 19 report by the Actuary to the Highland Pension Fund reported that the Partnership had an in year surplus which changed the overall liability position to a net asset position of £0.11 million at 31 March 2023.</p> <p>To fully comply with IAS 19, a defined benefit asset requires to be limited to the lower of:</p> <ul style="list-style-type: none"> <li>• The surplus in the defined benefit plan; and</li> <li>• The asset ceiling, determined using the discount rate (in line with general IAS 19 rules on discount rates).</li> </ul>	<p>The Partnership obtained a revised estimate from the actuary which determined an asset ceiling value of £0.05 million.</p> <p>Management revised the unaudited accounts to limit the net pension asset accordingly. This had the effect of reducing the pension asset by £0.05 million.</p> <p>As a result of the above, we are satisfied that the valuation of the pension asset is not materially misstated.</p> <p>This was judged to be a key audit matter.</p>
<p><b>2. Expenditure testing</b></p> <p>We performed a review of expenditure in the financial ledger and substantively tested a total of 15 items.</p> <p>We found some items of expenditure which had been approved by the Partnership Director but did not fully comply with the priorities and objectives of HITRANS.</p> <p>We also identified items of expenditure which had been processed through individuals expenses without receipts.</p>	<p>The Partnership Director has revised procedures for authorising small value items of expenditure.</p> <p>We are satisfied that the value of items questioned is trivial.</p> <p><b>Recommendation 1:</b></p> <p>The Partnership should be mindful of what the budget is spent to ensure all expenditure meets the priorities and objectives of HITRANS.</p> <p>Receipts should be attached to individual expenses forms for all items claimed (refer <a href="#">Appendix 1</a>, action plan).</p>
<p><b>3. Agency funding</b></p> <p>The Partnership administers grant funding on behalf of the European Union in respect of the PAV North sea area project.</p> <p>In the situation where an authority is acting as an agent the transactions should not be reflected in the primary financial statements.</p> <p>We found that the Partnership had incorrectly included £0.72 million of agency transactions in expenditure and income in the unaudited accounts.</p>	<p>Management revised the unaudited accounts to remove the expenditure and income. There was no net effect on the outturn at 31 March 2023.</p> <p>We are satisfied that agency transactions have been properly accounted for in the revised accounts.</p>



## Our audit work responded to the risks of material misstatement we identified in the annual accounts

**20.** We have obtained audit assurances over the identified significant risks of material misstatement to the annual accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

### Exhibit 3

#### Identified significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively</p>	<p>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Test journals at the year-end and post-closing entries and focus on significant risk areas.</p> <p>Consider the need to test journal entries and other adjustments during the period.</p> <p>Evaluate significant transactions outside the normal course of business.</p> <p>Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.</p> <p>Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p> <p>Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted</p>	<p>Officers involved in financial reporting processes did not identify any unusual activity.</p> <p>Our work on journals did not identify any issues.</p> <p>There were no significant transactions outside the normal course of business.</p> <p>Our work on the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements did not identify any issues.</p> <p>Methodologies and assumptions employed by management in preparing account estimates did not significantly vary from the prior year and were consistently applied.</p> <p>Audit testing of income and expenditure transactions, including accruals and prepayments, confirmed they had been accounted for in the correct financial year.</p> <p>Audit testing of income and expenditure transactions around the year-end did not identify any issues.</p> <p>Our testing of project expenditure identified one</p>

Audit risk	Assurance procedure	Results and conclusions
	<p>for in the correct financial year.</p> <p>Focussed testing of accounting accruals and prepayments.</p> <p>Review project expenditure in year to project approval documentation.</p>	<p>error. (Exhibit 2, finding 3). We are satisfied this was an isolated error and no additional audit testing was required as a result of this finding.</p> <p><b>Conclusion: No issues were identified that indicate management override of controls.</b></p>

**21.** In addition, we identified one “area of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be other risks of material misstatement to the financial statements:

- **Valuation of IAS19 pension liability:** This is an area of audit focus due to the material value and significant, complex actuarial assumptions and estimates used in the calculation of the pension liability based on life expectancy and CPI growth.

**22.** We kept this area under review throughout our audit. We considered the reasonableness of actuarial estimates on material elements of the valuation using PwC LLP to review actuarial assumptions across Scottish LGPS and the accuracy of the information provided to the actuary by the Partnership. We have referred to this matter and its resolution in [Exhibit 2](#) above.

## There were two non-material identified misstatements within the financial statements

**23.** We identified two non-material misstatements within the financial statements (refer [Exhibit 2](#), findings 1 and 3). Both misstatements were corrected in the audited accounts.

**24.** Other than the two corrected misstatements, we did not identify any errors above our reporting threshold.

## The unaudited annual accounts were received in line with the agreed timetable

**25.** The unaudited annual accounts were received in line with our agreed audit timetable on 27 June 2023. We thank officers for their cooperation, assistance and for meeting the deadline.

## Limited progress was made on prior year recommendations

**26.** The Partnership has made limited progress in implementing the audit recommendation identified by Grant Thornton, The Partnership’s previous external auditor. For the actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

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# Part 2. Wider Scope

For less complex bodies wider-scope audit work considers the financial sustainability of the body and the services that it delivers over the medium to longer term, and the arrangements for securing Best Value

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## Conclusion

The Partnership demonstrates good financial management.

The Partnership has no medium or long term financial plan and needs to develop a strategic approach to planning.

The Partnership has appropriate arrangements in place to secure Best Value.

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## The Partnership demonstrates good financial management

**27.** The Partnership reported a year end surplus of £0.02 million due to an increase in grant funding and third party contributions for project work in respect of European projects. The surplus was transferred to the General Fund Reserves which increased to £0.09 million at 31 March 2023.

**28.** The Partnership has reported difficulties in setting budgets due to the unpredictability of expenditure and income profiles, but the Partnership Director monitors the outturn position on a regular basis and scrutinises ledger transactions on a continuing basis, identifying and resolving any anomalies at an early stage.

## The Partnership has no medium or long term financial plan

**29.** Local authorities are facing continuing funding pressures and HITRANS will find it increasingly challenging to secure sufficient funding to deliver on its priorities and outcomes.

**30.** To date, the Partnership has prepared financial plans on an annual basis due to partner bodies providing annual funding on a consistent basis. In these fiscally challenging times, planning over the medium term is essential for HITRANS to understand its financial prospects and manage any risks or threats to financial sustainability.

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## Recommendation 2

The Partnership needs to prepare a medium term financial plan to enable a strategic approach to planning.

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## Annual Governance Statement

**31.** The Partnership's governance framework is consistent with the principles of the CIPFA/SOLACE framework 'Delivering Good Governance in Local Government.' In line with good practice, The Partnership reviews the effectiveness of its governance framework annually.

**32.** The Partnership has approved and adopted a set of governance documents including Highland Council's Standing Orders. We found that the Standing Orders have not been reviewed by the Partnership since 2016 and there is a risk that the Standing orders may not be complete or up to date.

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## Recommendation 3

The Partnership should ensure that the Standing orders are reviewed on a regular basis to ensure they are up to date and provide appropriate coverage of the board and committees.

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## The Partnership has appropriate arrangements in place for securing Best Value

**33.** The Partnership considers whether it is meeting its Best Value responsibilities at each meeting through each board paper which conclude on the impact of the paper on each of the following areas: Regional Transport Strategy Delivery, Policy, Financial, Equality.

**34.** The Business Plan details projects HITRANS is involved in and an update is reported to each meeting of the Partnership Board. These projects link to the aims of the strategy and the Annual Report provides a report of performance against objectives, targets and performance indicators as outlined in the Regional Transport Strategy.

## Climate change arrangements

**35.** The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

**36.** Climate Change is embedded within HITRANS Regional Transport Strategy (RTS). Encouraging and supporting sustainable travel key part of what the Partnership do, this can be seen in RTS objectives and throughout the report. The Partnership work with Sustrans to deliver Active Travel Projects throughout the Highlands and Islands. The Partnership's 2023/24 Business Plan includes details of HITRANS' response to the climate emergency including details of what they are doing and what they can do.

**37.** The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

## Good practice

**38.** The Partnership Director demonstrates sound oversight of financial arrangements at HITRANS. Through our audit work and in meetings the Partnership Director has demonstrated that he exercises good financial management and vigilance which identifies and corrects any mispostings or errors in the ledger at an early stage.

# Appendix 1: Action plan 2022/23

## 2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Expenditure</b></p> <p>We performed a review of expenditure in the financial ledger and substantively tested a total of 15 items.</p> <p>We found some items of expenditure which had been approved by the Partnership Director but did not fully comply with the policies and objectives of HITRANS.</p> <p>We also identified items of expenditure which had been processed through individuals expenses without receipts.</p> <p><b>Risk:</b> There is a risk of misappropriation or misuse of public funds that do not meet the priorities or objectives of HITRANS.</p>	<p>The Partnership should be mindful of what the budget is spent on to ensure all expenditure meets the priorities and objectives of HITRANS.</p> <p>Receipts should be attached to individual expenses forms for all items claimed (refer <a href="#">Exhibit 2</a>).</p>	<p><b>Management response:</b> The Partnership is always mindful on what budgets are spent on, and always ensure they and their partners are getting good value for money. Managers have been reminded that receipts should be attached to all expenses, missing receipts are in the minority.</p> <p><b>Responsible officer:</b> Treasurer</p> <p><b>Agreed date:</b> ongoing during 2023/24</p>
<p><b>2. Financial sustainability</b></p> <p>To date, the Partnership has prepared financial plans on an annual basis due to partner bodies providing annual funding on a consistent basis.</p> <p>In these fiscally challenging times, planning over the medium term is essential for HITRANS to understand its financial prospects and</p>	<p>The Partnership needs to prepare a medium term financial plan to enable a strategic approach to planning (refer <a href="#">paragraph 30</a>).</p>	<p><b>Management Response:</b> A medium term financial plan will be produced in line with the 2024/25 budget setting.</p> <p><b>Responsible officer:</b> Treasurer</p> <p><b>Agreed date:</b> March 2024</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>manage any risks or threats to financial sustainability.</p> <p><b>Risk:</b> There is a risk to financial sustainability and the ability of HITRANS to deliver on its priorities and outcomes.</p>		
<p><b>3. Standing Orders</b></p> <p>HITRANS has adopted Highland Council Standing Orders.</p> <p>We found that the Standing Orders have not been reviewed by the Partnership since 2016.</p> <p><b>Risk:</b> There is a risk that the Standing orders may not be complete or up to date.</p>	<p>The Partnership should ensure that the Standing orders are reviewed on a regular basis to ensure they are up to date and provide appropriate coverage of the board and committees (refer <a href="#">paragraph 32</a>).</p>	<p><b>Management Response:</b> Standing Orders are reviewed when any changes are communicated to the Partnership.</p> <p><b>Responsible officer:</b> Partnership Director &amp; Company Secretary</p> <p><b>Agreed date:</b> Ongoing annually</p>

## Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>4. Financial sustainability 2021/22 AAR</b></p> <p><b>Risk:</b> There is a risk relating to pressure on finances to support the organisation in continuing to deliver its objectives.</p>	<p>There is an opportunity to have greater focus on medium term financial plans to ensure there continues to be a strategic approach to financial planning.</p>	<p><b>Outstanding</b></p> <p><b>Revised action:</b> As number 2 above.</p> <p><b>Responsible officer:</b> Treasurer</p> <p><b>Revised date:</b> March 2024</p>

# Highlands and Islands Transport Partnership

## 2022/23 Annual Audit Report

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[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)



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