

Highlands and Islands Transport Partnership

Report to Members and the Controller of Audit
on the 2008/09 Audit

October 2009



 AUDIT SCOTLAND

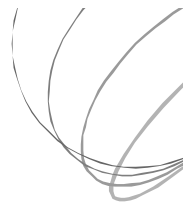


Highland and Islands Transport Partnership

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Key Messages

We have given an unqualified opinion on the financial statements of the Highlands and Islands Transport Partnership.

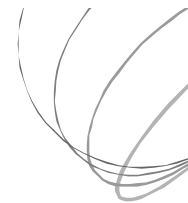
In overall terms, the Partnership managed its budget to breakeven financially.

As a result from changes to the way transport development capital grants are allocated, there has been a significant decrease in both income and expenditure of the Partnership.

The co-operation and assistance given to us by Highland and Islands Partnership and the Highland Council staff is gratefully acknowledged.

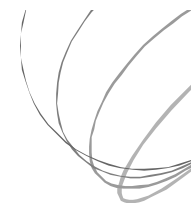


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Introduction

1. This report is the summary of our findings arising from the 2008/09 audit of the Highlands and Islands Transport Partnership (the Partnership) and other relevant work carried out by Audit Scotland. This report focuses on the financial statements and any significant findings that have arisen from our review of the management of strategic risks.
2. It must be stressed that our comments are made on the basis of information made available in the course of the annual audit.
3. This report is addressed to members and the Controller of Audit. It will be published on our website after consideration by the council. The Controller of Audit may use the information in this report for her annual overview to the Accounts Commission later this year. The overview report is published and it may also be presented to the Local Government and Communities Committee of the Scottish Parliament.
4. The members and officers of the Partnership are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
 - The financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed;
 - The Partnership's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests;
 - The Partnership has adequate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability;
 - The systems of internal control provide an appropriate means of preventing or detecting material misstatement, error, fraud or corruption;
 - The Partnership has proper arrangements for securing best value in its use of resources.



Financial statements

Introduction

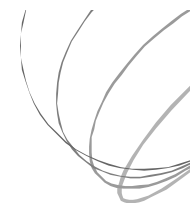
5. In this section we summarise key outcomes from our audit of the partnership's financial statements for 2008/09, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.

Audit Opinion

6. We have given an unqualified opinion that the financial statements of the Highlands and Islands Transport Partnership for 2008/09 give a true and fair view of the financial position and expenditure and income of the Partnership for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
7. We were satisfied with disclosures made in the annual governance statement and the adequacy of the process put in place by the council to obtain assurances on systems of control.
8. The Partnership's unaudited financial statements were submitted to the Controller of Audit on 24 June 2009 and an amended statement was submitted on 7 July 2009. This means that the deadline of 30 June was not met. Significant reliance is placed on one officer for the production of the accounts and in dealing with audit queries.
9. The accounts were certified by the target date of 30 September 2009 and are now available for presentation to members and publication. The financial statements are an essential means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.
10. Key dates in the certification process can be found in the Appendix to this report.

Accounting issues

11. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice* (the SORP). No major changes were introduced by the 2008 SORP. We were satisfied that the council prepared the accounts in accordance with the 2008 SORP.
12. The Partnership has adjusted the financial statements to reflect audit findings. As is normal practice, immaterial unadjusted errors have been reported to the Treasurer and the Audit Committee.



Legality

13. Through our planned audit work we consider the legality of the council's financial transactions. In addition the Treasurer confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the Partnership's management team, the financial transactions of the partnership were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Change in funding

14. The Partnership's gross income and gross expenditure has reduced in excess of £4m in 2008/09 compared to 2007/08. This is as a direct result of the Scottish Government's decision to de-ringfence grants, incorporating them in Local Authorities block grant settlements.

Financial outlook

IFRS adoption

15. Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2010/11. Because local government has already adopted some aspects of IFRS, we expect the transition to be fairly smooth. It is important that the partnership starts the transition period in 2009/10, as a comparative balance sheet as at 1 April 2009 will be required.

Revenue performance 2008/09

16. The partnership's total revenue expenditure in 2008/09 was £1.441 million. This was met by contributions from partner authorities of £0.2 million, specific grants from the Scottish Government of £1.217 million and other income of £0.032 million, resulting in a deficit of £8,000, 3.84% of the net expenditure for the year.
17. The budget set for 2008/09 was based on planned contributions from the Scottish Government of £1.268 million and £0.2 million other income. Overall the budget balanced.
18. After taking account of statutory adjustments, an additional £8,000 was met from reserves. The overspend was attributable to the statutory allocation of pension contributions.

Financial challenges

19. The outlook for public sector finances for the next few years is challenging. Significant efficiency requirements and spending cuts are expected to affect the whole of the public sector, in Scotland and more widely in the UK.



Governance and accountability

Overview of arrangements in 2008/09

20. We believe that an effective partnership is committed to high standards of probity and can demonstrate high standards of governance and accountability. It has effective political and managerial structures and processes to govern decision-making and the exercise of authority within the organisation, supported by mature and effective relationships between members and officers.
21. A Statement on the System of Internal Financial Control is included within the annual financial statements, and highlights the Treasurer's view that reasonable assurance can be placed upon the adequacy and effectiveness of the Partnership's internal financial control system. The statement complies with accounting requirements and is consistent with the findings of our audit.

Systems of internal control

22. The Partnership's financial transactions are processed through Highland Council's financial systems. It is the responsibility of the Council's management to maintain adequate financial systems and associated internal controls. The auditor evaluates significant financial systems and associated internal controls both for the purpose of giving an opinion on the financial statements and as part of a review of the adequacy of governance arrangements.
23. Our review of these systems was conducted as part of the audit of the Highland Council, supplemented by specific audit work on the Partnership's financial statements. Overall there are no material issues of concern in relation to the operation of the main financial systems.

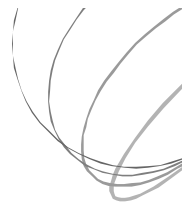
Audit testing

24. As part of our work, we took assurance from a number of the Highland Council's main financial systems which the partnership uses for its financial management. We assessed the following central systems as having a satisfactory level of control for our purposes:

- Payroll
- Main accounting system
- Creditors payments
- Debtors and income

Prevention and detection of fraud and irregularities

25. At the corporate level, the partnership relies on the arrangements in place at the Highland Council to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud and corruption policy and response plan; a whistle blowing policy; codes of conduct for elected members and staff; and defined remits for relevant regulatory committees.

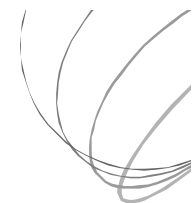


Final remarks

26. The members of Highlands and Islands Transport Partnership are invited to note this report. We would be pleased to provide any additional information that members may require.
27. The co-operation and assistance given to us by officers of the Partnership and Highland Council is gratefully acknowledged.

Audit Scotland

October 2009



Appendix

External audit reports and audit opinions issued for 2008/09

Title of report or opinion	Date of issue	Date presented to Audit Committee
Report on financial statements to those charged with governance (ISA260)	30 September 2009	8 October 2009
Audit opinion on the 2008/09 financial statements (certificate)	30 September 2009	8 October 2009