

North East of Scotland Transport Partnership

2017/18 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Members of North East of Scotland Transport Partnership and the Controller of Audit

19 September 2018

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

Audit of the 2017/18 annual accounts

- 1** In our opinion, North East of Scotland Transport Partnership's financial statements give a true and fair view and were properly prepared.
- 2** The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with proper accounting practices.

Financial sustainability

- 3** The partnership has financial stability as a result of sustained funding levels from partners.

Governance and transparency

- 4** The partnership has appropriate governance arrangements in place and conducts its business in an open and transparent manner.

Introduction

1. This report is a summary of our findings arising from the 2017/18 audit of North East of Scotland Transport Partnership (Nestrans). The report is divided into sections which reflect our public sector audit model.

2. The scope of our audit was set out in our Annual Audit Plan presented to the board in June 2018. In accordance with Audit Scotland's Code of Audit Practice, we explained at that time that the small body clause applies to NESTRANS. The main elements of the 2017/18 audit therefore included:

- assurances to support our opinion on the annual accounts
- consideration of the appropriateness of the disclosures in the annual governance statement
- a review of financial sustainability.

3. 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.

4. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice \(2016\)](#) and supplementary guidance, and International Standards on Auditing in the UK.

5. As public sector auditors we give independent opinions on the annual accounts. We also review and provide conclusions on the effectiveness of the partnership's arrangements for securing financial sustainability and corporate governance.

6. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

7. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified 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. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation.

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 the 2017/18 audit fee of £10,450 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. This report is addressed to both the partnership and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.

11. We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

Part 1

Audit of 2017/18 annual accounts



Main judgements

In our opinion, Nestrans' financial statements give a true and fair view and were properly prepared;

The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with proper accounting practices.

Audit opinions on the annual accounts

12. The annual accounts for the partnership for the year ended 31 March 2018 were approved by the Board on 19 September 2018. We reported, within our independent auditor's report that, in our opinion:

- financial statements give a true and fair view and were properly prepared
- 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 guidance

13. We have nothing to report in respect of: misstatements in information other than the financial statements; the adequacy of accounting records; or the information and explanations we received.

The partnership's annual accounts are the principal means of accounting for the stewardship of resources and performance in the use of resources.

Submission of the annual accounts for audit

14. We received the unaudited annual accounts on 27 June 2018 in line with the audit timetable set out in our 2017/18 Annual Audit Plan.

15. The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the audit of the annual accounts ran smoothly.

Risk of material misstatement

16. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process.

Materiality

17. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

18. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 1](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

19. On receipt of the annual accounts we reviewed our planning materiality calculations and concluded that they remained appropriate.

Exhibit 1

Materiality values

| Materiality level | Amount |
|---|---------|
| Overall materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure based on the latest audited accounts. | £29,000 |
| Performance materiality -. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this acts as a trigger point to consider further audit procedures. Using our professional judgement, we calculated performance materiality at 70% of overall materiality. | £20,000 |
| Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This is calculated at 5% of overall materiality. | £1,500 |

Source: Audit Scotland, Annual Audit Plan 2017/18

How we evaluate misstatements

20. Misstatements identified during the audit which were amended in the accounts increased net income on the comprehensive income and expenditure statement and reduced Net Liabilities by £103,000. This main matter is covered in [Exhibit 2](#) and relates to net pension liabilities.

21. There were no unadjusted misstatements which required to be reported.

Significant findings

22. International Standard on Auditing (UK and Ireland) 260 requires us to communicate to you significant findings from the audit. These are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of the financial statements

| Issue | Resolution |
|---|---|
| <p>1. Net pension liabilities</p> <p>In accordance with International Accounting Standard (IAS) 19 covering Employee Benefits, actuaries determine the pension asset/liability to be included in the partnership's financial statements. An IAS 19 assessment generally involves adjusting the most recent triennial valuation to reflect latest available data (i.e. a 'roll forward' approach). Due to the roll forward nature of IAS19 reports and the date on which the report is prepared, differences between estimated figures provided by the actuary (e.g. assets) and the actual experience of the fund may have a material impact on the net liability position.</p> <p>Such was the case across the majority of local government bodies in 2017/18. In respect of Nestrans, the revised information obtained from the actuary in August 2018 confirmed that asset values had improved by £103,000 and therefore this would reduce the net liability included in the partnership's balance sheet.</p> | <p>Resolution:</p> <p>As this was a material figure, we requested that the annual accounts be amended to reflect the updated report provided by the actuary. The revised accounts have been amended to reflect the updated information including Note 14 (pension assets/liabilities).</p> |
| <p>2. Going concern</p> <p>Auditors are required to consider an organisation's ability to continue as a going concern when forming an opinion on the financial statements. One of the indicators which may give rise to going concern considerations is an excess of liabilities over assets.</p> <p>The partnership is an admitted body of North East Scotland Pension Fund. As explained at item 1 in this Exhibit, the partnership has recognised net pension liabilities of £584,000 in the balance sheet resulting in a net liability position of £591,000 at 31 March 2018. This accounting requirement has no impact on the underlying basis for meeting current and on-going pension liabilities which will be met, as they fall due, by contributions from the constituent authorities.</p> | <p>Resolution</p> <p>We agree with management's view that it is appropriate to prepare the 2017/18 annual accounts on a going concern basis.</p> |

Management commentary, annual governance statement and remuneration report

- 23.** The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 requires local government bodies to prepare and publish, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable and clearly address the longer-term financial sustainability of the body.
- 24.** During the year, the partnership adopted a local Code of Governance in line with the CIPFA/SOLACE guidance 'Delivering good Governance in Local Government Framework'. In future, the partnership will carry out a review against the Code on an annual basis as part of the required preparatory work for its annual governance statement. This review will also meet the requirements of the Local Authority Accounts (Scotland) Regulations 2014 (2014 Regulations) of an annual effectiveness review of internal controls.
- 25.** Based on our knowledge and work performed, we concluded that the content of the management commentary, annual governance statement and remuneration report are consistent with the financial statements.

Responsibilities in respect of the annual accounts

- 26.** The 2014 Regulations also require a local authority body to publish a public notice on its website that includes details of the period the unaudited accounts are available for public inspection and the process for making an objection to the accounts. The notice must remain on the website throughout the statutory 3 week inspection period. Nestrans fully complied with the relevant regulations.

Part 2

Financial sustainability



Main judgements

The partnership has financial stability because of sustained funding levels from partners.

Financial performance in 2017/18

27. The partnership set its 2017/18 budget in February 2017 on the basis that planned funding from constituent councils and the Scottish Government would continue to be maintained at the same level as previous years. This continues to provide a degree of financial stability in the short term. Actual spend for the year was largely in line with plans.

Reserves strategy

28. The partnership is required to achieve a break-even position year on year in accordance with the requirements of the Transport (Scotland) Act 2005 for Regional Transport Partnerships. The Act requires that the net expenses of a Transport Partnership for each year are paid by its constituent councils. This means that any surplus is returned to the constituent councils through a reduction in requisitions, and any deficit is funded by increased contributions from constituent authorities.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Part 3

Governance and transparency



Main Judgements

The partnership has appropriate governance arrangements in place and conducts its business in an open and transparent manner.

Governance arrangements

29. Nestrans was constituted under the Transport (Scotland) Act 2005 as one of seven transport partnerships set up to provide a co-ordinated approach to transport planning and delivery between different local authority areas. The Nestrans area covers Aberdeen City Council and Aberdeenshire Council.

30. The board has 12 members, four each from Aberdeenshire and Aberdeen City Councils and the final four are non-council appointments made by the Minister for Transport.

31. The board met on six occasions during 2017/18, roughly every two months. We review minutes of board meetings to assess their effectiveness and periodically observe meetings for a greater insight into proceedings.

Financial regulations

32. In line with good practice, Financial Regulations are regularly updated, most recently in April 2018. We note however that they should be updated to reflect the requirements of the 2014 Regulations in respect of published accounts and review of internal control.

33. The existing Financial Regulations require the audited accounts to be submitted to the board within two months of being certified. This practice was replaced in the 2014 Regulations by the requirement for the board to consider the audited accounts and to approve them for signature prior to 30 September each year. Thereafter, the audited accounts and the auditor's annual report are required to be published on the partnership's website.

34. The 2014 Regulations also require the partnership to review its system of internal control on an annual basis prior to the board's approval of the annual governance statement. The Financial Regulations require the partnership to have an effective system of internal control in place and they also provide for 'periodic' reviews by internal audit. There is scope for the financial regulations to be reviewed to ensure the requirements of the 2014 Regulations have been addressed.

Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information.

Financial management

35. Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. It is the partnership's responsibility to ensure that its financial affairs are conducted in a proper manner.

36. As auditors, we need to consider whether audited bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the Treasurer has sufficient status to be able to deliver good financial management
- financial regulations and standing orders are comprehensive, current and promoted within the partnership
- reports monitoring performance against budgets are accurate and provided regularly to budget holders.

37. Overall, financial management within the partnership is considered to be satisfactory, with appropriate monitoring reports being regularly submitted to the board for scrutiny.

Transparency

38. Transparency means that the general public have access to understandable, relevant and timely information about how the partnership is taking decisions and how it is using resources such as money, people and assets.

39. There is evidence from several sources which demonstrate the partnership's commitment to transparency:

- members of the public can attend meetings of the partnership
- board minutes and agenda papers are readily available on the partnership's website
- the website allows the public to access a wide range of information about business activities including plans and monitoring reports
- the partnership makes its annual accounts available on its website. These include a management commentary which provides details of performance against budget, information on the use of reserves, and risks and uncertainties facing the organisation.

40. Overall, we concluded that the partnership conducts its business in an open and transparent manner.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----|---|---|---|
| 1 | <p>The Financial Regulations have not been updated to reflect the requirements of the 2014 Regulations e.g. consideration and approval of the audited accounts, responsibility for an annual review of internal controls</p> <p>Risk: the partnership does not comply with statutory requirements.</p> | <p>Review and update the Financial Regulations to reflect the requirements of the 2014 Regulations.</p> | <p>Changes will be implemented at the next update of the Financial Regulations.</p> <p>Treasurer</p> <p>By 30 June 2019</p> |

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion.

| Audit risk | Assurance procedure | Results and conclusions |
|---|---|--|
| Risks of material misstatement in the financial statements | | |
| 1 Risk of management override of controls ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements. | Owing to the nature of this risk, assurances from management are not applicable in this instance. | Audit work concluded satisfactorily. No areas of concern identified. |

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