

# North East of Scotland Transport Partnership

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for North East of Scotland Transport Partnership

31 March 2020

## 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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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit.
2. Planned audit work should be risk based and proportionate to the nature and size of an audited body. Where the application of the full wider scope is judged by auditors not to be appropriate, Supplementary Guidance for appointed auditors offers a small body clause which allows narrower scope work to be carried out. Having considered the size and functions of North East of Scotland Transport Partnership (Nestrans), in our judgement the small body clause applies.
3. This plan identifies our audit work to provide an opinion on the financial statements and related matters and as a small body, wider scope requirements will be restricted to assessments and conclusions on financial sustainability, and governance and transparency.


## Adding value


4. We aim to add value to North East of Scotland Transport Partnership through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help North East of Scotland Transport Partnership promote improved standards of governance, better management and decision making and more effective use of resources.

## Audit risks

5. Based on our discussions with staff, attendance at board meetings and a review of supporting information, [Exhibit 1](#) sets out the significant risk areas for the partnership which require specific audit testing. Findings from our planned audit work will assist us in reaching conclusions on these risk areas.

## Exhibit 1 2019/20 Significant audit risks

 Audit risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p><b>1 Management override of controls</b></p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<ul style="list-style-type: none"> <li>Owing to the nature of this risk, assurances from management are not applicable in this instance.</li> </ul>	<ul style="list-style-type: none"> <li>Detailed testing of journal entries</li> <li>Focused testing of accruals and prepayments</li> <li>Evaluation of significant transactions that are outside the normal course of business.</li> </ul>

	Audit risk	Source of assurance	Planned audit work
2	<p><b>Financial capacity</b></p> <p>The accountant responsible for the preparation of the annual accounts left the authority in August 2019. While the incoming accountant has assisted in the annual accounts process, this is the first year he will effectively be responsible for their preparation.</p> <p>In addition, the Transport (Scotland) Act 2019 introduces important changes for transport partnership accounts from 2019/20 by permitting the carry forward of surpluses/deficits. In effect, they now have the ability to hold Funds including a General Fund at 31 March 2020.</p> <p>While Nestrans is a small body, it is a more complex small body and with the loss of experience and the introduction of new regulations, there is a risk the accounts will not meet all accounting requirements.</p> <p>(Note – Aberdeenshire Council provides financial services to Nestrans)</p>	<ul style="list-style-type: none"> <li>Following a recent restructure in Aberdeenshire Finance, there is a greater sharing of knowledge and experience between colleagues compared to the more ‘service only’ approach of previous years</li> <li>A willingness of colleagues to step up into roles of greater responsibility</li> <li>Experience gained from assisting in the annual accounts process in the previous year.</li> </ul>	<ul style="list-style-type: none"> <li>Engagement with finance in advance of the annual accounts process</li> <li>Review of financial statements against disclosure checklist</li> <li>Consideration of adequacy of working papers provided</li> <li>Verification of accounts with working papers and other audit work in accordance with agreed audit approach.</li> </ul>
3	<p><b>Completeness of expenditure and income</b></p> <p>Nestrans’ transactions are processed through a separate cost centre within Aberdeenshire Council’s ledger and therefore there is a risk that transactions may be miscoded and Nestrans’ accounts misstated.</p>	<ul style="list-style-type: none"> <li>Budgetary control arrangements in place with monitoring by management and the board</li> <li>Annual Assurance Statement provided by internal audit.</li> </ul>	<ul style="list-style-type: none"> <li>Evaluate external auditor assurances from the auditor of Aberdeenshire Council with regard to expenditure incurred and income received, coding structures and completeness and accuracy of data</li> <li>Verify partner contributions and a sample of grant income with supporting evidence and confirm ledger postings.</li> </ul>

Source: Audit Scotland

6. As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted the risks of material misstatement caused by fraud in income recognition in 2019/20 as the main income streams are funding requisitions from partner councils and Scottish Government grants. These are agreed in advance of the financial year and do not involve estimates or judgements when recognising the income streams. Nestrans also receives significant income by way of budget allocations from partner councils with which it works collaboratively to agree project priorities for the year ahead. While funded by Nestrans, partner councils lead on these agreed projects and are responsible for commissioning services as appropriate. This limits the opportunity for manipulation.

**7.** In line with Practice Note 10, as most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. We have rebutted the risk of material misstatement caused by fraud in expenditure in 2019/20 because of the separation of responsibilities between the councils which commission external services and Nestrans which approves the associated expenditure to be charged against its budgets. In addition, Nestrans' expenditure is processed through the financial systems of Aberdeenshire Council i.e. a partner body. Any manipulation is therefore deemed as a risk of the partner body rather than Nestrans. As part of the audit, we obtain assurances from the external auditor of the partner body over the accuracy and completeness of transactions posted to Nestrans' account codes.

## Reporting arrangements

**8.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**9.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

**10.** We will provide an independent auditor's report to Nestrans and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Director, Treasurer and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

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## Exhibit 2 2019/20 Audit outputs

Audit output	Target date	Date for Board consideration
Independent Auditor's Report (IAR)	By 18 September 2020	Audited Accounts are scheduled to be approved by the Board on 16 September 2020
Annual Audit Report	4 September 2020	16 September 2020

Source: Audit Scotland

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## Audit fee

**11.** The agreed audit fee for the 2019/20 audit of North East of Scotland Transport Partnership is £10,450 (2018/19 £10,450). In determining the audit fee, we have taken account of the risk exposure of the partnership, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts with a complete working papers package by 30 June 2020.

**12.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

## Responsibilities

### The Board and Treasurer

**13.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

**14.** The audit of the annual accounts does not relieve management or the board, as those charged with governance, of their responsibilities.

**15.** The Local Authority Accounts (Scotland) Regulations 2014 require the board to scrutinise and approve the accounts in a two stage process:

- by 31 August, the board should consider the unaudited accounts
- no later than 30 September, the board should aim to consider the audited accounts and approve them for signature. Regulations require signature by the Chair, Director and Treasurer.

### Appointed auditor

**16.** Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 Act, and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

**17.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. In line with Supplementary Guidance for appointed auditors, we also review and report on the governance arrangements within the audited body and the transparency of financial and performance reporting including the body's financial sustainability in the longer term. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial Statements

**18.** The statutory financial statements will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of North East of Scotland Transport Partnership and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the partnership will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**19.** We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom (the 2019/20 accounting code) of the state of affairs of Nestrans as at 31 March 2020 and of its income and expenditure for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted and adapted by the 2019/20 accounting 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.

## Statutory other information in the annual accounts

**20.** We also review and report on statutory other information published within the financial statements including the management commentary, annual governance statement and the remuneration report. In our independent auditor's report, we give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks.

**21.** We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.



characteristics



responsibilities



principal activities



risks



governance arrangements



## Materiality

**22.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

**23.** We calculate materiality at different levels as set out in [Exhibit 3](#).

### Exhibit 3 Materiality values



Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 2% of gross expenditure for the year ended 31 March 2020 based on the latest audited accounts.	£63,000
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	£47,000
<b>Reporting threshold (i.e., clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£3,000

Source: Audit Scotland

## Timetable

**24.** To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

### Exhibit 4 Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual report and accounts by those charged with governance	17 June 2020
Latest submission date of unaudited annual report and accounts with complete working papers package	30 June 2020
Latest date for final clearance meeting with Treasurer	28 August 2020
Agreement of audited unsigned annual report and accounts	4 September 2020
Issue of Annual Audit Report to those charged with governance	4 September 2020
Independent auditor's report signed	By 18 September 2020

## Internal audit

**25.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to use the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by David Hughes, Chief Internal Auditor at Aberdeenshire Council.

### Adequacy of Internal Audit

**26.** We are also the auditors for Aberdeenshire Council and consequently, we have taken assurance from our review of internal audit carried out in connection with our audit of the council. We concluded that the internal audit function complies with the relevant Public Sector Internal Audit Standards which enables us to take assurance from their documentation and reporting procedures.

### Areas of reliance

**27.** Based on his evaluation of the council's control environment, internal audit provides an annual assurance statement to Nestrans covering its use of council systems. This statement is intended to provide reasonable assurance on the adequacy and effectiveness of the internal control system and to assist the partnership in preparing its Annual Governance Statement. We review internal audit's assurance statement as part of our planned audit work on the Annual Governance Statement.

## Audit dimensions

**28.** Our standard audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

### Exhibit 5 Audit dimensions



Source: Code of Audit Practice

**29.** As stated in paragraphs 2 and 3, in our opinion, the full application of the wider scope is not appropriate for Nestrans. The partnership's annual spend tends to be around £3m and is split between core costs of managing a small team and delivering the Regional Transport Strategy (£1m) and delivering a mix of larger projects through its Strategic Investment Programme (SIP) (£2m). SIP projects can span several financial years and while they are commissioned and monitored by the board, they are delivered by Aberdeen City and Aberdeenshire Councils.

**30.** The transactions in Nestrans' accounts are routine but year end balances have historically been more complex due to the need to reflect unspent funding within creditors. From 2019/20 however, transport partnerships are permitted to hold a general fund. Overall, we concluded that the nature and scale of the body's activities is such that the small body clause is appropriate.

**31.** In accordance with minimum requirements permitted by the Code, wider dimension work will be restricted to considering the partnership's financial sustainability and its governance and transparency arrangements, as described further in paragraphs 32 and 33.

### Financial sustainability

**32.** As auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on the:

- effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

### Governance and transparency

**33.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on whether:

- Nestrans can demonstrate that the governance arrangements in place are appropriate and operating effectively
- there is effective scrutiny, challenge and transparency on decision-making and finance and performance reports
- there is quality and timely financial and performance reporting
- there are robust arrangements in place to support the annual governance statement.

### Independence and objectivity

**34.** Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Director of Audit Services who serves as Audit Scotland's Ethics Partner.

**35.** The engagement lead (i.e. appointed auditor) for Nestrans is Anne MacDonald, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Nestrans.

## Quality control

**36.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

**37.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**38.** . Each year, Audit Scotland publishes an Audit Quality report which summarises the results of the quality activity carried out on audit work delivered by Audit Scotland and the appointed firms.

**39.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

# North East of Scotland Transport Partnership

## Annual Audit Plan 2019/20

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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