

North East of Scotland Transport Partnership

2019/20 Annual Audit Report



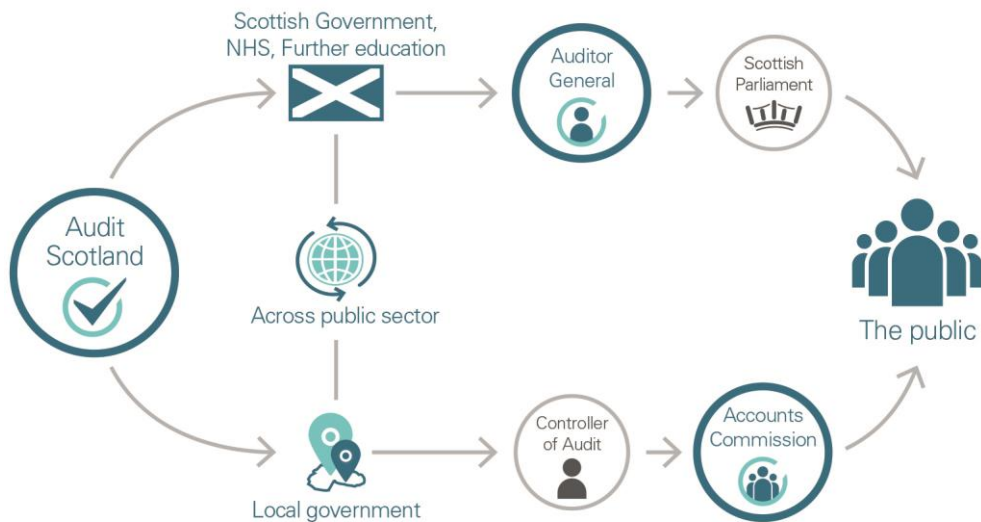
Prepared for the Members of North East of Scotland Transport Partnership and the Controller of Audit

18 September 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.

Contents

Key messages	4
Introduction	5
Part 1 Audit of 2019/20 annual accounts	7
Part 2 Financial sustainability	11
Part 3 Governance and transparency	12
Appendix 1 Significant audit risks identified during planning	15

Key messages

2019/20 annual accounts

- 1** Our audit opinion on the annual accounts of the partnership is unmodified.
- 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.
- 3** In response to Covid-19, the Scottish Government extended the deadline for the conclusion of audited annual accounts. Finance officers however delivered the unaudited accounts by the normal statutory date which enabled the audit to progress largely as originally planned.

Financial sustainability

- 4** The partnership continued to have financial stability because of sustained funding levels from partners.

Governance and transparency

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

Introduction

1. This report summarises the findings arising from the 2019/20 audit of North East of Scotland Transport Partnership (Nestrans).

2. The scope of the audit was set out in our 2019/20 Annual Audit Plan which was presented to the board on 24 June 2020. In accordance with Audit Scotland's [Code of Audit Practice 2016](#) (the Code), we explained at that time that the small body provisions apply to Nestrans. The main elements of the 2019/20 audit therefore included

- assurances to support our independent opinions on the annual accounts
- consideration of the appropriateness of the disclosures in the annual governance statement
- a review of the partnership's financial sustainability.

Adding value through the audit

3. We add value to the partnership through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of financial sustainability, governance and transparency and best value.

Responsibilities and reporting

4. Nestrans 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. Nestrans is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

5. 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. Local government bodies have a responsibility to put arrangements in place to demonstrate Best Value in how they conduct their activities. Our audit work on Nestrans' Best Value arrangements is focused on the bodies use of resources to secure financial sustainability and the effectiveness of its governance arrangements.

6. As public sector auditors, we give independent opinions on the annual accounts. Additionally, where the small body provisions of the Code apply, we conclude on the disclosures in the annual governance statement and the partnership's financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

7. This report raises matters from our audit. The 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.

Auditor independence

8. 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 comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. 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 2019/20 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.

9. 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 in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2019/20 annual accounts



Main judgements

Our audit opinion on the annual accounts of the partnership is unmodified.

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.

In response to Covid-19, the Scottish Government extended the deadline for the conclusion of audited annual accounts. Finance officers however delivered the unaudited accounts by the normal statutory date which enabled the audit to progress largely as originally planned.

The annual accounts are the principal means of reporting financial performance and demonstrating stewardship of resources.

Our audit opinions on the annual accounts are unmodified

10. The annual accounts for the partnership for the year ended 31 March 2020 were approved by the board on 16 September 2020. We reported, within our independent auditor's report that, in our opinion the:

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

11. 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.

Submission of the annual accounts for audit

12. In response to the Covid-19 pandemic, the Scottish Government extended the deadline for certification of audited accounts from 30 September to 30 November 2020. Staff were however able to deliver the unaudited annual accounts by the usual deadline of 30 June 2020. Although we experienced some loss of audit staff productivity due to remote working in this period, the audit has largely been concluded in line with the original timetable set out in our 2019/20 Annual Audit Plan.

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

Conclusions on audit work to address risks of material misstatement

14. [Appendix 1](#) provides a description of those assessed risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

15. We have no issues to report from our work on the risks of material misstatement highlighted in our 2019/20 Annual Audit Plan.

Overall materiality is £63,000

16. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

17. 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 regard to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively. On receipt of the unaudited annual accounts we reviewed our planning materiality calculations and concluded that they remained appropriate.

Exhibit 1 Materiality values

Materiality level	Amount
Planning materiality – 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 2019 based on the latest audited accounts.	£63,000
Performance materiality – 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
Reporting threshold (i.e., clearly trivial) – 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, Annual Audit Plan 2019/20

Significant findings arising from the audit

18. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We had no significant findings to report around the qualitative aspects of the annual accounts process covering accounting policies, accounting estimates and financial statements disclosures.

19. The significant findings from the audit are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Pension liabilities – Impact of McCloud/Sergeant rulings</p> <p>In 2018/19, the pension liability was increased by £78,000 to reflect the actuary's estimate of the partnership's potential additional liability due as a result of the McCloud/Sergeant rulings.</p> <p>The courts had ruled that the transitional protections provided as part of the 2015 public service pension scheme changes discriminated on the grounds of age. All local government pension schemes are affected, including the North East Scotland Pension Fund of which Nestrans is an admitted body.</p> <p>In July 2020, the Scottish Public Pensions Agency (SPPA) issued a consultation setting out proposals to address the unlawful discrimination within public pension schemes.</p> <p>It is unclear at this stage how the impact of McCloud has been reflected in Nestrans' 2019/20 pension liability and whether the proposals set out in the consultation are likely to have a material effect.</p>	<p>Satisfactory assurances were obtained from the actuary, to confirm that the net pension liability of £630,000, included in the Balance Sheet at 31 March 2020, had been calculated as accurately as possible based on current data and that the proposals set out in the SPPA consultation were in line with the actuary's existing expectations of the impact of McCloud.</p>
<p>2. Civitas funding</p> <p>Since March 2020, the partnership is permitted to carry a general fund. In the preparation of the accounts, balances of £391,000 were identified as being unspent balances carried forward within creditors and were transferred to the General Fund. Also included in creditors was an amount of £25,409 in respect of unspent Civitas funding which had been omitted from the amount initially transferred. This amount should also have been included in the General Fund balance at 31 March 2020.</p>	<p>The audited accounts have been amended to include the additional amount of £25,409 in the General Fund.</p>
<p>3. 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 and has recognised net pension liabilities of £630,000 in the balance sheet resulting in a net liability position of £247,000 at 31 March 2020.</p>	<p>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>We agree with management's view that it is appropriate to prepare the 2019/20 annual accounts on a going concern basis.</p>

20. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance, taking into account advice from senior officers and materiality. There are no uncorrected misstatements arising from our audit of Nestrans' financial statements.

Management commentary, annual governance statement and remuneration report

21. The Code of Practice on Local Authority Accounting in the United Kingdom requires local government bodies to prepare and publish, along with their financial statements, an annual governance statement, management commentary (or equivalent) and 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.

22. The Nestrans governance statement had not been updated to reflect changes in arrangements made during 2019/20. Also, in common with other bodies, Nestrans implemented virtual/remote working to support the response to the pandemic. These are important changes which impacted on governance arrangements in March 2020 and during the post balance sheet period but had not initially been reflected in the annual governance statement.

23. Governance statements are essential accountability reports which, if anything, are even more important this year. Additional disclosures have therefore been added to the audited governance statement to appropriately reflect key operational changes.

24. Based on our knowledge and work performed, we concluded that the content of the management commentary and remuneration report are consistent with the financial statements.

Part 2

Financial sustainability



Main judgements

The partnership continues to have financial stability because of sustained funding levels from partners.

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

Financial performance in 2019/20

25. The partnership set its 2019/20 budget in February 2019 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 was subsequently confirmed and continued to provide a degree of financial stability in the short term. With the exception of contributions towards the construction of Kintore Station, actual spend for the year was largely in line with plans.

26. In 2019/20, approximately half of the partnership's Strategic Investment Fund budget of £6 million related to Kintore Station. While council allocations have been agreed in respect of this project, Nestrans obtained approval to delay the drawdown of funds until 2020/21 when the majority of expenditure is expected to be incurred. With construction projects halted for several months due to Covid-19, there is the potential for Strategic Investment Fund projects to experience some delay.

Reserves strategy

27. Previously, the partnership was required to achieve a break-even position year on year. Any surplus was returned to the constituent councils through a reduction in requisitions, and any deficit was funded by increased contributions from constituent authorities. With effect from March 2020, the Transport (Scotland) Act 2019 permits the carry forward of surpluses/deficits. In effect, partnerships now have the ability to hold funds which meant a General Fund could be held as at 31 March 2020. Nestrans has identified unspent funding balances of £416,000 within creditors which have now been correctly included within the General Fund.

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

Governance arrangements

28. 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.

29. The board has 12 members, four each from Aberdeenshire and Aberdeen City Councils and four non-council appointments made by the Scottish Ministers. In line with an arrangement between the constituent partners, the chair and deputy chair were changed during the year. In addition, a new Director was appointed following the retirement of the previous incumbent.

30. The board met on six occasions during 2019/20, roughly every two months. We review minutes of board meetings to assess their effectiveness and periodically observe meetings for a greater insight into proceedings.

31. Nestrans reports annually on progress against the existing Regional Transport Strategy. Work is in the early stages for a new strategy which will look ahead to 2040. Overall performance across nearly 60 indicators has remained fairly similar over the last four years. This information is balanced and understandable. In most cases, the indicator was supported by trend information, charts and detailed narrative. The results for 2019/20 are summarised in [Exhibit 3](#).

32. Areas on target include satisfaction with coach and bus travel and park and ride facilities, road safety and ferry services. Indicators which are going in the wrong direction include use of rail services, cycling and walking and air passengers and destinations from Aberdeen. The latter indicator is linked with supporting the local economy rather than with travel preferences. In addition, environmental factors (e.g. number of electric vehicle public charging points) are generally meeting targets.

33. In response to Covid-19, Nestrans is currently conducting 4-weekly surveys to assess attitudes towards travel and transport. During lockdown, travel was obviously significantly reduced and as restrictions have eased, there is less demand for public transport and a preference for private travel. As society and the economy recovers from the pandemic, public preferences may continue to differ from the past. Nestrans will need to be alert to public attitudes and assess the impact on existing and future transport strategies.

Exhibit 3

Number of Regional Transport Strategy indicators – 2019/20 results

Indicator category	On target	Some progress	Wrong direction	No information	Total
Rail		3	3		6
Road		1	1	2	4
Air	1	1	2		4
Maritime	2	1			3
Freight	1	2		3	6
Coach	1				1
Bus	4	3	2	1	10
Cycling/Walking	1	1	2		4
Mode split and personal travel	2	1	2	2	7
Journey times and congestion		2	1	1	4
Road safety	2				2
Environment	4	1		1	6
Total	18	16	13	10	57

Financial management

34. 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.

35. 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.

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

Transparency

37. 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.

38. Included in the partnership's annual report is a statement of improving effectiveness, efficiency and economy. The statement in the most recent report, published in December 2019, focused on Nestrans' partnership working and how this has assisted in attracting additional funding. For example, Nestrans is a partner in the Aberdeen City Region Deal and is also involved in the Civitas-Portis partnership which is a collaboration of five European port cities looking at opportunities to enhance transport provision in and around port areas.

39. We noted 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

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		
<p>1 Management override of controls</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"> • Detailed testing of journal entries • Focused testing of accruals and prepayments • Considered any significant transactions that were outside the normal course of business. 	<p>Audit work concluded satisfactorily.</p>
<p>2 Financial capacity</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"> • Engagement with finance in advance of the annual accounts process • Review of financial statements against disclosure checklist • Consideration of adequacy of working papers provided • Verification of accounts with working papers and other audit work in accordance with agreed audit approach. 	<p>Audit work concluded satisfactorily.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>3 Completeness of expenditure and income</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"> • Evaluated 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 • Verified partner contributions and a sample of grant income with supporting evidence and confirmed ledger postings. 	<p>Audit work concluded satisfactorily.</p>

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