

# North East of Scotland Transport Partnership

2021/22 Annual Audit Report



 AUDIT SCOTLAND

Prepared for North East of Scotland Transport Partnership and the Controller of Audit  
September 2022

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# Key messages

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## 2021/22 annual accounts

- 1** Our audit opinions on the annual accounts of the partnership are unmodified. The financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- 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.

## Wider scope responsibilities

- 3** The partnership continues to have financial stability because of sustained funding levels and support from partners.
- 4** The partnership has appropriate governance arrangements in place and conducts its business in an open and transparent manner.

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# Introduction

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1. This report summarises the findings from our 2021/22 audit of North East of Scotland Transport Partnership (Nestrans).
2. The scope of our audit was set out in our 2021/22 Annual Audit Plan which was considered by the board in June 2022.

## Adding value through the audit

3. We add value through the audit by providing clear conclusions on the effectiveness of corporate governance arrangements and financial sustainability.

## 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.
5. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice 2016](#) and supplementary guidance and International Standards on Auditing in the UK. Also, local government bodies have a responsibility to have 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 body's use of resources to secure financial sustainability.
6. The [Code of Audit Practice 2016](#) (the Code) includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body. As highlighted in our 2021/22 Annual Audit Plan, due to the low volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2021/22 audit.
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.
8. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation. It also includes outstanding actions from last year and progress against these.

## Auditor Independence

**9.** 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.

**10.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2021/22 audit fee of £11,730 as set out in our 2021/22 Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**11.** This report is addressed to both the council 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

**12.** The Accounts Commission is responsible for the appointment of external auditors to local government bodies. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment.

**13.** The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 Grant Thornton will be the appointed auditor for Nestrans. We are working closely with the new auditors to ensure a well-managed transition.

**14.** We would like to thank board members, the director and staff, particularly those in Aberdeenshire finance for their co-operation and assistance over the last six years.

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# Part 1. Audit of 2021/22 annual accounts

The principal means of accounting for the stewardship of resources and performance

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## Main judgements

Our audit opinions on the annual accounts of the partnership are unmodified. The financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

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.

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## Our audit opinions on the annual accounts are unmodified

**15.** The annual accounts for the partnership for the year ended 31 March 2022 were approved by the board on 7 September 2022. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- 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 relevant regulations and guidance.

**16.** 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 and sign off were in line with deadline dates

**17.** For 2021/22, the submission deadline for local government bodies' audited annual accounts was set at 31 October 2022. Staff were able to deliver the unaudited annual accounts by the usual deadline of 30 June. 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 enabling the audited accounts to be ready for approval in September 2022.

## Overall materiality is £63,000

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

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

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### Exhibit 1 Materiality values

Materiality level	Amount
<b>Overall 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.	£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. We have calculated performance materiality at 70% of overall materiality.	£44,000
<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 overall materiality.	£3,000

Source: Audit Scotland, Annual Audit Plan 2021/22

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## Significant findings arising from the audit of the annual accounts

**20.** 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. Except for the matters set out in [Exhibit 2](#), 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.

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

## Exhibit 2

### Significant findings from the audit of the annual accounts

Issue	Resolution
<p><b>1. Recognition of Kintore Station expenditure</b></p> <p>The construction of Kintore Station was managed by Transport Scotland at a total cost of £15 million. A partnership including Transport Scotland, Aberdeenshire Council and Nestrans jointly funded the project. Nestrans' share represented 24% and equated to approx. £3 million. Although the station was completed in October 2020, it took Transport Scotland until March 2022 to conclude discussions on the costs and issue the final invoice. Covid-19 was a contributing factor to the delay.</p> <p>The costs were accrued in Nestrans' 2021/22 accounts on receipt of the invoice. However, in line with International Accounting Standard (IAS) 37 (provisions and contingent liabilities), provision for the expenditure (and associated funding) should have been made in the accounts in previous years, on the basis that a funding arrangement has been agreed between the partners which committed each to a percentage share of the cost. While the final figure may not have been known, a reasonable estimate existed.</p>	<p>Prior year figures have been restated to reflect Nestrans' share of the costs at an earlier stage.</p> <p>Nestrans tend to largely operate projects on a commitment/cash basis and are managed against individual budgets. The annual accounts are however prepared on an accruals basis in line with the Code of Practice for Local Authority Accounting and accounting standards. More focus therefore needs to be given to any special arrangements, unusual projects etc which may have conditions attached which will require funding and /or project expenditure to be recognised differently in the accounts from that in budget monitoring reports.</p> <p><b>Recommendation 1</b> (refer <a href="#">Appendix 1</a>, action plan)</p>

Source: Audit Scotland

**22.** The overall scope of the audit was adapted to incorporate the significant assessed risks of material misstatement included within [Exhibit 3](#) to ensure each risk is addressed. It summarises the further audit procedures we performed to obtain assurances over these risks and the conclusions from the work completed. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and informed where the efforts of the team were directed.

## Exhibit 3

### Significant risks from the audit of the annual accounts

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by the 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</p>	<p>Evaluate external auditor assurances from the auditor of Aberdeenshire Council in respect of the financial services provided to the partnership. Assurances will include</p>	<p><b>Conclusion: Satisfactory</b></p> <p>The completion of the assurance procedures did not identify any evidence of management override of controls.</p>



Audit risk	Assurance procedure	Results and conclusions
<p>because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Focused testing of accounting accruals and prepayments.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> </ul>	
<p><b>2. Revenue recognition (change in accounting treatment following the introduction of a general fund)</b></p> <p>As set out in International Standard on Auditing (UK) 240: <i>The auditor's responsibilities relating to fraud in an audit of financial statements</i>, there is a presumed risk of fraud in relation to revenue recognition. The presumption is that a body could adopt accounting policies or recognise income (and expenditure*) transactions in such a way as to lead to a material misstatement in the reported financial position.</p> <p>The partnership's funding arrangements have been gradually changing since 2019/20 when new legislation permitted the holding of a reserve fund.</p> <p>The partnership's running costs are met from funding requisitions from partner councils and Scottish Government grants which can be confirmed with third party correspondence and</p>	<ul style="list-style-type: none"> <li>• Review funding agreements, correspondence and other third party confirmations in respect of a sample of projects to confirm that income (and expenditure) has been correctly recognised and accounted for in the correct financial year.</li> <li>• Discussions with officers.</li> </ul>	<p><b>Conclusion:</b></p> <p>With the exception of the Kintore Station project which was not accrued in the correct year, projects examined were found to be accounted for correctly.</p> <p>A prior year adjustment has been made to recognise Kintore Station in an earlier period (Refer Exhibit 2).</p>

Audit risk	Assurance procedure	Results and conclusions
<p>confirmations. We do not therefore consider the revenue recognition risk to be significant with regard to these funding streams.</p> <p>In 2021/22 however, partners were expected to provide quarterly funding to the partnership in respect of the Strategic Investment Programme (SIP). This replaces the cash drawdown mechanism previously in operation. SIP projects are material in value and can span several years. There is therefore a risk that the associated income will not be correctly recognised in the annual accounts.</p>		

## Other areas of audit focus

**23.** We identified in our 2021/22 Annual Audit Plan areas where we considered there to be other risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we did not consider these to represent significant risks. The areas of specific audit focus were:

- The value of the net pension liability:** There is a degree of subjectivity in the measurement and valuation of the pension liability due to the specialist and management assumptions adopted. Changes in the assumptions could result in material changes in the valuation. Our work in this area includes using the work of an expert. In this case, we draw assurances from the work of actuaries.
- Completeness of the partnership's transactions.** 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 the partnership's accounts are misstated. No major issues were identified in previous years but we keep this matter under review.

**24.** We kept these areas under review throughout our audit. The actuary provided a revised report after the unaudited accounts were prepared. It had been identified that some incorrect information had been submitted to the actuary by the pension fund. These matters were addressed in the updated report from the actuary. The revised figures have been reflected in the audited accounts and had the effect of increasing the pension liability by £130,000. The revised liability is more comparable with the previous year. Otherwise, there are no matters which we need to bring to your attention.

## Identified misstatements were adjusted in the accounts

**25.** Other than the restatement of the prior year figures to accrue relevant expenditure and funding in respect of Kintore Station, as explained in [Exhibit 2](#), and the adjustment to the pension liability (paragraph 24), there were no adjustments to the accounts. In addition, there are no unadjusted misstatements to report.

## Management commentary, annual governance statement and remuneration report

**26.** 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.

**27.** Based on our knowledge and work performed, we concluded that these statements are consistent with the financial statements. We did however suggest the inclusion of additional narrative in the management commentary. Further detail has now been included on Kintore Station given the scale of Nestrans' contribution to the project. Also, the change in funding mechanism has been explained. As the partnership now has the ability to hold a general fund, the delayed drawdown mechanism is being phased out and partners will provide quarterly funding to support the strategic investment programme.

# Part 2. Wider scope responsibilities

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively. Governance and transparency are concerned with the effectiveness of scrutiny and governance arrangements, and transparent reporting of financial information.

## Main judgements

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

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

## Audit work has addressed the wider scope risks identified in our Annual Audit Plan

28. [Exhibit 4](#) sets out the significant risks we identified in our 2021/22 audit plan, our assurance procedures and the results and conclusions from our work.

### Exhibit 4

#### Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p><b>Capacity within the finance team</b></p> <p>With changing roles and a loss of experience in the council's finance team, there is a risk that the financial services provided to the partnership will deteriorate resulting in poor quality annual accounts being produced. For example, the Business Partner responsible for the production of the partnership's annual</p>	<p>Discussion with officers</p>	<p>Responsibilities were allocated to Finance staff in the spring which has included an element of continuity for 2021/22. More management review of the annual accounts process was recommended in 2020/21 but due to further staff changes, this has not yet been fully implemented.</p> <p><b>Conclusion:</b> The 2021/22 position has been satisfactory but more work is required to embed the process.</p>

Audit risk	Assurance procedure	Results and conclusions
accounts changed in September 2021 and the Assistant Accountant who joined the team last year left the council in March 2022.		

## Financial performance

**29.** The partnership set its 2021/22 budget in February 2021 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.

**30.** 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. At 31 March 2022, Nestrans held £2.4 million in reserves which largely represents unspent funding carried forward.

## Financial management arrangements are satisfactory

**31.** 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.

**32.** 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.

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

## **Governance and transparency arrangements are appropriate**

**34.** 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.

**35.** 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 rotated in 2020/21. There have been subsequent changes in May 2022 as a result of the local government election.

**36.** During 2021/22, board meetings were held remotely. It met on six occasions during the year, roughly every two months. We have reviewed the minutes and papers submitted to the board throughout the year. The papers are detailed and comprehensive to allow for effective decision making and scrutiny. The papers are readily accessible on the Nestrans website.

# Appendix 1. Action plan 2021/22

## 2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Accruals accounting and recognition of income and expenditure</b></p> <p>Due to the nature of the business, every project has a budget and income and expenditure is largely recognised as it is received or committed/incurred. This approach is satisfactory for routine budget monitoring but may not provide the correct accounting for the annual accounts.</p> <p>There is a risk that income and/or expenditure is not recognised in the correct period for the annual accounts resulting in a material misstatement.</p>	<p>There needs to be more focus on the terms and conditions set out in project agreements, funding award letters etc to ensure that the accounting treatment for the purposes of the annual accounts is properly considered.</p>	<p>Nestrans' accounting processes and year-end guidance and instructions will be brought in line with Aberdeenshire Council's year end processes to ensure a standardisation and correct accounting treatment of expenditure and income.</p> <p>Aberdeenshire Council Strategic Finance service will work with Nestrans colleagues to ensure that the substance of transactions is correctly reflected, and outstanding business transactions are captured and accurately reflected in the annual accounts.</p> <p><b>Responsibility: Team Manager / Team Leader (Revenue)</b></p> <p><b>Completion: April 2023</b></p>

## Outstanding prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Preparation of annual accounts</b></p> <p>Although there was no impact on the budget outturn for the year, there were</p>	<p>The arrangements for the preparation of the unaudited accounts should be reviewed to ensure there is appropriate management review</p>	<p>The preparation of Nestrans' accounts was to be completed alongside the council's annual accounts document and reviewed by the council's Strategic</p>

Issue/risk	Recommendation	Agreed management action/timing
material misstatements in the unaudited annual accounts		<p>Finance Manager. With changes in council staff at that time, this review did not take place in 2021/22 but will be taken forward in 2022/23.</p> <p>The Nestrans annual accounts will be reviewed by a senior member of the Strategic Finance service prior to the submission of the unaudited accounts to external audit.</p> <p><b>Responsibility: Treasurer</b> <b>Completion: June 2023</b></p>

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# North East of Scotland Transport Partnership

## 2021/22 Annual Audit Report

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