

Annual Audit Report for the North East of Scotland Transport Partnership (NESTRANS) Financial year ended 31 March 2023

Prepared for those Charged with Governance and the Controller of
Audit

6 November 2023



Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our external audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect NESTRANS or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2021). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive Summary (1)

This table summarises the key findings and other matters arising from the external audit of the North East of Scotland Transport Partnership (NESTRANS) and the preparation of the financial statements for the year ended 31 March 2023 for those charged with governance (NESTRANS Board) and the Controller of Audit.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and Audit Scotland's Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- The financial statements give a true and fair view of the state of affairs of NESTRANS as at 31 March 2023 and of the income and expenditure of NESTRANS for the year;
- NESTRANS' financial statements have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Code;
- NESTRANS' financial statements 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.
- the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

We are required to report whether the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local government in Scotland Act 2003. We are also required to report on whether the information given in the Annual Governance Statement is consistent with the financial statements and prepared in accordance with the Delivering Good Governance in Local government: Framework (2016).

We have completed our work and issued an unmodified opinion on 6 November 2023.

We have concluded that the Remuneration Report has been prepared in accordance with requirements, the Governance Statement has been prepared in accordance with the relevant guidance and the other information to be published alongside the financial statements is consistent with our knowledge of NESTRANS.

The financial statements presented for audit were of a good quality and NESTRANS' finance team have supported the audit process, by providing suitable working papers and answering our auditor queries on a timely basis.

We have not identified any audit adjustments to the primary financial statements or raised recommendations for management as a result of our audit work on the financial statements. All audit adjustments have been made to disclosures only and are detailed in Appendix 1.

Our follow up of the recommendations made by the predecessor auditor last year are detailed in Appendix 3. All prior year recommendations have now been cleared.

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team in completing the external audit.

Executive Summary (2)

Wider scope

In accordance with Code and supporting guidance: “Supplementary guidance -wider scope audit, less complex bodies and Best Value”, we have concluded that NESTRANS is a ‘less complex body’ and therefore, carried out more limited wider scope work. Further details of the work undertaken is outlined on page 24.

As required by the Code and this supporting guidance, we have assessed both the quantitative and qualitative risk factors related to NESTRANS and concluded that NESTRANS qualifies for this exemption for 2022/23.

A review of the Annual Governance Statement and concluding on financial sustainability are the areas of scope for the wider scope work.

Annual governance statement

We did not raise any significant issues in relation to the disclosure within the Annual Governance Statement.

Financial sustainability

NESTRANS’ incurred marginally higher expenditure than was budgeted, and 26% more income. This resulted in a £1.154m surplus vs a budgeted £0.208m surplus.

A number of projects have been postponed into 2023/24 and the 2023/24 expenditure budget is 62% higher than the outturn for 2022/23. There is a risk that staffing challenges may make it difficult for NESTRANS to achieve their planned delivery.

Income from Council allocations has not been as high as expected and the gap is to be funded from reserves and historic allocations.

We have raised two recommendations for management as a result of our audit work on wider scope. These can be found in Appendix 2.

Introduction

Scope of our audit work

This report is a summary of our findings from our external audit work for the financial year at NESTRANS. The scope of our audit was set out in our External Audit Plan.

The core elements of our audit work in 2022/23 have been:

- An audit of NESTRANS' annual report and accounts for the financial year ended 31 March 2023 [findings reported within this report];
- A review of the Annual Governance Statement and concluding on financial sustainability in accordance with wider scope requirements [within this report];
- Any other work requested by Audit Scotland.

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Code.

This report is addressed to NESTRANS and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Responsibilities

NESTRANS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts in accordance with proper accounting practices. NESTRANS is also responsible for compliance with legislation, and establishing arrangements over governance, propriety and regularity that enable it to successfully deliver its objectives.

Our responsibilities as independent auditors, appointed by the Accounts Commission, are set out in the Local Government in Scotland Act 1973, the Code and supplementary guidance, and International Standards on Auditing in the UK.

The recommendations or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve officers from their responsibility to address the issues raised and to maintain an adequate system of control.

Adding value through our audit work

We aim to add value to NESTRANS throughout our audit work. We do this through using our wider public sector knowledge and expertise to provide constructive, forward looking recommendations where we identify areas for improvement and encourage good practice around financial management and financial sustainability, risk management and performance monitoring. In so doing, we aim to help NESTRANS promote improved standards of governance, better management and decision making, and more effective use of resources.

Audit of the annual report and accounts (1)

Our approach to the audit of the financial statements



Overall materiality

We set overall materiality at £79,000 which represents 1.90% of the entity's gross expenditure.

This has been updated from a planning materiality of £69,000 which was reported in our Audit Plan. This is due to the significant movement in gross expenditure from the 2021/22 value, upon which planning materiality had been based.

Key audit matters

The key audit matters were identified as:

- The valuation of the defined benefit pension scheme.

Significant risks

Other than the key audit matters noted above the other significant risks were identified as:

- Management override of controls (ISA (UK) 240); and
- Risk of fraud in expenditure recognition – non payroll expenditure (PN10).

Internal control environment

In accordance with ISA requirements we have developed an understanding of the Commission's control environment. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is substantive in nature. In accordance with ISAs, over those areas of significant risk of material misstatement we consider the design of controls in place.

However, we do not place reliance on the design of controls when undertaking our substantive testing. We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan.

Recap of our audit approach and key changes in our audit strategy

There has been no change to our anticipated audit approach from our Audit Plan.

Audit of the annual report and accounts (2)

Status of Audit Work

We presented our Annual Audit Report to the NESTRANS Board meeting on 1 November 2023. Since that date we have completed any outstanding items.

We issued an unmodified audit opinion on 6 November 2023.

Audit quality is important to us, and it is important as auditors that we take a step back to consider all our audit evidence and the quality of our audit work on file on completion. This includes sufficient documentation of our key auditor judgements and conclusions.

Audit of the annual report and accounts (3)

Our audit opinion

Auditor's report on the financial statements

Subject to the satisfactory completion of outstanding items, we anticipate issuing an unmodified audit opinion.

As reported in the independent auditor's report, our opinion will cover whether, in our opinion:

- NESTRANS' financial statements give a true and fair view of the state of affairs of NESTRANS as at 31 March 2023 and of the income and expenditure of NESTRANS for the year;
- NESTRANS' financial statements have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the CIPFA Code of Practice on Local Authority Accounting 2022/23 ('the 2022/23 Code');
- NESTRANS' financial statements 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; and
- the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

We are required to report whether the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003.

We are also required to report on whether the information given in the Annual Governance Statement is consistent with the financial statements and prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Our work relating to the review of Management Commentary and Annual Governance Statement is complete and we have no significant or material matters to report to you in respect of the Management Commentary and the Annual Governance Statement.

Audit of the annual report and accounts (4)

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Basis for our determination of materiality

- **Materiality for financial statements as a whole** - We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.
- **Performance materiality used to drive the extent of our testing** - We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
- We have determined planning materiality in the context of our knowledge of the business, including consideration of factors such as key stakeholder expectations, sector developments, financial stability and reporting requirements for the financial statements.
- We have used gross expenditure as the basis for determining materiality.

Specific materiality

- We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Reporting threshold

- We determine a threshold for reporting unadjusted differences to the NESTRANS Board.
- We will report to you all misstatements identified in excess of £4,000, in addition to any matters considered to be qualitatively material.

Audit of the annual report and accounts (5)

Our application of materiality (continued)

As communicated in our Audit Plan dated 31 March 2023, we determined financial statement materiality at the planning stage as £69,000 based on 1.90% of gross expenditure. Performance materiality was set at £44,850 based on 65% of overall materiality. At year-end, we have reconsidered planning materiality based on the final financial statements.

We will report to you all misstatements identified in excess of £4,000, in addition to any matters considered to be qualitatively material.

A lower level of materiality of £5,000 is set for the senior officers' disclosures within the Remuneration Report.

Materiality was determined as follows:

Financial Statement Materiality threshold

Financial Statement materiality has been set at £79,000 which represents 1.90% of NESTRANS' gross expenditure. Financial Statement materiality is £16,000 higher than the materiality level set by the predecessor auditor in 2021/22.

Performance Materiality threshold

Performance materiality for the year has been set at £51,350 which represents 65% of financial statement materiality. Performance materiality is £7,350 higher than the materiality level set by the predecessor auditor in 2021/22.

Significant judgements made by auditor in determining materiality

The determination of materiality involves the exercise of professional judgement. In determining materiality, we made the significant judgements in selecting the appropriate benchmark of expenditure and the appropriate percentage to apply to the benchmark.

Significant revision(s) of materiality threshold that were made as the audit progressed

We calculated materiality during the planning stage of the audit and the during the course of our audit, we re-assessed initial materiality based on actual gross expenditure for the year ended 31 March 2023 and adjusted our audit procedures accordingly.

Audit of the annual report and accounts (6)

Detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to NESTRANS and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the 2022/23 Local Government Accounting Code of Practice.
- We enquired of Senior Officers and the Chair of the NESTRANS Board, concerning NESTRANS's policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of Senior Officers and the Chair of the NESTRANS Board, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of NESTRANS' financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries that altered NESTRANS' financial performance for the year and potential management bias in determining accounting estimates in relation to the valuation of land and the estimations in respect of NESTRANS' defined pension liability. Our audit procedures are documented within our response to the significant risk of management override of controls below.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in certain account balances and significant accounting estimates.

Audit of the annual report and accounts (7)

Detecting irregularities, including fraud (continued)

In assessing the potential risks of material misstatement, we obtained an understanding of:




- NESTRANS' operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- NESTRANS' control environment, including the policies and procedures implemented by NESTRANS to ensure compliance with the requirements of the financial reporting framework.




Audit of the annual report and accounts (8)

Overview of audit risks

The table below summarises the key audit matters and significant risks discussed in more detail on the subsequent pages.

Risk title	Risk level	Change in risk since Audit Plan	Fraud risk	Key audit matter	Level of judgement or estimation uncertainty	Testing approach	Status of work
Defined benefit pension scheme valuation	Significant	↔	✘	✓	High	Substantive	● Amber
Management override of controls	Significant	↔	✓	✘	Low	Substantive	● Amber
Risk of fraud in expenditure	Significant	↔	✓	✘	Medium	Substantive	● Green

 Assessed risk increase since Audit Plan
 Assessed risk consistent with Audit Plan
 Assessed risk decrease since Audit Plan

 **Green** - Not considered likely to result in material adjustment or change to disclosures within the financial statements
 **Amber** - Potential to result in material adjustment or significant change to disclosures within the financial statements
 **Red** - Likely to result in material adjustment or significant change to disclosures within the financial statements

Audit of the annual report and accounts (9)

Significant risks and Key Audit Matters

Responding to significant financial statement risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. This section provides commentary on the significant audit risks communicated in the Audit Plan.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Company's financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified.

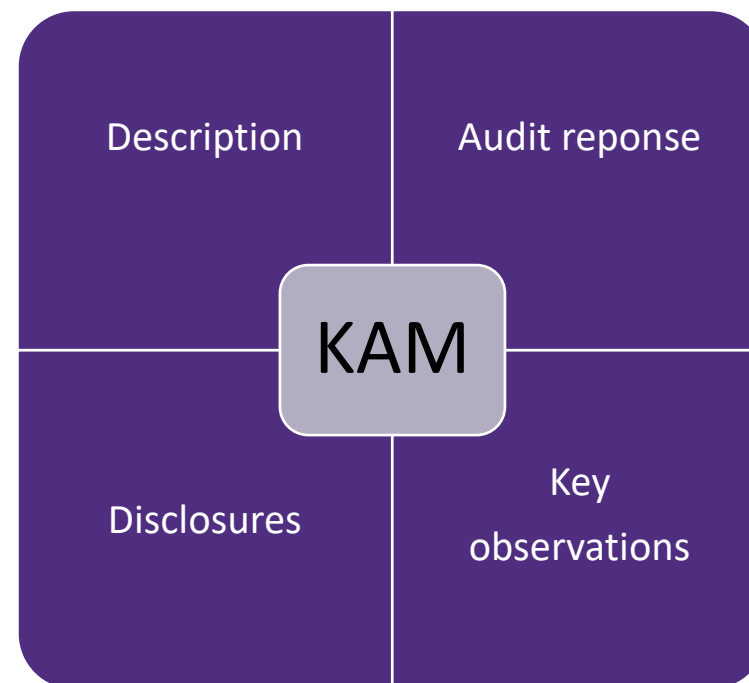
These matters included those that had the greatest effect on:

- the overall audit strategy;
- the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Other risks

Other risks are, in the auditor's judgment, those where the risk of material misstatement is lower than that for a significant risk, but they are nonetheless an area of focus for our audit.



Audit of the annual report and accounts (10)

Significant risks and Key Audit Matters (continued)

Risk 1: Defined benefit pension scheme valuation

NESTRANS participates in the North East Scotland Pension Fund, a local government pension scheme. There is an established protocol in place with Pension Fund auditors to provide external auditors with relevant assurance. The scheme is a defined benefit pension scheme and in accordance with IAS 19: Pensions, NESTRANS is required to recognise its share of the scheme assets and liabilities in its balance sheet. As at 31 March 2023 NESTRANS had a net pension fund asset of £0.560m (2021/22: net liability of £0.709m). Due to the application of an asset ceiling under IFRIC 14 this asset has been capped at £nil.

NESTRANS's actuary, Mercer Limited, provide an annual IAS 19 actuarial valuation of NESTRANS' net liabilities in the pension scheme. There are a number of assumptions contained within the valuation, including: discount rate; future return on scheme assets; mortality rates; and, future salary projections. Given the material value of the scheme's gross assets and gross liabilities and the level of estimation in the valuation, there is an inherent risk that the defined benefit pension scheme net liability could be materially misstated within the financial statements. This risk is focussed on the appropriateness and reasonableness of the underlying assumptions adopted by the actuary and the suitability of these for NESTRANS.

We identified the defined benefit pension scheme valuation as one of the most significant assessed risks of material misstatement due to error, and as a key audit matter.

Commentary

How our scope addressed the matter

In responding to the key audit matter, we performed the following audit procedures:

- Evaluated management's processes and controls for the calculation of the gross asset and gross liability and estimates, the instructions issued to the actuarial expert and the scope of their work;
- Evaluated the assumptions made by Mercer Limited in the calculation of the estimate, using work performed by an auditor's expert commissioned on behalf of Audit Scotland and additional follow up procedures (where required);
- Evaluated the data used by management's experts in the calculation of the estimates;
- Performed substantive analytical procedures over the gross assets, gross liabilities and in year pension fund movements, investigating any deviations from audit expectations;
- Assessed the accuracy and completeness of the IAS 19 estimates and related disclosures made within NESTRANS's financial statements.
- Reviewed management's assessment of the application of IFRIC 14.

Audit of the annual report and accounts (11)

Significant risks and Key Audit Matters (continued)

Risk 1: Defined benefit pension scheme valuation

Commentary

Relevant disclosures in the Statement of Accounts for the year ended 31 March 2023

- Note 16 – Defined Benefit Pension Schemes

As at 31 March 2023 NESTRANS had a net pension fund asset of £nil (2021/22: net liability of £0.709m).

Our results

- Usually local government scheme (LGPS) pension liabilities calculated on an IAS 19 basis exceed any pension assets and members of the LGPS recognise a net pension liability on their balance sheet. However, a net defined benefit asset may arise where the defined benefit plan has been overfunded or where actuarial gains have arisen.
- IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments. IFRIC 14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The pension asset can be recognised at the lower of the net pension asset or the present value of any economic benefits available.
- The Council requested an IFRIC14 assessment from the actuary which capped the pension asset at £nil. This was due to the IFRIC14 assessment where the present value of the benefits available were lower than the pension asset.

Audit of the annual report and accounts (12)

Significant risks and Key Audit Matters (continued)

Risk 2: Management override of controls

As set out in ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' there is a presumed risk that management override of controls is present in all entities. Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override the entity's internal controls, related to individual transactions. Our work focuses on journals, critical estimates and judgements, including accounting policies, and unusual transactions.

Commentary

In response to the risk highlighted in the audit plan we carried out the following work:

- Documented our understanding of and evaluated the design effectiveness of management's key controls over journals;
- Analysed your full journal listing for the year and used this to determine our criteria for selecting high risk journals;
- Tested the high risk journals we have identified;
- Gained an understanding of the critical judgements applied by management in the preparation of the financial statements and considered their reasonableness;
- Gained an understanding of the key accounting estimates made by management and carried out substantive testing on in scope estimates; and
- Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our results

NESTRANS utilises the Aberdeenshire Council ledger for recording its transactions. The IT systems operated by the Council have been subject to a separate IT audit conducted by our internal experts. This has highlighted some recommendations have been communicated in a separate report, however the findings have not affected our audit procedures on either the Council or the NESTRANS audits.

Our work on journals has not raised any issues to report to you.

Audit of the annual report and accounts (13)

Significant risks and Key Audit Matters (continued)

Risk 3: The revenue cycle includes fraudulent transactions

As set out in ISA (UK) 240 (Revised May 2021) there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

(rebutted)

Commentary

Auditing standards require us to consider the risk of fraud in Revenue. This is considered a presumed risk in all entities.

Having considered the risk factors set out in ISA (UK) 240 and the nature of the revenue streams at NESTRANS, we have determined that the risk of fraud arising from revenue recognition can be rebutted as there is deemed to be little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are deemed to be limited.

Our results

Our work has not identified any issues in relation to revenue recognition.

Audit of the annual report and accounts (14)

Significant risks and Key Audit Matters (continued)

Risk 4: Risk of fraud in expenditure

As set out in practice note 10 (Revised 2022) 'The Audit of Public sector Financial Statements', issued by the Public Audit Forum, which applies to all public sector entities, we consider there to be an inherent risk of fraud in expenditure recognition.

NESTRANS' expenditure includes both payroll and non-payroll costs. We consider payroll costs to be well forecast and are able to agree these costs to underlying payroll systems. As such we believe there is less opportunity for a material misstatement as a result of fraud to occur in this area.

We therefore focussed our risk on the non-payroll expenditure streams. Our testing included a specific focus on year end cut-off arrangements, including consideration of the existence of accruals in relation to non payroll/non finance expenditure.

Commentary

In response to the risk highlighted in the audit plan we carried out the following work:

- Evaluated your accounting policy for recognition of expenditure for appropriateness and compliance with the CIPFA/LASAAC Code of Practice 2022/23;
- Performed detail testing of expenditure transactions at and around year end to verify the accounting period transactions related to and confirm if transactions had been recognised in the correct accounting period;
- Reviewed the judgements and estimates made by management when recognising accruals at year end within the financial statements, and where appropriate challenged management accordingly.

Our testing included a specific focus on year end cut-off arrangements, including consideration of the existence of accruals in relation to non payroll/non finance expenditure.

Our results

Our work has not identified any issues in relation to expenditure recognition.

Audit of the annual report and accounts (15)

Other key elements of the financial statements

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of focus either in accordance with the Audit Scotland Code of Audit Practice or ISAs or due to their complexity or importance to the user of the accounts:

Issue	Commentary
Matters in relation to fraud and irregularity	It is NESTRANS' responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from officers and those charged with governance regarding NESTRANS's assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquiries of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any incidents in the period and no issues in relation to these areas have been identified during the course of our audit procedures that are outside of the usual expected investigations.
Accounting practices	We have evaluated the appropriateness of NESTRANS' accounting policies, accounting estimates and financial statement disclosures. No issues were identified.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. We have not identified any cases of money laundering or fraud at NESTRANS.
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified from work performed.

Audit of the annual report and accounts (16)









Other key elements of the financial statements (continued)

Issue	Commentary
Governance statement	We are required to report on whether the information given in the Annual Governance Statement is consistent with the financial statements and prepared in accordance with the Delivering Good Governance in Local government: Framework (2016). No inconsistencies have been identified, we plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required by the Accounts Commission to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit or there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.
Written representations	A letter of representation has been requested from NESTRANS as required by auditing standards.
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2022). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by NESTRANS meets this criteria, and so we have applied the continued provision of service approach.</p> <p>In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered management’s (senior officer’s) assessment of the appropriateness of the going concern basis of accounting and conclude that:</p> <ul style="list-style-type: none"> • a material uncertainty related to going concern has not been identified • management’s (senior officer’s) use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Audit of the annual report and accounts (17)





Other findings – Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas

IT application	Level of assessment performed	ITGC control area rating				Related significant risks/other risks
		Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	
Oracle EBS – general ledger	ITGC assessment (design and implementation effectiveness only)	 Amber	 Amber	 Green	 Green	All significant risks
iTrent - payroll	ITGC assessment (design and implementation effectiveness only)	 Green	 Green	 Green	 Green	n/a

NESTRANS utilises the IT systems operated by Aberdeenshire Council. These systems have been subject to a separate IT audit conducted by our internal experts. This has highlighted some recommendations in relation to the Oracle EBS ledger system have been communicated in a separate report, however the findings have not affected our audit procedures on either the Council or the NESTRANS audits.

Assessment

-  **Red** - Significant deficiencies identified in IT controls relevant to the audit of financial statements
-  **Amber** - Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
-  **Green** - IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
-  **Grey** - Not in scope for testing

**Wider scope and best value
conclusions**

Wider scope audit (1)

This section of our report sets out our conclusions from our audit work on the wider scope area of financial sustainability.

Wider scope dimension	Plan risk	Wider scope audit response and findings	External Audit conclusion
<p>Financial Sustainability</p> <p>We are required to look ahead to the medium and longer term to consider whether NESTRANS is planning effectively so that it can continue to deliver services.</p>	Significant	<p>2022/23 Plan and Outturn</p> <p>The 2022/23 budget showed total expenditure of £3.981m and total income of £4.189m giving an expected surplus of £0.208m. The actual outturn for the year was a surplus of £1.154m (+455%), with expenditure of £4.132m (+4%) and income of £5.286m (+26%).</p> <p>The variance was in part due to the cost of work managed by NESTRANS and recharged to the City Region Deal and Aberdeen Rapid Transit of £0.131m and £0.475m inflating both expenditure and income.</p> <p>Both the Regional Transport Strategy and the Strategic Investment Programme were underspent against budget by a combined £0.450m. Several projects will continue into 2023/24, or have been postponed until then, due to competing priorities for staff resources within both NESTRANS and the Councils.</p> <p>2023/24 Financial Planning and Beyond</p> <p>A budget for the 2023/24 year has been prepared, in addition to a 3-year Strategic Investment Programme covering the period 2023/24 to 2025/26.</p> <p>The 2023/24 budget shows total expected expenditure of £6.688m and income to match. This is a £2.556m (62%) increase on the 2022/23 outturn expenditure and a £1.402m (27%) increase on the 2022/23 outturn income.</p> <p>The income expected from Council partner contributions has increased by £0.030m per partner, whereas the Scottish Government contribution towards core costs remains at £0.782m. The main source of the additional income is from grant income and the use of balances.</p> <p>At 31 March 2023 NESTRANS holds £3.602m of usable reserves.</p>	<p>NESTRANS' incurred marginally higher expenditure than was budgeted, and 26% more income. This resulted in a £1.154m surplus vs a budgeted £0.208m surplus.</p> <p>A number of projects have been postponed into 2023/24 and the 2023/24 expenditure budget is 62% higher than the outturn for 2022/23. There is a risk that staffing challenges may make it difficult for NESTRANS to achieve their planned delivery.</p> <p>Income from Council allocations has not been as high as expected and the gap is to be funded from reserves and historic allocations.</p> <p>We have made 2 recommendations overleaf.</p>

Wider scope audit (2)

This section of our report sets out our conclusions from our audit work on the wider scope area of financial sustainability.

Wider scope dimension	Plan risk	Wider scope audit response and findings	External Audit conclusion
<p>Financial Sustainability</p> <p>We are required to look ahead to the medium and longer term to consider whether NESTRANS is planning effectively so that it can continue to deliver services.</p>	Significant	<p>2023/24 Financial Planning and Beyond (continued)</p> <p>There is a risk that having several projects carrying over, or being postponed into, 2023/24 will make it difficult to achieve the planned delivery. The planned expenditure for 2023/24 is 62% higher than in 2022/23 which is a considerable increase given that competing priorities for staff resources within both NESTRANS and the Councils saw projects being postponed in the previous year.</p> <p>The initial budget, approved in February 2023, showed an anticipated contribution of £2.467m from the partner Councils towards the Strategic Investment Programme. Aberdeen City Council has confirmed an allocation which is £0.295m less than anticipated. This lost income is planned to be funded from reserves and historic allocations.</p> <p>The 3-year programmed plan shows an expectation that the £2.467m million level of funding will continue into 2024/25 and 2025/26. NESTRANS will need to consider how to bridge the gap if these contributions do not continue as reserves are limited.</p> <p>There is a risk that the 3-year Strategic Investment Programme will become less accurate if it is not regularly reviewed and updated for changes in assumptions, such as the expected allocations from Council partners. There is also a risk that there is not adequate planning beyond the 3-year period to 2025/26. Long-term financial strategies covering a five to ten-year period help set the context for annual budgets. They also help clarify the financial sustainability of an organisation over an extended period and can help identify problems with affordability at an early stage.</p>	<p>Recommendation:</p> <p>NESTRANS should regularly review its strategic delivery plan to ensure that it is achievable and should consider implementing a formal workforce plan to understand how staff resources will be made available to achieve the planned delivery in the short, medium and longer term.</p> <p>Recommendation:</p> <p>NESTRANS should prepare a medium-term financial strategy covering at least the next 5 years, and regularly review this strategy for changing conditions and assumptions.</p> <p>Recommendations are raised at Appendix 2.</p>

Appendices

1. Audit Adjustments (1)

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted and unadjusted misstatements

As at the date of this report, there are no adjusted or unadjusted audit misstatements that are above our reporting level. We will report our final conclusions and any agreed audit adjustments on conclusion of the outstanding work.

Impact of unadjusted misstatements in the prior year

There were no unadjusted misstatements brought forward from the 2021/22 audit carried out by your predecessor auditor.

1. Audit Adjustments (2)

Misclassification and disclosure changes

The table below provides details of substantive misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. This list of misclassification and disclosure changes reflects presentational adjustments to the financial statements which have no impact on NESTRANS' reported financial position.

Disclosure	Auditor recommendations	Adjusted?
Review of Annual Report and Accounts (General)	We identified a number of minor typing errors and formatting issues as part of our review of the Annual Report and Accounts. These were raised and processed by management where necessary.	Yes
Order and presentation of primary statements	The EFA was disclosed as a primary statement whereas this should be shown in the notes. The EFA is now disclosed as Note 1. Further, the order of the primary statements was amended to first show the CIES, then the balance sheet, cash flow and MIRS.	Yes
Nature of income and expenditure not disclosed	The notes to the accounts should include a disclosure of the income and expenditure by nature, where there are material differences in the natures of transactions. This has now been included in Note 3.	Yes
IFRIC 14 disclosure	Additional disclosure was recommended to be added to Note 16 Defined Benefit Pension Schemes to explain the application of IFRIC 14 and the asset ceiling adjustment which has been applied.	Yes
Financial instruments	The current financial liabilities as per Note 19 Financial Instruments have been updated from £2.965m to £2.622m to exclude £0.321m of VAT and £0.022m of year end leave accrual. The current Loans and Receivables financial assets figure as per Note 19 Financial Instruments has been updated from £1.688m to £1.372m to exclude £0.311m of VAT and £0.005m of prepayments. The corresponding prior year figures have also been updated.	Yes
Reserves opening balances	Opening balances and transfers in/out were not disclosed for the usable reserves. Note 22 has been updated accordingly.	Yes

1. Audit Adjustments (3)

Misclassification and disclosure changes

The table below provides details of substantive misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. This list of misclassification and disclosure changes reflects presentational adjustments to the financial statements which have no impact on NESTRANS' reported financial position.

Disclosure	Auditor recommendations	Adjusted?
Auditable elements of the remuneration report	The remuneration report did not clearly identify the information which is subject to audit. The disclosure has been updated.	Yes
Events after the balance sheet	No disclosure was made regarding events after the balance sheet date. This has now been included in Note 7.	Yes

2. Action plan and recommendations (1)

Financial statements audit

We have not identified any recommendations for NESTRANS during our audit of the financial statements for the year ended 31 March 2023.

Wider scope

We have raised two recommendations for NESTRANS during our wider scope work for the year ended 31 March 2023. Please see details below.

Recommendation

1. Risk: Several projects will continue into 2023/24, or have been postponed until then, due to competing priorities for staff resources within both NESTRANS and the Councils. Additionally, budgeted expenditure for 2023/24 is significantly higher than the outturn for 2022/23. There is a risk that NESTRANS will not be able to achieve the planned delivery.

Recommendation: NESTRANS should regularly review its strategic delivery plan to ensure that it is achievable and should consider implementing a formal workforce plan to understand how staff resources will be made available to achieve the planned delivery in the short, medium and longer term.

Agreed management response/Officer/Date

Response: Nestrans already review the budget within the standing budget matters agenda item for each Board meeting and the Board consider budget revisions throughout the year to try and best manage delivery. The capital budget is mostly delivered by our constituent

Councils as relevant Roads Authorities and it is therefore their workforce planning that is relevant rather than that being within Nestrans control. However, we will continue to review the plan at each Board meeting and regularly discuss workforce planning with constituent Councils.

Responsible officer: Nestrans Director

Target date: n/a

2. Action plan and recommendations (2)

Recommendation

2. Risk: The current longer-term plan only covers the period 2023/24 to 2025/26. There is a risk that changes in conditions or assumptions will make this plan inaccurate, or that it does not predict far enough into the future to enable adequate future planning.

Recommendation: NESTRANS should prepare a medium-term financial strategy covering at least the next 5 years, and regularly review this strategy for changing conditions and assumptions.

Agreed management response/Officer/Date

Response: Following the Commencement Order for Section 122 of the Transport (Scotland) Act that was laid in the Scottish Parliament on 6 March 2020 and the provisions on Regional Transport Partnership (RTP) finance to hold a General Fund reserve that came into force on 19 March 2020, a Strategic Investment programme for NESTRANS has been prepared on a 3-year basis. The proposed 3-year programme is prepared on the assumption that funding will continue to be provided from both Council Partners at the same levels as in recent years, but the 3-year programmed plan is not an agreed spending plan as it will be subject to future budget and partner agreements that are only allocated and confirmed on a single year basis. It therefore only indicates the potential profiling of expenditure during the 3-year period and shows a general programme of works based on current estimated costs linked to partner Councils' own programmes. It is used as a basis for preparing annual budgets over the 3-year period, but budgets and the rolling 3-year plan are reviewed on annual basis as allocations are confirmed. However, this plan could be extended to a 5-year rolling plan and medium-term financial strategy developed, with continued annual review.

Responsible officer: Nestrans Director

Target date: 10 April 2024

3. Follow up of prior year recommendations (1)

Progress against prior year audit recommendations

The predecessor auditor identified the following issues in their 2021/22 audit of NESTRANS's financial statements, which resulted in one recommendation being reported in their 2021/22 Annual Audit Report.

We have set out below, our follow up of the recommendations made by the predecessor auditor last year and management's progress in implementation:

Auditor assessment	Issue and risk previously communicated	Agreed management response
<p>Complete</p> <p>As an audit team we identified a significant risk of fraud in expenditure recognition, particularly in relation to year end completeness/cut-off procedures.</p> <p>We did not identify any issues from our audit procedures.</p>	<p>Issue: Accruals accounting and recognition of income and expenditure</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>Risk: 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>Previous auditor recommendation: 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 the 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 are correctly reflected, and outstanding business transactions are captured and accurately reflected in the annual accounts.</p>

3. Follow up of prior year recommendations (2)

Progress against prior year audit recommendations

Auditor assessment	Issue and risk previously communicated	Agreed management response
<p>Complete</p> <p>For 2022/23 appropriate review has taken place, and through our audit, we have not identified any material misstatements</p>	<p>Issue: Preparation of annual accounts</p> <p>Although there was no impact on the budget outturn for the year, there were material misstatements in the unaudited annual accounts.</p> <p>Previous auditor recommendation: 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 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>

4. Audit fees, ethics and independence (1)

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and NESTRANS that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with NESTRANS or investments in NESTRANS held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by NESTRANS as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and NESTRANS.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place with regard to non-audit services.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff.

4. Audit fees, ethics and independence (2)

Independence and ethics (continued)

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Following this consideration, we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

Fees and non-audit services

The tables below set out the total fees for audit and other services charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards have been applied to mitigate these threats.

For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to NESTRANS. The table summarises all non-audit services which were identified.

External Audit Fee

Service	Audit Plan £	Annual Audit Report £
External Auditor Remuneration	£22,590	£23,790*
Pooled Costs	Nil	Nil
Contribution to Audit Scotland support costs	£860	£860
Sectoral Cap Adjustment	-£11,600	-£11,600
2022/23 Audit Fee	£11,850	£13,050

Fees for other services

Service	Fees £
We confirm that for 2022/23, we did not receive any fees for non-audit services	Nil

* A £1,200 fee variation has been charged due to the additional work required on the IFRIC 14 assessment.

4. Audit fees, ethics and independence (3)

Independence and ethics (continued)

Financial statements

The fees do not reconcile directly to the financial statements. We have provided a reconciliation below for the £13,050 on page 35 for audit fees. The figures are in round thousands as per the disclosure in Note 15 External Audit Costs.

	£'000
Note 15 External Audit Costs	12
Additional fee for IFRIC 14	1
2022/23 Audit Fee per page 34	13

Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work (joanne.e.brown@uk.gt.com). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to John Gilchrist, Audit Scotland Quality and Appointments, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2021 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2021)

5. Communication of audit matters

International Standard on Auditing ISA (UK) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance. These are set out in the table below.

Our communication plan

	Audit Plan	Annual Report (our ISA 260 Report)
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of NESTRANS's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter.		•

