

North East Scotland Transport Partnership

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for North East Scotland Transport Partnership

March 2018

Who we are

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

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



About us

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

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

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

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#) (the Code), and any other relevant guidance.

The Code requires appointed auditors to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit, defined in the Code, contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

2. Planned audit work should be risk based and proportionate to the nature and size of an audited body. Where the application of the full wider scope is judged by auditors not to be appropriate, Supplementary Guidance for appointed auditors offers a small body clause which allows narrower scope work to be carried out. Having considered the size and functions of North East Scotland Transport Partnership (NESTRANS), in our judgement the small body clause applies.

3. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the reduced wider scope requirements as a small audited body.

Audit risks

4. Based on our discussions with staff, attendance at board meetings and a review of supporting information, [Exhibit 1](#) sets out the main risk area for NESTRANS which requires specific audit testing.

Exhibit 1

2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.

Reporting arrangements

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

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

7. We will provide an independent auditor's report to NESTRANS and the Accounts Commission setting out our opinions on the annual accounts and other information published with the accounts. We will also provide NESTRANS and the Accounts Commission with an Annual Audit Report containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2017/18 Audit outputs

Audit Output	Target date	Board date
Annual Audit Report	31 August 2018	19 September 2018
Independent Auditor's Report	21 September 2018	Audited Accounts are scheduled to be approved by the Board on 19 September 2018.

Audit fee

8. The audit fee for the 2017/18 audit of NESTRANS is £10,450 (2016/17 £10,300). In determining the audit fee we have taken account of the risk exposure of the partnership and the planned management assurances in place. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package by 30 June 2018.

9. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

The Board and Treasurer

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

11. The audit of the financial statements does not relieve management or the Board, as those charged with governance, of their responsibilities.

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

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

Appointed auditor

13. Our responsibilities as independent auditor are established by the 1973 Act for local government, the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

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

Audit scope and timing

Financial statements

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

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

16. We will give an opinion on the financial statements as to whether they:

- give a true and fair view in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom (the 2017/18 Code) of the state of affairs of NESTRANS as at 31 March 2018 and of its income and expenditure for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted and adapted by the 2017/18 Code
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.



characteristics



responsibilities



principal activities



risks



governance arrangements

Materiality

17. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report. We calculate materiality at different levels as described below. The calculated materiality values for NESTRANS are set out in [Exhibit 3](#).

Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2018 based on the latest audited accounts for 2016/17.	£29,000
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 70% of planning materiality.	£20,000
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£1,500



18. We review and report on other information published with the financial statements including the management commentary, annual governance statement and the remuneration report. Any issue identified will be reported to the Board.

Timetable

19. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Board meetings.

Exhibit 4

Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by the Board as the body charged with governance	20 June 2018
Latest submission date of unaudited annual accounts with complete working papers package	30 June 2018
Latest date for final clearance meeting with the Treasurer	17 August 2018
Agreement of audited unsigned annual accounts	24 August 2018
Issue of Annual Audit Report including ISA 260 report to those charged with governance	31 August 2018
Independent auditor's report signed	21 September 2018

Internal audit

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

Adequacy of Internal Audit

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

Areas of reliance

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

Audit dimensions

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

Exhibit 5

Audit dimensions



24. As stated in paragraph 2, in our opinion the full application of the wider scope is not appropriate for NESTRANS. The partnership has a budget of approximately £5m split between managing a small team (£1.1m) and delivering a mix of projects (£3.7m). A major role for NESTRANS is working in partnership across the public sector to develop and deliver the Regional Transport Strategy. On the whole, the strategy involves large capital projects which are delivered by Aberdeen City and

Aberdeenshire Councils and monitored by NESTRANS. Due to its co-ordination role, the transactions in the accounts are fairly routine and consequently, we have concluded that the small body clause is appropriate. However, as a minimum, the Code requires annual audit work on financial sustainability and the appropriateness of the disclosures in the governance statement. As a result, our wider dimension work will be restricted to financial sustainability and governance and transparency arrangements as set out in paragraphs 25 and 26.

Financial sustainability

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

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

Governance and transparency

26. 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. Our 2016/17 Annual Audit Report included recommendations for NESTRANS to review its governance arrangements. We will review progress against these recommendations, conclude and report on whether:

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

Independence and objectivity

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

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

Quality control

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

30. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews, internal quality reviews and recently secured new arrangements for external quality reviews.

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

Adding Value

32. Through our audit work, we aim to add value to the partnership. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well the partnership has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate, we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

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