

North East of Scotland Transport Partnership

2018/19 Annual Audit Report



 AUDIT SCOTLAND

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

18 September 2019

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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Key messages

2018/19 annual accounts

- 1 In our opinion, North East of Scotland Transport Partnership's financial statements give a true and fair view and were properly prepared.
- 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.

Financial sustainability

- 3 The partnership has financial stability as a result of sustained funding levels from partners.

Governance and transparency

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

Introduction

1. This report is a summary of our findings arising from the 2018/19 audit of North East of Scotland Transport Partnership (Nestrans). The report is divided into sections which reflect our public sector audit model.

2. The scope of our audit was set out in our Annual Audit Plan presented to the board in June 2019. In accordance with Audit Scotland's [Code of Audit Practice 2016](#) (the Code), we explained at that time that the small body provisions apply to Nestrans. The main elements of the 2018/19 audit therefore included:

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

Responsibilities and reporting

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

4. 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.

5. 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.

6. We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2018/19 audit fee of £10,450 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

8. We would like to thank the management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual accounts



Main judgements

In our opinion, Nestrans' financial statements give a true and fair view and were properly prepared.

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.

Audit opinions on the annual accounts

9. The annual accounts for the partnership for the year ended 31 March 2019 were approved by the Board on 18 September 2019. We reported, within our independent auditor's report that, in our opinion the:

- financial statements give a true and fair view and were properly prepared
- audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

10. We have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records, or the information and explanations we received.

Submission of the annual accounts for audit

11. We received the unaudited annual accounts on 19 June 2019 in line with the audit timetable set out in our 2018/19 Annual Audit Plan.

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

Risk of material misstatement

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

14. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

Materiality

15. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

16. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 1](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

17. On receipt of the annual accounts we reviewed our planning materiality calculations and concluded that they remained appropriate.

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£59,000
Performance materiality	£44,000
Reporting threshold	£3,000

Source: Audit Scotland, Annual Audit Plan 2018/19

Significant findings from the audit in accordance with ISA 260

18. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

19. The significant findings from our audit are set out in [Exhibit 2](#).

Exhibit 2 Significant findings from the audit of the financial statements

Finding	Resolution
<p>1. Additional pension liabilities – Impact of McCloud/Sergeant rulings</p> <p>The courts have ruled that the transitional protections provided as part of the 2015 public service pension scheme changes discriminate on the grounds of age. All local government pension schemes are affected including the North East Scotland Pension Fund, of which Nestrans is an admitted body.</p> <p>As this was deemed a potential adjusting post balance sheet event, the Treasurer was requested to obtain an estimate from the pension fund's actuary of the costs involved in compensating affected members of the partnership's pension scheme. The impact on the</p>	<p>In respect of the partnership, this was considered to be a material amount and consequently, the accounts including relevant notes have been revised to reflect the additional liabilities</p>

Finding	Resolution
<p>partnership's Balance Sheet has been estimated by the actuary to be additional pension liabilities of £78,000. This was based on a methodology provided by the Government Actuary's Department having considered the potential effect in England and Wales as a whole.</p>	
<p>2. Guaranteed Minimum Pensions (GMPs)</p> <p>The UK Government has stated "defined benefit pensions schemes that were Contracted-out Salary Related (COSR) schemes before contracting out ended on 6 April 2016 need to provide a Guaranteed Minimum Pension (GMP) to members for contracted out service between 6 April 1978 and 5 April 1997. The GMP is payable at age 60 for a woman and at age 65 for a man."</p> <p>There is potential for a financial cost to the partnership as a result of this issue but, until a long term solution can be determined by the UK Government, the extent of such a cost cannot be determined.</p>	<p>A contingent liability note had been added to the accounts to reflect the uncertainty of the situation. We are satisfied with this approach.</p>
<p>3. Going concern</p> <p>Auditors are required to consider an organisation's ability to continue as a going concern when forming an opinion on the financial statements. One of the indicators which may give rise to going concern considerations is an excess of liabilities over assets.</p> <p>The partnership is an admitted body of North East Scotland Pension Fund and has recognised net pension liabilities of £774,000 in the balance sheet resulting in a net liability position of £785,000 at 31 March 2019.</p>	<p>This accounting requirement has no impact on the underlying basis for meeting current and on-going pension liabilities which will be met, as they fall due, by contributions from the constituent authorities.</p> <p>We agree with management's view that it is appropriate to prepare the 2018/19 annual accounts on a going concern basis.</p>

Source: Audit Scotland

How we evaluate misstatements

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

Management commentary, annual governance statement and remuneration report

21. The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 requires local government bodies to prepare and publish, along with their financial statements, an annual governance statement, management commentary (or equivalent) and remuneration report that are consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable and clearly address the longer-term financial sustainability of the body.

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

Follow up of prior year recommendations

23. The partnership has addressed the prior year recommendation regarding the Financial Regulations. They had not previously reflected the Local Authority Accounts (Scotland) Regulations 2014 in terms of internal control reviews and requiring the partnership to approve the accounts prior to 30 September. This has now been rectified in the latest update of the Financial Regulations which was carried out in April 2019.

Part 2

Financial sustainability



Main judgements

The partnership has financial stability because of sustained funding levels from partners.

Financial performance in 2018/19

24. The partnership set its 2018/19 budget in February 2018 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 continues to provide a degree of financial stability in the short term. Actual spend for the year was largely in line with plans.

Reserves strategy

25. The partnership is required to achieve a break-even position year on year in accordance with the requirements of the Transport (Scotland) Act 2005 for Regional Transport Partnerships. The Act requires that the net expenses of a Transport Partnership for each year are paid by its constituent councils. This means that any surplus is returned to the constituent councils through a reduction in requisitions, and any deficit is funded by increased contributions from constituent authorities.

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

Part 3

Governance and transparency



Main Judgements

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

Governance arrangements

26. 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.

27. The board has 12 members, four each from Aberdeenshire and Aberdeen City Councils and four non-council appointments made by the Minister for Transport.

28. The board met on six occasions during 2018/19, roughly every two months. We review minutes of board meetings to assess their effectiveness and periodically observe meetings for a greater insight into proceedings.

Financial regulations

29. In line with good practice, Financial Regulations are regularly updated, most recently in April 2019. We recommended last year that they were updated to reflect the requirements of the 2014 Regulations in respect of published accounts and review of internal control. We are pleased that this has been reflected in the most recent review of the Financial Regulations.

Financial management

30. 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.

31. 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.

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

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

Transparency

33. Transparency means that the general public have access to understandable, relevant and timely information about how the partnership is taking decisions and how it is using resources such as money, people and assets.

34. There is evidence from several sources which demonstrate the partnership's commitment to transparency:

- members of the public can attend meetings of the partnership
- board minutes and agenda papers are readily available on the partnership's website
- the website allows the public to access a wide range of information about business activities including plans and monitoring reports
- the partnership makes its annual accounts available on its website. These include a management commentary which provides details of performance against budget, information on the use of reserves, and risks and uncertainties facing the organisation.

35. Overall, we concluded that the partnership conducts its business in an open and transparent manner.

Appendix 1

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion.

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 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 to change the position disclosed in the financial statements.</p>	<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. 	<p>Audit work concluded satisfactorily. No areas of concern identified.</p>

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Audit Scotland, The Annexe, Woodhill House, Westburn Road, Aberdeen AB16 5GB
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk