

North East of Scotland Transport Partnership

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for North East of Scotland Transport Partnership

March 2022

Contents

Introduction	3
Financial statements audit planning	5
Audit dimensions and Best Value	10
Reporting arrangements, timetable, and audit fee	13
Other matters	15

Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of North East of Scotland Transport Partnership (Nestrans). The main elements of our work include:

- assessing the risk of material misstatement in the partnership's financial statements
- an audit of the partnership's annual accounts and provision of an Independent Auditor's Report
- an audit opinion on other statutory information published within the annual accounts including the Management Commentary, Annual Governance Statement and the Remuneration Report
- consideration of arrangements in relation to the audit dimensions including Best Value. As a small body, wider scope requirements are restricted to conclusions on financial sustainability, and governance and transparency.

Impact of Covid-19

2. The coronavirus (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. We aim to add value to Nestrans through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help Nestrans promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend board meetings as appropriate.

Respective responsibilities of the auditor and Nestrans

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and Nestrans. Key responsibilities are summarised below.

Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

7. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the partnership to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Nestrans' responsibilities

8. Nestrans is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, the partnership has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance that enable them to deliver their objectives.

Managing the transition to 2022/23 audits

10. Public sector audit appointments are usually for five years but were extended to six years due to Covid-19. Financial year 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a smooth transition.

Financial statements audit planning

Materiality

11. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

12. We assess materiality at different levels as described in [Exhibit 1](#) which sets out the partnership's materiality values for 2021/22.

Exhibit 1 2021/22 Materiality levels for Nestrans

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 2% of gross expenditure for the year ended 31 March 2022 based on the latest audited financial statements.	£63,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 70% of planning materiality.	£44,000
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£3,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of Nestrans over the period of the audit appointment, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at board meetings and a review of supporting information.

14. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. Significant risks are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risks, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of management assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<p>Evaluate external auditor assurances from the auditor of Aberdeenshire Council in respect of the financial services provided to the partnership. Assurances will include:</p> <ul style="list-style-type: none"> Detailed testing of journal entries. Focused testing of accounting accruals and prepayments. Evaluate significant transactions outside the normal course of business. Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.
<p>2. Risk of fraud in the recognition of revenue and expenditure</p> <p>As set out in International Standard on Auditing (UK) 240: <i>The auditor's responsibilities relating to fraud in an audit of financial statements</i>, there is a presumed risk of fraud in relation to the recognition of revenue. The</p>	<ul style="list-style-type: none"> Agreements with partner councils and where appropriate, other funders. Quarterly invoicing arrangements 	<ul style="list-style-type: none"> Review funding agreements, correspondence and other third party confirmations to confirm that income has been correctly recognised and accounted for in the correct financial year.

Significant risk of material misstatement	Sources of management assurance	Planned audit response
<p>presumption is that a body could adopt accounting policies or recognise transactions in such a way as to lead to a material misstatement in the reported financial position.</p> <p>We do not regard funding requisitions to meet coordination and project development costs as an area of significant risk. (Refer paragraph 15.) With effect from 2021/22 however, there has been a change in the funding mechanism for the Strategic Investment Programme. Council partners are now expected to provide quarterly funding to the partnership. This replaces the delay in drawdown funding mechanism which previously operated when the partnership was not permitted to hold a general fund.</p> <p>With the change in funding mechanism, there is a risk that income will not be correctly recognised in the annual accounts.</p> <p>In line with Practice Note 10: <i>Audit of financial statements and regularity of public sector bodies in the United Kingdom</i>, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.</p> <p>In respect of coordination, project development and the majority of the Strategic Investment Programme, we do not consider the expenditure recognition risk to be significant. (Refer paragraph 16.) The main exception relates to</p>	<p>including board approval.</p> <ul style="list-style-type: none"> • Financial services provided by Aberdeenshire Council (council head of finance is also Nestrans' treasurer). • Income and expenditure monitoring undertaken by partnership office. • Operation of partnership and partner internal controls. • Supporting documentation for partnership contributions to external projects. 	<ul style="list-style-type: none"> • Discussions with officers regarding the approaches taken. • Review the controls in place over accounting for expenditure – this will include review of the partnership's internal controls and assurances from Aberdeenshire Council's external auditor in respect of income and expenditure controls. • Substantive testing of expenditure/accruals, especially the more unusual transactions, to confirm whether they are complete, recorded in line with accounting policies and that the use of estimates is reasonable.

Significant risk of material misstatement	Sources of management assurance	Planned audit response
<p>contributions to third party projects. These occur on an ad hoc basis with specific terms and conditions. As such, they are more unusual transactions and this increases the risk of misstatement in their accounting treatment.</p>		

Source: Audit Scotland

15. Nestrans' core running costs and project development costs are met by funding requisitions from partner councils and Scottish Government grants which can be confirmed with third party correspondence and confirmations. We do not therefore consider the revenue recognition risk to be significant with regard to these funding streams.

16. We have also rebutted the risk of material misstatement with regard to Strategic Investment Programme (SIP) expenditure on projects delivered by the partner councils on Nestrans' behalf e.g. where external services are required for SIP projects, these are commissioned by the partner councils. In these cases, any manipulation of expenditure is deemed more likely to be a risk of the partner body than of Nestrans.

Other areas of audit focus

17. As part of our assessment of audit risks, we have identified other areas where there are risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risks, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

18. The areas of specific audit focus are:

- **The value of the net pension liability:** There is a degree of subjectivity in the measurement and valuation of the pension liability due to the specialist and management assumptions adopted. Changes in the assumptions could result in material changes in the valuation. Our work in this area includes using the work of an expert. In this case, we draw assurances from the work of actuaries.

- **Completeness of the partnership's transactions:** Nestrans' transactions are processed through a separate cost centre within Aberdeenshire Council's ledger and therefore there is a risk that transactions may be miscoded, and the partnership's accounts are misstated. No major issues were identified in previous years but we will keep this matter under review.

Audit risk assessment process

19. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Introduction

20. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. It requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

21. The four dimensions that frame our audit work are shown in [Exhibit 3](#).

Exhibit 3

Audit dimensions



Source: Code of Audit Practice

22. In our opinion, the full application of the wider scope is not appropriate for Nestrans. The partnership's annual spend is routinely around £3m. This includes the core costs of running the partnership office, delivering the Regional Transport Strategy and carrying out a range of larger projects through the Strategic Investment Programme (SIP). SIP projects can span several financial years and while they are commissioned and monitored by the partnership, they are managed and delivered by Aberdeen City and Aberdeenshire Councils.

23. The transactions processed during the year are generally routine but year end balances have historically been more complex. Since 2019/20 however, transport partnerships have been permitted to hold a general fund which should eventually streamline year end processes. Overall, we concluded that the nature and scale of the partnership's activities are such that the small body clause is appropriate.

24. In accordance with minimum requirements permitted by the Code, wider dimension work will be restricted to considering the partnership's arrangements in the following areas:

- **Financial sustainability** – 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 financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).
- **Governance and transparency** – 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.

Best Value

25. All local government bodies have a statutory duty to make arrangements to secure Best Value. We will review arrangements put in place by the partnership to achieve Best Value and report findings through our Annual Audit Report.

Audit dimension risks

26. We have identified audit risks in the areas set out in [Exhibit 4](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 4

2021/22 Audit dimension risks

Description of risk	Sources of management assurance	Planned audit response
<p>1. Capacity within the finance team</p> <p>With changing roles and a loss of experience in the council's finance team, there is a risk that the financial services provided to the partnership will deteriorate resulting in poor quality annual accounts being produced. For example, the Business Partner responsible for the production of the partnership's annual accounts changed in September 2021 and the Assistant Accountant who joined the team last year left the council in March 2022.</p>	<ul style="list-style-type: none"> • Outcome of discussions between Nestrans and partner bodies. 	<ul style="list-style-type: none"> • Discussions with senior officers.

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

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

28. 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 officers to confirm factual accuracy.

29. We will provide an independent auditor's report to Nestrans and the Accounts Commission setting out our opinions on the annual accounts. We will also provide Nestrans and the Controller of Audit with an annual report containing observations and recommendations on significant matters arising from the audit.

30. [Exhibit 5](#) outlines the target dates for our audit outputs.

Exhibit 5 2021/22 Audit outputs

Audit Output	Target date for board consideration
Annual Audit Plan	22 June 2022
Independent Auditor's Report	Audited Accounts are scheduled to be approved by the board on 7 September 2022
Annual Audit Report	7 September 2022

Source: Audit Scotland



Timetable

31. To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 6](#) which has been discussed with the Treasurer.

32. We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 6

Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	22 June 2022
Latest date for final clearance meeting with the Treasurer	19 August 2022
Agreement of audited and unsigned annual accounts	30 August 2022
Issue of Annual Audit Report to those charged with governance.	30 August 2022
Signed Independent Auditor's Report	By 9 September 2022

Source: Audit Scotland

Audit fee

33. The audit fee agreed with the Treasurer for the 2021/22 audit of Nestrans is £11,730 (2020/21: £10,450). In determining the audit fee, we have taken account of the risk exposure of Nestrans, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

34. Where our audit cannot proceed as planned through, for example, late receipt of the unaudited annual accounts or the absence of adequate supporting working papers, 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.

Other matters

Internal audit

35. International standards on Auditing (UK) 610: *Using the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

36. We seek to use 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 the Chief Internal Auditor at Aberdeenshire Council. We are also the auditors for Aberdeenshire Council and consequently, we draw assurance from our review of internal audit carried out in connection with our audit of the council.

37. Based on his evaluation of the council's control environment, internal audit provides an annual assurance statement to Nestrans covering its use of council systems. This statement is intended to provide reasonable assurance on the adequacy and effectiveness of the internal control system and to assist the partnership in preparing its Annual Governance Statement. We use the work of internal audit to inform our consideration of the partnership's Annual Governance Statement.

Independence and objectivity

38. Auditors appointed by the Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must 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 robust arrangements in place 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.

39. 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

40. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

41. 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 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 and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

42. 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.

North East of Scotland Transport Partnership

Annual Audit Plan 2021/22

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

For the latest news follow us on social media or [subscribe to our email alerts.](#)



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