

North East Scotland Transport Partnership

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for North East Scotland Transport Partnership

March 2017

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 and a review of supporting information we have identified the following main risk areas for NESTRANS. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

Audit Risk	Management 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.

Audit Risk	Management assurance	Planned audit work
<p>2 Changes in accounting requirements</p> <p>The 2016/17 Code of Practice on Local Authority Accounting (the Accounting Code) introduced a number of changes in the presentation of the financial statements including a new expenditure and funding analysis and changes in the governance statement. There is a risk the financial statements will not comply with the Code and/or contain a material misstatement.</p>	<ul style="list-style-type: none"> Through regular updates, the Finance team are alert to the Accounting Code changes and the impact on the financial statements. 	<ul style="list-style-type: none"> Detailed review of relevant working papers and comparison with the requirements of the Accounting Code.
<p>3 New Payroll System</p> <p>Financial services including payroll administration are provided to NESTRANS by Aberdeenshire Council. The council introduced a new payroll system with effect from 1 April 2016. As with many new systems, there were issues during implementation. There is a risk that payroll is not functioning correctly and staff costs are misstated.</p>	<ul style="list-style-type: none"> Assurances from Aberdeenshire over services provided Budget monitoring arrangements. 	<ul style="list-style-type: none"> Due to the small number of staff employed by the Partnership, a proof in total will be carried out for staff costs (reasonableness check).
Wider dimension risks		
<p>4 Financial management</p> <p>NESTRANS approve an annual budget but have an indication of likely funding proposals for future years. With public sector financial pressures, and a number of projects which are longer than one year in duration, there is a risk that short term planning would not be sufficiently alert to funding shortfalls</p>	<ul style="list-style-type: none"> The board has adopted the development of a 5 year funding plan Projects are regularly matched with funding Mechanisms are in place to give an indication of future years' funding Good partnership working between NESTRANS, partner councils, community planning partnerships and the City Region Deal joint committee. 	<ul style="list-style-type: none"> Ongoing monitoring of financial plans, assumptions and estimates and commentary in our Annual Audit Report.
<p>5 Risk management</p> <p>While the 2015/16 governance statement reported ongoing progress in respect of risk management, the risk register is out of date and we understand that it has not been considered by the board since 2008. Risk management is part of all decision making activities and along with internal controls, is central to good governance arrangements. In the absence of an effective risk management</p>	<ul style="list-style-type: none"> Review undertaken to support annual governance statement Internal audit's annual report Alert to risk factors when developing the budget. 	<ul style="list-style-type: none"> Ongoing discussion with officers about risk identification and management in key decision making processes Review of performance information Commentary in our annual audit report.

Audit Risk	Management assurance	Planned audit work
<p>process, there is a risk that the board has not considered its appetite for risk and may not be fully aware of all relevant factors and the impact of failure when making decisions.</p>		

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 summarising the results of the audit of the annual accounts. We will provide the Director, Treasurer and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2016/17 Audit outputs

Audit Output	Target date	Audit Committee (or equivalent) Date
Annual Audit Report including ISA 260 requirements	29 August 2017	6 September 2017
Signed Independent Auditor's Report	8 September 2017	Audited accounts will be considered for approval by the board on 6 September.

Audit fee

8. The proposed audit fee for the 2016/17 audit of NESTRANS is £10,300 (2015/16 £11,000). In determining the audit fee we have taken account of the risk exposure of North East Scotland Transport Partnership, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package by 30 June 2017.

9. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, 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

NESTRANS 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.

Appointed auditor

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

13. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Financial statements

14. 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 NESTRANS 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 North East Scotland Transport 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.

15. 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 2016/17 Accounting Code of the state of the affairs of NESTRANS as at 31 March 2017 and of the income and expenditure of NESTRANS for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Accounting Code; and
- 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.

Materiality

16. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for North East Scotland Transport Partnership are set out in [Exhibit 3](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

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 2017 based on the latest audited accounts for 2015/16.	£31,000
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.	£22,000
Reporting threshold - 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

17. 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

18. 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 meeting date):

Exhibit 4

Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by the Board as the body charged with governance	26 June 2017
Latest submission date of unaudited financial statements with complete working papers package	30 June 2017
Latest date for final clearance meeting with Treasurer	18 August 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	6 September 2017
Independent auditor's report signed	8 September 2017

Internal audit

19. 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

20. 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 concluded that the internal audit function operates in accordance with Public Sector Internal Audit Standards.

Areas of reliance

21. With regard to our audit of the financial statements, we do not propose to take any assurance from the work of internal audit. In respect of our wider scope audit responsibilities we plan to consider internal audit's annual report to the board which assists the board in the preparation of its annual governance statement.

Audit dimensions

22. 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](#).

23. As noted at paragraph 2, in our opinion the full application of the wider scope is not appropriate for NESTRANS. The partnership has a budget of approximately £3m split between managing a small team (£1m) and delivering a mix of projects (£2m). 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 24 and 25.

Exhibit 5

Audit dimensions



Financial sustainability

24. 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
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

Governance and transparency

25. 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. We will review, 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 the decision-making and finance and performance reports
- there is quality and timely financial and performance reporting.

Independence and objectivity

26. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing 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 to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

27. The appointed auditor for North East Scotland Transport Partnership is Anne MacDonald, Senior Audit Manager. Auditing and ethical standards require Anne 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 North East Scotland Transport Partnership.

Quality control

28. 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.

29. 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 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 is currently reviewing the arrangements for external quality reviews.

30. 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.

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