

North East of Scotland Transport Partnership

Annual Report on the 2010/11 Audit



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

October 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Introduction

1. This report summarises the findings from our 2010/11 audit of the North East of Scotland Transport Partnership. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements), conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. Appendix A is an action plan setting out the high level risk we have identified from the audit. Officers have considered the issue and have agreed to take the specific steps set out in the column headed 'Planned Management Action'. We do not expect all risks to be eliminated or even minimised. What we expect is that the Partnership understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management actions and that they have a mechanism in place to assess progress.
3. Audit is an essential element of accountability and the process of public reporting. This report will be published on our website after consideration by the Partnership. The information in this report may be used to prepare the annual overview of local authority audits report later this year. The overview report is published and presented to the Local Government and Communities Committee of the Scottish Parliament.
4. The management of the Partnership is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of internal control.

Financial statements

5. The financial statements of the Partnership are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. It is the responsibility of the Partnership to prepare financial statements that provide a true and fair view of its financial position and the income and expenditure for the year.
6. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of the Partnership and its income and expenditure for the year
 - whether they have been prepared properly in accordance with relevant legislation, the applicable accounting standards and other reporting requirements.
7. We also review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, statement on the system of internal financial control and the remuneration report. This section summarises the results of our audit of the financial statements.

Audit opinion

8. We gave an unqualified opinion that the financial statements of the North East of Scotland Transport Partnership gave a true and fair view of the state of the affairs of the Partnership as at 31 March 2011 and of the income and expenditure for the year then ended.

Legality

9. Through our planned audit work we consider the legality of the Partnership's financial transactions. In addition, the Treasurer has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the Partnership's management team, the financial transactions of the Partnership were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Statement on the system of internal financial control

10. A statement on the system of internal financial control is included within the annual financial statements. This sets out the Treasurer's view that he is satisfied that the Partnership has a sound system of internal financial control in place and, at this time, there are no material weaknesses or failures identified that could have a material effect on the operations of the Partnership.

11. The statement highlights that the Partnership operates the financial systems of Aberdeenshire Council and that these systems are subject to review by both the council's internal audit section and the council's external auditor. The Treasurer has taken assurance from this work in forming his opinion on the internal financial control system. The statement complies with accounting requirements and is consistent with the findings of our audit.

Remuneration report

12. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2010/11 financial statements include all eligible remuneration for the relevant Partnership officers and elected members.

Accounting issues

Accounts submission

13. The Partnership's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Audited accounts were finalised by the target date of 30 September 2011 and are now available for presentation to members and publication.

Presentational and monetary adjustments to the unaudited financial statements

14. 2011 is the first year that the local authority accounting code is based on international financial reporting standards (IFRS) and this has resulted in a significant change in the way the accounting statements require to be presented. In my 2010/11 Annual Audit Plan I highlighted that *'it is essential that the Partnership ensures that its financial statements work programme and templates have been updated to reflect all the relevant changes in presentation and disclosure in the 2010/11 financial statements, in particular those related to the application of IFRS.'* In response, officers confirmed that *'plans are in place to produce IFRS compliant accounts by 27 June 2011. Given the size of the Partnership, a separate opening balance sheet and shadow accounts will not be prepared.'* Despite this assurance, the unaudited accounts submitted for audit required significant change to make them compliant with the 2010 Code and improve their presentation.
15. IFRS requires that the liability resulting from employees' untaken annual leave entitlement and flexitime balances (referred to as accumulated absences) be recognised in the financial statements. Although the unaudited accounts did include adjustments for accumulated absences, these had not been dealt with correctly resulting in the understatement of the 2010/11 surplus on the Comprehensive Income and Expenditure Statement by £4,000, the understatement of creditors by £4,000 and the understatement of unusable reserves by £4,000. Prior year comparative figures were also similarly misstated. The Partnership adjusted the unaudited financial statements to correct these misstatements.

Refer action plan no. 1

Outlook

Audit appointment for 2011/12

16. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants, for a five year term. 2010/11 is the last year of the current audit appointment and we would like to thank officers and members for their assistance during the last five years. The procurement process for the next five years was completed in May 2011. From next year (2011/12) the Accounts Commission has appointed a new audit team from Deloitte to audit the Partnership.

Financial position

17. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
18. As auditors we consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
19. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

20. The Partnership's operating expenditure in 2010/11 was £3.938 million, an underspend of £96,000 (2.4%) against budget. The majority of this underspend relates to lower than expected expenditure on Regional Transport Strategy projects. Actual income was £59,000 (1.5%) greater than budget resulting in a £155,000 surplus for the year.
21. The Partnership is required to achieve a break-even position year on year in accordance with the requirements of the Transport (Scotland) Act 2006 for Regional Transport Partnerships. As a result, the Partnership will return this £155,000 surplus to its constituent authorities and this amount is netted of the requisitions and non-specific grant income figure included in the Comprehensive Income and Expenditure Statement.
22. The Partnership's operating expenditure (£3.938 million) differs from the Net Cost of Services disclosed in the Comprehensive Income and Expenditure Statement of £3.893 million by £45,000. This is because reports prepared for the Partnership's monitoring purposes are prepared on a different basis from the accounting policies used in the financial statements. Note 15 to the accounts, which reconciles the figures in the budget monitoring report to the figures in the Comprehensive Income and Expenditure Statement, shows that this difference relates to the inclusion of £41,000 of sales and other income within Net Cost of Services and the accumulated absences accrual (£4,000).

Outlook

2011/12 budget

23. The Partnership, like all public sector organisations, faces a very challenging financial climate. Grant-in-Aid for 2011/12 is down 15%, from £920,000 in 2010/11 to £782,000 and revenue contributions from constituent authorities have also decreased by 5%. The budget for works to deliver the Regional Transport Strategy has remained at last year's level, a decrease of £271,000 on the original delivery plan.

Corporate governance

Introduction

24. In this section we comment on key aspects of the Partnership's governance arrangements during 2010/11.

Overview of arrangements in 2010/11

25. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviour at the upper levels of the organisation. The Partnership has a responsibility to put arrangements in place for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.
26. The Partnership has many aspects of a sound corporate governance framework in place, including Standing Orders, Financial Regulations, a Partnership Protocol, and a register of members' interests. In our view, the policies in place are commensurate with the size of the organisation. The Partnership should, however, periodically review its policies to ensure that they address any future legislative requirements.

Working of the Partnership Board

27. The Partnership has a Board in place, which consists of 8 members representing the constituent authorities and 5 members from external bodies under the Nolan rules. All members have voting rights on transport strategy related issues but only members representing the constituent authorities can vote on financial matters. The Board meets approximately every two months. Members work effectively together and with officers to deliver on the Partnership's objectives.

Systems of internal financial control

28. It is the responsibility of the Partnership's management to maintain adequate financial systems and associated internal controls. The auditor evaluates significant internal financial control systems for the purpose of giving an opinion on the financial statements and as part of a review of the adequacy of governance arrangements.
29. As noted at paragraph 11, the Partnership's financial transactions are processed through Aberdeenshire Council's financial systems. Our review of these systems was conducted as part of the audit of Aberdeenshire Council, supplemented by specific audit work on the Partnership's financial statements. Overall, there are no material issues of concern in relation to the operation of the main financial systems.

30. We have highlighted in previous years that although the Partnership has a separate nominal ledger, payments are still processed through the Aberdeenshire Council payments ledger. In our view, there is a risk that Partnership transactions may not be properly reflected within the financial ledger, which could result in the misstatement of the Partnership's financial position within the financial statements. As part of our 2010/11 audit, we requested and received written confirmation from the Treasurer that all material agreements and transactions undertaken by the Partnership were properly reflected in the 2010/11 financial statements. In addition, the Treasurer has confirmed that the position will continue to be monitored and corrective action taken as necessary.

Prevention and detection of fraud and irregularities

31. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
32. The Partnership has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: adoption of Aberdeenshire Council's policy for the prevention of fraud and corruption; and a code of conduct for members.

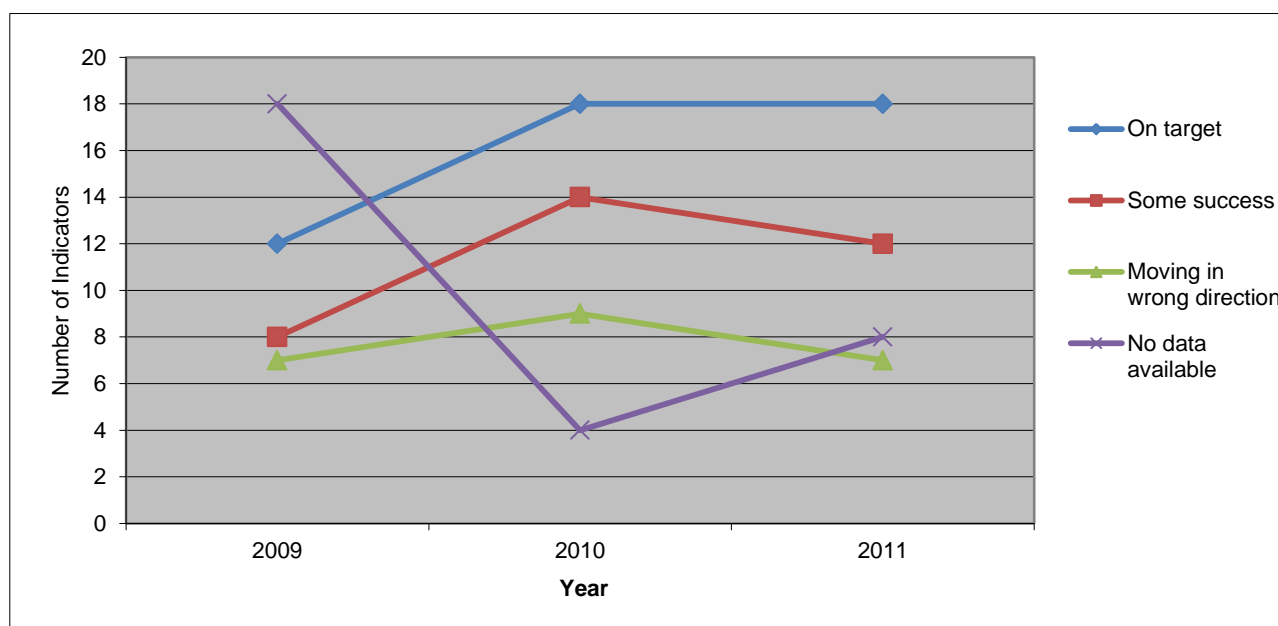
Performance management

33. In this section we comment on the Partnership's approach to performance management.

Regional Transport Strategy

34. The Regional Transport Strategy spans a period of 15 years from 2007 to 2021. Annual performance monitoring reports are submitted to the Partnership Board setting out progress made against 45 indicators for which targets have been set. The Partnership also monitors performance in a further 9 indicators to obtain an understanding of the changing nature of transport in the area.
35. The 2010 performance monitoring report highlights performance using a 'traffic light system' where green means indicators are on target, yellow means indicators with some success, and red means the indicators are moving in the wrong direction. Exhibit 1 summarises performance against these 45 targets in the past three years.

Exhibit 1: Regional Transport Strategy Performance Indicators



Source: NESTRANS Regional Transport Strategy annual monitoring report

36. Overall, performance has been mixed compared with last year. The number of indicators on target remains static at 18 (40%) whilst the number of indicators with some success has dropped to 12 (27%) from 14 (31%) and the number moving in the wrong direction has also dropped to 7 (15%) from 9 (20%). The number of indicators where no data is available has increased from 4 (9%) to 8 (18%).

37. The annual monitoring report contains performance information under each of the Strategy's four strategic themes. Key statistics and trends reported include:
- rail patronage continues to grow across all stations in the north east. Since 2004/05, passenger numbers have seen an increase of 63% whereas the increase in miles travelled has increased by only 23% in the same period. This indicates that shorter, more local rail trips are becoming more prevalent compared to longer distance inter-city journeys
 - road casualty statistics show a decrease of 18% in all road casualties in the north east since the 2004/08 baseline. A 15% reduction in the number of deaths in road traffic collisions has been seen over the same period
 - a key objective of the Regional Transport Strategy is to reduce growth in traffic. Traffic levels grew by around 18% in the decade 1993 to 2003 but this growth reduced to 6% in the decade 1999 to 2009.

Outlook

38. Delivery of the Regional Transport Strategy will be challenging given the financial pressures faced in the public sector.

Appendix: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para. No.	Risk Identified	Management Response and Planned Action	Responsible Officer	Target Date
1	14 & 15	<p>Financial statements</p> <p>The adjustment for accumulated absences was not correctly accounted for in the financial statements submitted for audit.</p> <p>The unaudited required significant change to make them compliant with the 2010 Code and improve their presentation.</p> <p><i>Risks: potential misstatement of the financial position of the Partnership. If material amounts are involved, the accounts may be qualified.</i></p> <p><i>Failure to prepare accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom may result in the accounts being qualified.</i></p>	<p>The Annual Accounts process is currently being reviewed to consider how this can be improved. This will include a review of staffing and a need for further training in this area.</p>	Treasurer	31 March 2012