

North East of Scotland Transport Partnership

Report to Members and the Controller of Audit on the 2008/09 Audit

October 2009



 AUDIT SCOTLAND

North East of Scotland Transport Partnership

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Audit**

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Introduction

1. This report summarises the findings from our 2008/09 audit of the North East of Scotland Transport Partnership. The scope of the audit was set out in our Annual Audit Plan issued in January 2009.
2. 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 give a true and fair view of its financial position and the income and expenditure for the year.
3. The members and officers of the Partnership are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
 - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed
 - the Partnership's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests
 - the Partnership has adequate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability
 - the systems of internal control provide an appropriate means of preventing or detecting material misstatement, error, fraud or corruption
 - the Partnership has proper arrangements for securing best value in its use of resources.



Financial statements

Introduction

4. In this section we summarise key outcomes from our audit of the Partnership's financial statements for 2008/09. We also summarise key aspects of the Partnership's reported financial position and performance to 31 March 2009.
5. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of the Partnership and its expenditure and income for the year
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
6. We also review the Statement on the System of Internal Financial Control by considering the adequacy of the process put in place by the Partnership to obtain assurances on systems of governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the Partnership.

Issues identified during the financial statements audit

7. We have given an **unqualified** opinion on the financial statements of the North East of Scotland Transport Partnership for 2008/09. Two errors identified during the audit have been corrected in the audited financial statements and there are, therefore, no unadjusted misstatements to bring to the attention of members. Audited accounts were finalised by the target date of 30 September and are now available for presentation to the Partnership and publication.
8. The Partnership is required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the 'SORP'). Overall, we were satisfied that the Partnership prepared its financial statements in accordance with the 2008 SORP. There are, however, a couple of matters arising regarding the preparation and submission of the accounts which require to be brought to members' attention:
 - the unaudited financial statements were not submitted to the Controller of Audit by the statutory deadline of 30 June 2009. We have been advised that this was due to a misunderstanding of the process and that financial statements will be submitted by the due date in future years
 - a number of changes were made to the financial statements submitted for audit to improve their presentation.

Action plan no. 1



Financial position

Operating performance 2008/09

9. The Partnership's net operating expenditure in 2008/09 was £4.971 million. This was met by partners' contributions of £0.6 million, grants totalling £3.781million from the Scottish Government and other income of £0.047 million, resulting in an income and expenditure account deficit of £0.543 million which will be met by additional partner contributions.
10. The Treasurer summarises performance against budget in the Explanatory Foreword to the accounts. Although actual expenditure was £0.325 million (6%) less than budget due to slippage in a number of projects, income was £0.868 million (16%) less than budget due to outstanding partner contributions, resulting in the overall deficit (£0.543 million) reported in the financial statements.

Legality

11. Each year we request written confirmation from the Treasurer that the Partnership's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The Treasurer has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of other senior officers, the financial transactions of the Partnership were in accordance with the relevant legislation and regulations governing its activities.
12. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

IFRS adoption

13. Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2010/11. Although some aspects of IFRS have already been adopted, 2009/10 is a key year in the transition to IFRS with local government bodies expected to prepare a comparative balance sheet as at 1 April 2009. The Partnership needs to ensure it has plans in place to enable it to comply with the new requirements of IFRS.

Action plan no. 2



Governance

Introduction

14. In this section we comment on key aspects of the Partnership's governance arrangements during 2008/09.

Overview of arrangements in 2008/09

15. 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 in place arrangements 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. 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.

Statement on the system of internal financial control

16. A Statement on the System of Internal Financial Control is included within the annual financial statements, and highlights 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 failure identified that could have a material effect on the operations of the Partnership.
17. 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 not inconsistent with the findings of our audit.

Systems of internal control

18. The Partnership's financial transactions are processed through Aberdeenshire Council's financial systems. It is the responsibility of the Partnership's management to maintain adequate financial systems and associated internal controls. The auditor evaluates significant financial systems and associated internal controls both for the purpose of giving an opinion on the financial statements and as part of a review of the adequacy of governance arrangements.
19. 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.



20. We highlighted last year that the Partnership was set up as a cost centre within Aberdeenshire Council's financial ledger and not as a separate organisation. Although we have been advised that the Partnership now 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, resulting in the misstatement of the Partnership's financial position within the financial statements. As part of our 2008/09 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 2008/09 financial statements. We have been advised that finance staff are currently investigating setting the Partnership up as a separate organisation within Aberdeenshire Council's financial ledger.

Action plan no. 3

Prevention and detection of fraud and irregularities

21. 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.



Final remarks

22. The members of the North East of Scotland Transport Partnership are invited to note this report. We would be pleased to provide any additional information that members may require.
23. The co-operation and assistance given to us by officers of the Partnership is gratefully acknowledged.

Audit Scotland
October 2009



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	8	<p>Submission of unaudited financial statements</p> <p>The unaudited financial statements were not submitted to the Controller of Audit by the statutory deadline of 30 June 2009.</p> <p>Risk: the Partnership will fail to meet the statutory deadline for the submission of the 2009/10 unaudited financial statements.</p>	<p>The unaudited financial statements were submitted to the local audit team in Aberdeen prior to 30th June. However, due to a misunderstanding a copy was not submitted to the Controller of Audit by the due date. This situation will not be repeated in the future.</p>	Treasurer	30 June 2010
2	13	<p>Adoption of International Financial Reporting Standards (IFRS)</p> <p>2009/10 is a key year in the transition to IFRS, with local government bodies expected to prepare a comparative balance sheet as at 1 April 2009.</p> <p>Risk: the Partnership will be unable to produce IFRS compliant financial statements within the required timescales.</p>	<p>Aberdeenshire Council is well advanced in its preparations for IFRS, and has employed external advisors in conjunction with most other Scottish councils. The work undertaken for the Council will be transferred to the Partnership to ensure full compliance with the new accounting requirements.</p>	Treasurer	31 March 2010
3	20	<p>Systems of Internal Control</p> <p>NESTRANS is set up as a cost centre within Aberdeenshire Council's financial ledger and not as a separate organisation.</p> <p>Risk: NESTRANS transactions may not be properly reflected within the financial ledger, resulting in the misstatement of the Partnership's financial position within the financial statements.</p>	<p>NESTRANS now has a separate nominal ledger, however, payments are still processed through the Aberdeenshire Council payments ledger. The small number of transactions mitigates the risk that has been highlighted. The position will continue to be monitored and action taken if this is deemed to be necessary.</p>	Treasurer	31 March 2010