

North East of Scotland Transport Partnership

Report to Board Members and the Controller of Audit on the
2009/10 Audit

October 2010



 AUDIT SCOTLAND

NORTH EAST OF SCOTLAND TRANSPORT PARTNERSHIP

Report to Members and the Controller of Audit on the 2009-10 Audit

Contents

Introduction	1	Final remarks	7
Financial statements	2	Appendix: Action Plan	8
Governance	5		



Introduction

1. This report summarises the findings from our 2009/10 audit of the North East of Scotland Transport Partnership. The scope of the audit was set out in our Annual Audit Plan issued in April 2010.
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

4. 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.
5. In this section we summarise key outcomes from our audit of the Partnership's financial statements for 2009/10. We also summarise key aspects of the Partnership's reported financial position and performance to 31 March 2010 and provide an outlook on future financial reporting issues.

Issues identified during the financial statements audit

6. We have given an **unqualified** opinion on the financial statements of the North East of Scotland Transport Partnership for 2009/10, concluding that they:
 - give a true and fair view of the financial position of the Partnership and its income and expenditure for the year then ended; and
 - have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
7. Two errors identified during the audit were corrected in the audited financial statements. As is normal practice, the Treasurer decided not to amend the financial statements for a further two immaterial errors and these were set out in our ISA 260 '*Communication of audit matters to those charged with governance*' report which was submitted to the Partnership Board on 25 August 2010. These errors are not material to the financial statements and we agree with the Treasurer's decision not to amend for them.
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 2009 SORP. There were, however, some changes made to the financial statements submitted for audit to improve their presentation.
9. The unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Final accounts preparation procedures and working papers were generally satisfactory and this enabled the audit to progress smoothly. Audited accounts were finalised in advance of the target date of 30 September and are now available for presentation to the Partnership Board and publication.



Financial position

Operating performance 2009/10

10. The Partnership's net operating expenditure in 2009/10 was £4.549 million. This was met by partner contributions of £0.285 million, grants totalling £4.093 million from the Scottish Government and other income of £0.053 million, resulting in an income and expenditure account deficit of £0.118 million which will be met by additional partner contributions.
11. The Treasurer summarises performance against budget in the Explanatory Foreword to the accounts. Actual expenditure was £0.206 million (4.7%) more than budget due to a number of projects which had slipped in 2008/09 being completed in 2009/10. This was partially offset by actual income being £0.088 million (2.0%) greater than budget due to additional investment and Travel Plan income, resulting in the overall deficit (£0.118 million) reported in the financial statements.

Legality

12. 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. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

National economic conditions

13. The UK economy is in its longest recession on record and the public sector is now facing deep and prolonged cuts in funding. At a UK level, real term reductions of 2.3 per cent each year are projected for Departmental Expenditure Limit (DEL) budgets between 2011 and 2014. Current forecasts are that any real term growth in public spending over the next two spending review periods (2011 to 2018) will continue to be constrained and will not return to the levels seen over the last decade.
14. Whilst the Scottish Government has implemented an economic recovery programme to support the economy through this period of decline, demand for public services continues to rise adding to the ongoing strain on public sector resources. The Partnership will not be immune to these financial pressures and will need to identify ways of delivering services in light of future funding constraints.



International Financial Reporting Standards (IFRS) adoption

15. Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2010/11. Although there are no formal deadlines in advance of 30 June 2011 when the 2010/11 accounts are due, the early production of a restated opening balance sheet and shadow accounts is accepted good practice.

16. Last year, we were advised that the Partnership planned to rely on transferring the work undertaken for Aberdeenshire Council to ensure its full compliance with the new accounting requirements. There has, however, been significant slippage in Aberdeenshire Council's timetable for the move to IFRS and this may impact on the Partnership's ability to meet the new requirements in 2010/11.

Key risk area 1



Governance

Introduction

17. In this section we comment on key aspects of the Partnership's governance arrangements during 2009/10.

Overview of arrangements in 2009/10

18. 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. 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

19. 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 failures identified that could have a material effect on the operations of the Partnership.
20. 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

21. 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.



22. As noted above, 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.
23. We highlighted last year 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, resulting in the misstatement of the Partnership's financial position within the financial statements. As part of our 2009/10 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 2009/10 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

24. 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

25. 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.
26. Attached is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of members. In response, officers have considered the issues and have agreed to take the specific steps set out in the column headed 'planned management action'. On occasion, officers may choose to accept the risk and take no action. Alternatively, there may be no further action that can be taken to minimise the risk. Where appropriate, the action plan clearly sets out management's response to the identified risks.
27. The co-operation and assistance given to us by officers of the Partnership is gratefully acknowledged.

Audit Scotland
October 2010



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	16	<p>Adoption of International Financial Reporting Standards (IFRS)</p> <p>Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2010/11. The Partnership needs to ensure it has plans in place to enable it to comply with the new requirements of IFRS in 2010/11.</p> <p><i>Risk: the Partnership will be unable to produce IFRS compliant financial statements within the required timescales.</i></p>	<p>Steps are being taken to ensure that all necessary work is undertaken by the required date.</p>	Treasurer	31 March 2011

