

North East of Scotland Transport Partnership

Report to Members and the Controller of Audit on the 2006/07 Audit

8 October 2007



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Introduction

1. This report summarises the findings from our 2006/07 audit of the North East of Scotland Transport Partnership. The scope of the audit was set out in our audit fee letter issued on 1 February 2007.
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 present fairly 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 2006/07. We also summarise key aspects of the Partnership's reported financial position and performance to 31 March 2007.
5. We audit the financial statements and give an opinion on:
 - whether they present fairly the financial position of the Partnership and its expenditure and income for the year; and
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
6. We also review the Statement of Assurance 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.

Overall conclusion

7. We have given an **unqualified** opinion on the financial statements of the North East of Scotland Transport Partnership for 2006/07.
8. The unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. We found that financial statement preparation processes and working papers were generally satisfactory.



9. 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’). The SORP requires all bodies to provide an objective analysis for the presentation of the income and expenditure account. As stated in the notes to the accounts the presentation of the income and expenditure account has not followed the generally accepted format in the SORP. We acknowledge that guidance on the presentation of the income and expenditure account was unavailable at the time the financial statements were prepared. We would suggest the format of the income and expenditure account is reviewed prior to the preparation of the 2007/08 financial statements to ensure compliance with the SORP. In our view, although the analysis is inconsistent with the SORP the financial statements present fairly the financial position at 31 March 2007.

Action point 1

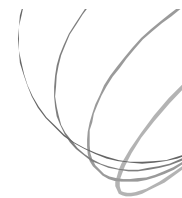
Financial position

Revenue performance 2006/07

10. The Board’s net cost of services for 2006/07 amounted to £3,373,833. This was met by partners’ contributions of £345,384, specific grants of £2,989,307 from Scottish Executive or Transport Scotland and interest of £39,142.
11. The Treasurer summarises performance against budget in the Explanatory Foreword to the financial statements. Overall there was an underspend of £673,137 against a budget of £4,046,970 (16.6%). The Treasurer indicated the major part of the underspend was attributable to delays in the general programme of works due to uncertainty over the ability of the Partnership to recover VAT, delays in agreeing the overall project plan with the Scottish Executive and delays with design and tender issues on specific projects. The need for appropriate project management and communication arrangements to ensure the full programme of planned expenditure is delivered within timescale is also referred to in paragraph 22 of this report.

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



Governance

Introduction

14. In this section we comment on key aspects of the Partnership's governance arrangements during 2006/07.

Overview of arrangements in 2006/07

15. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviours 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.
16. A Statement of Assurance is included within the financial statements, and highlights the Chair's and Director's view that reasonable assurance can be placed upon the adequacy and effectiveness of the Partnership's control system.
17. 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 Council'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. As part of our audit we found that NESTRANS was set up as a discrete range of cost centres within Aberdeenshire Council's financial ledger and not as a separate organisation. In our view there is a risk with this arrangement that the financial results of NETRANS could be incorporated erroneously within Aberdeenshire Council's financial statements.

Action point 2



21. The financial statements show NESTRANS had a bank balance of £3.266 million at 31 March 2007. Note 13 to the financial statements states this was due to Aberdeenshire Council paying expenditure on behalf of NESTRANS. The note also indicates Aberdeenshire Council was reimbursed early in the 2007/08 financial year. The Treasurer has given us an assurance that appropriate arrangements are now in place to prevent a recurrence.

Statement of assurance

22. The statement of assurance highlights two areas the Board requires addressing in the 2007/08 financial year. These are:
- undertaking a full risk analysis and develop an action plan for the four key areas of risk to the Board, i.e. community focus, service delivery, structures and processes;
 - ensuring that appropriate project management and communication arrangements are in place between NESTRANS and the two supporting Councils to enable the full programme of planned expenditure to be delivered within timescale.
23. Officers of NESTRANS indicated the proposed completion dates for addressing the above weaknesses are March 2008 and December 2007 respectively.

Prevention and detection of fraud and irregularities

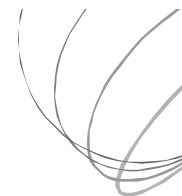
24. The Partnership does not have in place its own arrangements for the prevention and detection of fraud and corruption, but complies with the relevant policies of Aberdeenshire Council.



Final Remarks

25. Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of the Board. The action plan sets out management's response to the identified risks.
26. The members of 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.
27. The co-operation and assistance given to us by officers of the Partnership is gratefully acknowledged.

Audit Scotland
8 October 2007



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
1	9	<p>Financial statements</p> <p>The Statement Of Recommended Practice (SORP) requires all bodies to provide an objective analysis in the income and expenditure account. As stated in the notes to the accounts the presentation of the income and expenditure account has not followed the generally accepted format in the SORP. I would suggest the format of the income and expenditure account is reviewed prior to the preparation of the 2007/08 financial statements to ensure compliance with the SORP.</p> <p><i>Risk: the financial statements do not comply with accounting requirements.</i></p>	<p>In our view there are a number of areas where the format of the SORP is inappropriate for transport partnerships which are different from local authorities in the nature and type of transactions they undertake.</p> <p>We will raise this issue at a national level so that a standard format is agreed for the 2007/08 financial statements.</p>	Head of Finance (Accountancy and Corporate)	March 2008
2	20	<p>Systems of internal control</p> <p>As part of our audit we found that NESTRANS was set up as a discrete range of cost centres within Aberdeenshire Council's financial ledger and not as a separate organisation.</p> <p><i>Risk: the financial results of NETRANS could be incorporated erroneously within Aberdeenshire Council's financial statements.</i></p>	<p>In our view there is no risk in continuing the existing practice although we will keep it under review.</p>	Head of Finance (Accountancy and Corporate)	March 2008