

# North East Scotland Transport Partnership

Report to Members and the Controller of audit on the 2007/08 Audit



October 2008





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# Introduction

1. This report summarises the findings from our 2007/08 audit of North East Scotland Transport Partnership (NESTRANS). The scope of the audit was set out in our annual audit plan issued on 26 February 2008.
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 2007/08. We also summarise key aspects of the partnership's reported financial position and performance to 31 March 2008.
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
  - 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 North East Scotland Transport Partnership for 2007/08.
8. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice* (the 'SORP'). The 2007 SORP required a number of significant changes to be made to the 2007/08 financial statements to make them more consistent with the accounts of other public and private sector entities. The major changes included:
  - accounting for financial instruments based on financial reporting standards FRS 25, FRS 26 and FRS 29
  - replacing the fixed asset restatement account and capital financing account by a revaluation reserve and a capital adjustment account.





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.
10. We acknowledge that guidance on the presentation of the income and expenditure account was unavailable at the time the financial statements were prepared and audited. We would suggest the format of the income and expenditure account is reviewed prior to the preparation of the 2008/09 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 2008.

#### **Action point 1**

## **Financial position**

11. The partnership's net operating expenditure in 2007/08 was £3.974 million. This was met by partners' contributions of £0.937 million, specific grants of £3.025 million from Scottish Government or Transport Scotland and other income of £0.012 million.
12. The Treasurer summarises performance against budget in the explanatory foreword to the financial statements. Overall there was underspending of £0.458 million against a budget of £4.544 million (10%). The Treasurer indicated this was despite works being un-expectedly charged to NESTRANS by partners for transport interchange project works. The need to enhance existing budget monitoring arrangements was recognised in the statement of assurance and is referred to in paragraphs 21 and 22 of this report.

## **Legality**

13. 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.
14. There are no additional legality issues arising from our audit which require to be brought to the partnership's attention.



# Governance

## Introduction

15. In this section we comment on key aspects of the partnership's governance arrangements during 2007/08.

## Overview of arrangements in 2007/08

16. 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. The partnership has many aspects of a sound corporate governance framework in place.

## Internal audit

17. Internal audit plays a key role in the partnership's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. The partnership's internal audit service is provided by Aberdeenshire Council.
18. In December 2006, CIPFA published a revised *Code of Practice for Internal Audit in Local Government*, which updated the previous 2003 code. We carry out an annual review of the partnership's internal audit arrangements and found that, during 2007/08, the internal audit service continued to operate in accordance with the code.
19. Reports issued by internal audit are reviewed and considered as part of our audit. We concluded that there were no reports issued by internal audit on which we wished to place reliance in arriving at our opinion on the financial statements.



## Statement of Assurance

20. A statement of assurance is included within the annual financial statements, and draws attention to the view of the Partnership Chair and Director that reasonable assurance can be placed upon the adequacy and effectiveness of the partnership's control system.
21. The statement of assurance highlights four areas the partnership requires to address in the forthcoming financial year. These are:
  - project progression
  - the formalisation of key documents such as service agreements
  - enhancements to the existing budget monitoring and treasury management arrangements
  - the development and testing of risk registers and contingency plans.
22. All recommendations have either been accepted by the NESTRANS management team or satisfactory responses have been made to the Chief Internal Auditor of Aberdeenshire Council.
23. The statement complies with accounting requirements and is consistent with the findings of our audit.

## Systems of internal control

24. 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.
25. 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 council's main financial systems.



26. As part of our audit we found that NESTRANS was set up as a cost centre within the balance sheet of Aberdeenshire Council's financial ledger and not as a separate organisation. In the course of our audit we identified that problems were encountered with transactions in this cost centre. Although the problem was subsequently resolved the balance sheet was adjusted by £0.885 million to correct a material misstatement in the draft financial statements and this increased the contributions due from constituent authorities at 31 March 2008. The current accounting arrangements require review to prevent a recurrence in 2008/09.

**Action point 2**



# Final Remarks

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

**Audit Scotland**  
**30 October 2008**



# Appendix: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
1	10	<p><b>Financial statements</b></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.</p> <p><b><i>Risk: the financial statements may not comply with accounting requirements.</i></b></p>	<p>We will continue to raise this issue at a national level so that a standard format is agreed for the 2008/09 financial statements.</p>	<p>Head of Finance (Accountancy and Corporate)</p>	<p>March 2009</p>
2	26	<p><b>Systems of internal control</b></p> <p>The Treasurer should set up NESTRANS as a separate organisation within Aberdeenshire Council's financial ledger.</p> <p><b><i>Risk: the financial position of NESTRANS may be incorrectly stated in the 2008/09 financial statements.</i></b></p>	<p>We will review the need to set up NESTRANS as a separate organisation within Aberdeenshire Council's financial ledger to prevent a recurrence of the problems encountered in 2007/08.</p>	<p>Head of Finance (Accountancy and Corporate)</p>	<p>December 2008</p>