

# South East of Scotland Transport Partnership

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the South East of Scotland Transport and the Controller of Audit  
September 2023

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# Key messages

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## 2022/23 annual accounts

- 1** The financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- 2** The audited part of the remuneration report, management commentary and the annual governance statement were properly prepared in accordance with the applicable requirements.
- 3** We have reported one significant finding from the audit, relating to recognition of the pension asset.

## Wider scope

- 4** The partnership has a medium-term financial plan in place but faces significant financial pressure in future years
- 5** The partnership has arrangements in place for securing Best Value but there is scope to improve how performance is presented.

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# Introduction

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**1.** This report summarises the findings from the 2022/23 annual audit of the South East of Scotland Transport Partnership (the partnership). The scope of the audit was set out in an Annual Audit Plan presented to the 3 March 2023 meeting of the Performance and Audit Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of the partnership's annual accounts
- conclusions on wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#), which for less complex bodies includes conclusions on financial sustainability and Best Value

**2.** This report is addressed to the partnership and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

## Responsibilities and reporting

**3.** The Partnership has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The partnership is also responsible for compliance with legislation putting arrangements in place for governance and propriety.

**4.** The responsibilities of an independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK.

**5.** The weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

## Auditor Independence

**6.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £11,850 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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# Part 1. Audit of 2022/23 annual accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship public funds.

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## Main judgements

The financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

The audited part of the remuneration report, management commentary and the annual governance statement were properly prepared in accordance with the applicable requirements.

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## Audit opinions on the annual accounts are unmodified

7. The board approved the annual accounts for the partnership for the year ended 31 March 2023 on 22 September 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.

## Overall materiality was assessed as £31,000

8. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the accounts, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

9. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

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## Exhibit 1

### Materiality values

Materiality level	Amount
Overall materiality	£31,000
Performance materiality	£23,000
Reporting threshold	£1,500

Source Audit Scotland

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10. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75% of overall materiality, reflecting on the low number of errors in the prior period.

11. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

## Significant findings and key audit matters

12. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to the Partnership Board, including our view about the qualitative aspects of the body's accounting practices.

13. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

14. We have one significant finding from the audit, which is summarised in [Exhibit 2](#). Other than the corrected material misstatement detailed as a significant finding in Exhibit 2, our audit identified no misstatements above our reporting threshold.

## Exhibit 2

### Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
<p><b>1. Pension asset reduction</b></p> <p>The pension liability/asset is an area of audit focus due to the material value and significant assumptions used within this complex calculation. In common with other local government pension scheme employers, Lothian Pension Fund commissions a firm of actuaries to value its pension liability and the accounting entries in the financial statements. The actuary reported that, as at 31 March 2023, the partnership had a funding <i>surplus</i> of £0.647 million.</p> <p>The surplus arose as a result of a significant increase to the net discount rate (discount rate net of CPI inflation) compared to the previous year, leading to a large gain on the balance sheet .</p> <p>Accounting standards impose a limit on the maximum amount of surplus which can be recognised on an employer's balance sheet. Given that the partnership is to continue to participate in the LGPS (Local Government Pension Scheme), it would be expected that this surplus could lead to lower future contributions rather than a refund of surplus. When this minimum funding obligation is considered, the asset was reduced to zero.</p>	<p>The annual report and accounts presented for audit disclosed a pension asset of £0.647 million. This was reduced to zero, with a corresponding adjustment to the pension reserve, for the final version of the accounts in line with the requirements of accounting standards.</p>

### Our audit work responded to the risks of material misstatement we identified in the annual accounts

**15.** We have obtained audit assurances over the identified significant risks of material misstatement to the annual accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

### There is scope to improve the management commentary to present a clearer picture of SEStran's performance over the year

**16.** The Local Authority Accounts (Scotland) Regulations 2014 require the annual accounts to include a management commentary prepared in accordance with statutory guidance. SEStran's annual accounts includes a narrative on financial performance to explain variances between the budget, actual spend and the

surplus or deficit at the end of the year. While the guidance allows flexibility in terms of the level of performance information included, there is an expectation that the commentary gives an overview of service performance in the year and the inclusion of relevant key performance indicators should enhance the service 'story'.

**17.** SEStran's budget and accounts differentiates between 'core' service funding, and external project funding. Although this provides important and useful context to how funds have been used, it is also necessary that a clear and understandable picture of performance is presented. Key aspects of the accounts, such as how an overall deficit or surplus was reached, or performance against budget, should be presented so it can be understood by a reader from a non-financial background. The revised accounts contains improved narrative to assist the reader in understanding performance. [Recommendation 1](#)

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## Recommendation 1

There is scope to improve the management commentary to provide a clearer narrative on performance during the year and be supported by financial and non-financial information

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### Exhibit 3

#### Identified significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>• Test journal entries with a focus on significant risk areas.</li> <li>• Consider any unusual material transactions identified through our audit testing for any evidence of management override of controls.</li> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Review accounting estimates for evidence of management bias including assessing any changes to the</li> </ul>	<ul style="list-style-type: none"> <li>• No issues were identified that indicate misstatements due to fraud caused by management override of controls.</li> <li>• Testing focussed on journal entries around the year-end that are open to management override of controls.</li> <li>• Audit testing of income and expenditure transactions confirmed they had been accounted for in the correct financial year</li> <li>• Accounting estimates did not vary significantly from the prior year and were consistently applied</li> </ul>

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Audit risk	Assurance procedure	Results and conclusions
	methods and underlying assumptions used.	<ul style="list-style-type: none"> <li>• Our testing of accruals and prepayments did not identify any errors.</li> </ul>
<p><b>2. Risk of material misstatement caused by fraud in expenditure</b></p> <p>The Code of Audit Practice expands the consideration of fraud under ISA 240 to include the risk of fraud over expenditure. There is a risk that expenditure may be materially misstated in the 2022/23 financial statements due to the extent and nature of the following significant expenditure streams:</p> <ul style="list-style-type: none"> <li>• Project-related expenditure</li> <li>• Other service expenditure</li> </ul>	<ul style="list-style-type: none"> <li>• Testing of expenditure transactions, focusing on the areas of greatest risk.</li> <li>• Review of budget monitoring reports focusing on significant budget variances.</li> <li>• Review of arrangements in place to detect and prevent fraud.</li> </ul>	<ul style="list-style-type: none"> <li>• Our testing of expenditure did not identify any errors and we found no significant transactions outside the normal course of business.</li> <li>• We reviewed the budget monitoring reports that are presented at each Committee meeting. We concluded that financial management reporting is accurate and appropriate.</li> </ul>

## The unaudited annual accounts were received in line with the agreed timetable

**18.** The unaudited annual accounts were received in line with our agreed audit timetable on 30 June 2023.

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# Part 2. Wider Scope

For less complex bodies wider-scope audit work considers the financial sustainability of the body and the services that it delivers over the medium to longer term, and the arrangements for securing Best Value

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## Conclusion

SEStran has a medium-term financial plan in place but faces significant financial pressure in future years

The partnership has arrangements in place for securing best value and the new regional transport strategy includes a set of performance indicators

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### **SEStran operated within its revised budget for 2022/23, reporting an overall accounting surplus of £0.034 million**

**19.** SEStran receives most of its funding income from the Scottish Government via Transport Scotland, and requisitions from constituent council members. The partnership also receives a significant proportion of income through securing externally-generated funding, including from EU grants.

**20.** The partnership approved its initial 2022/23 revenue budget in March 2022. Revenue grant funding of £0.782 million from Transport Scotland and requisitions from constituent councils of £0.190m remained at the same level as previous years. SEStran budgeted for external income of £0.554 million to fund approximately 36% of its project expenditure. Of this, £0.210 million of external income came from EU grant funding for projects due to be completed in 2023.

**21.** Overall, SEStran reported income of £2.121 million, consisting of £1.149 million projects income, £0.782 million government grant and £0.190 million requisition income from councils. The increase in projects funding was largely due to a significant increase received from the government's active travel fund. After accounting adjustments, SEStran reported an in-year surplus of £0.034 million.

### **SEStran has a medium-term financial plan and the partnership recognises the risk of reduced levels of external funding**

**22.** As we noted in our annual audit plan, SEStran recognises a significant risk around future financial sustainability. The partnership has a medium-term indicative financial plan which is revised annually and was last presented to the partnership board on 17 March 2023. The plan provides an analysis of the indicative budget through to 2025/26, taking account of factors such as pay

awards, planned project activity and core funding levels from government and council requisitions.

**23.** The most significant finance challenges, as noted in the partnership's own risk register, are constraints on additional income and the cessation of EU project funding. SEStran is actively engaged in lobbying for and securing new external funding opportunities, including alternatives to EU sources. There is a risk that after existing earmarked reserves are spent on agreed projects, SEStran may have to use reserves to meet core costs.

### **The new regional transport strategy 2025-35 has been approved, providing a long-term framework for the organisation**

**24.** SEStrans' Regional Transport Strategy (RTS) for 2025-2035 was approved by ministers in March 2023 and ratified by the partnership board. The RTS provides a long-term strategic framework for SEStran, addressing regional transport issues and setting out how the partnership proposes to respond over the longer term. The work was undertaken in consultation with stakeholders and the public.

**25.** Transport Scotland undertook a review of Regional Transport Partnership (RTP) grants and allocations during 2022/23. Whilst there is no change to RTP revenue grant funding for 2023/24 for SEStran, with core grant income remaining at the same level as previous years (£0.782 million), there is ongoing uncertainty due to the deferral of RTP grant re-allocation until 2024/25.

### **A contingent liability has been disclosed to address uncertainty around the GO e-bike project**

**26.** The accounts disclose a contingent liability relating to the liquidation of a service provider to the partnership's Go e-bike project, which is funded through the Low Carbon Travel and Transport Scheme (LCCT). The service provider has gone into liquidation, and officers are seeking to progress alternative provision with another provider. Ownership of the purchased bikes themselves from the liquidated supplier has now been transferred to SEStran, but further work is ongoing to establish if a third party provider will be able provide the technology to enable full provision of the service. We understand that SEStran is implementing lessons learned from the project including identifying improvements to its procurement processes.

### **SEStran has arrangements in place for securing best value and the new strategy includes a set of performance indicators**

Delivery of best value responsibilities is included as part of the partnership's business plan strategic 'governance' objective. The business plan links SEStran's objectives to current projects and the Scottish Government's National Transport Strategy priorities. Project updates are reported at each partnership board meeting, and a synopsis of individual project performance is also reported in the annual report.

**27.** The new Regional Transport Strategy sets out a range of organisational key performance indicators (KPIs) intended for monitoring and evaluation of the strategy. We will review how SEStran reports performance through these and other KPIs, including in the annual accounts, once this has been determined.

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# Appendix 1. Action plan 2022/23

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## 2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Presentation of key performance information</b></p> <p>There is scope to improve the management commentary to provide a clearer narrative on performance during the year and be supported by financial and non-financial information.</p>	<p>It is important that a clear and understandable picture of performance is presented, such as how an overall deficit or surplus was reached, or performance against budget. An overview of service performance in the year and the inclusion of relevant key performance indicators should enhance the service 'story'.</p> <p><a href="#">Paragraph 16</a></p>	<p>A review of information included in the management commentary will be undertaken for preparation of the 2023/24 Annual Accounts</p> <p>Treasurer and Partnership Director</p> <p>31 March 2024</p>

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# South East of Scotland Transport Partnership

## 2022/23 Annual Audit Report

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[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)



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