

South East of Scotland Regional Transport Partnership

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



October 2007



South East of Scotland Regional Transport Partnership

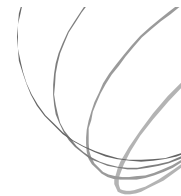
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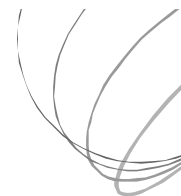
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Introduction

1. This report summarises the findings from our 2006/07 audit of the South East of Scotland Regional Transport Partnership (Sustran). The scope of the audit was set out in our audit plan issued in March 2007.
2. The financial statements of Sustran 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 Sustran to prepare financial statements that present fairly its financial position and the income and expenditure for the year.
3. The members and officers of Sustran 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;
 - Sustran'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;
 - Sustran's 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;
 - Sustran has proper arrangements for securing best value in its use of resources.



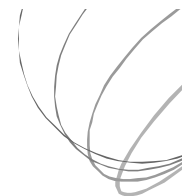
Financial statements

Introduction

4. In this section we summarise key outcomes from our audit of Sustran's financial statements for 2006/07. We also summarise key aspects of Sustran'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 Sustran 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 on the System of Internal Financial Control by considering the adequacy of the process put in place by Sustran 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 organisation.

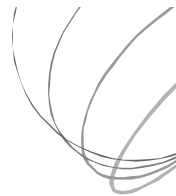
Overall conclusion

7. We have given an **unqualified** opinion on the financial statements of Sustran for 2006/07.
8. The unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Sustran is required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the 'SORP'). Final accounts preparation processes and working papers were satisfactory and this enabled the audit to progress smoothly. Audited accounts were finalised prior to the target date of 30 September 2007 and are now available for presentation to the Partnership Board and publication.



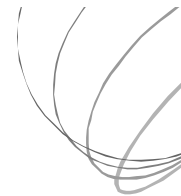
Financial position

9. In its first full year of operation, Sustran's gross revenue expenditure amounted to £10.6 million. This was largely met by funding from the Scottish Executive of £10.3 million and contributions from constituent councils of £0.250 million.
10. The Treasurer summarises performance against budget in the Foreword to the accounts. Overall the Partnership incurred an underspend of £50,000 which included a £37,000 underspend against the Travel Plan budget which is separately administered by the Scottish Executive. Together with interest of £99,000 received, the Partnership's underspend amounted to £112,000 compared with an approved carry forward of £108,500. The balance is therefore included within creditors on the balance sheet.
11. Also included within the Income and Expenditure Account are the results of grants received from the Scottish Executive for capital expenditure which are passed onto constituent councils for specific projects approved and monitored by the Partnership. As the Partnership is not incurring the actual expenditure on the projects and does not own any resultant asset, the activities are therefore properly reflected by inclusion in the Income and Expenditure Account.
12. Capital grant made available by the Scottish Executive totalled £9.6 million. Actual expenditure incurred was £9.2 million leaving £0.4 million which has been carried forward with the Scottish Executive's approval to allow for completion of these works in 2007/08.
13. The Partnership's balance sheet shows a net liability of £63,000. The negative balance reflects the pensions liabilities falling due in future years. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on financial statements. One of the indications that may give rise to going concern considerations is an excess of liabilities over assets.
14. The Partnership's statement of accounting policies confirm that it has been considered appropriate to adopt a going concern basis for the preparation of the financial statements as the constituent councils have a legal obligation to fund the net expenses of the Partnership. Future pension liabilities will therefore be met, as they fall due by contributions from constituent authorities in the normal way. We are satisfied that the process the Partnership has undertaken to consider going concern is reasonable.



Legality

15. We requested written confirmation from the Treasurer that Sestran accorded 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 Sestran were in accordance with the relevant legislation and regulations governing its activities.
16. There are no additional legality issues arising from our audit which require to be brought to members' attention.



Governance

Introduction

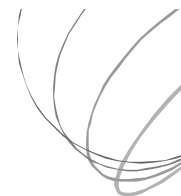
17. Sustran has published its Annual Report for 2006 -07 which sets out the Partnership's achievements for the year. Its main success being the development and submission of its Regional Transport Strategy to the Scottish Executive before the 31 March 2007 deadline. In addition, over the first year the management team were appointed and accommodation was leased to provide the new headquarters building.
18. In this section we comment on key aspects of Sustran's governance arrangements during 2006/07.

Overview of arrangements in 2006/07

19. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviours at the upper levels of the organisation. Sustran 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.
20. A Statement on the System of Internal Financial Control is included within the annual financial statements, and highlights the Treasurer's view that reasonable assurance can be placed upon the adequacy and effectiveness of Sustran's internal financial control system.
21. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.

Audit committee and internal audit

22. Effective scrutiny is central to good governance, with a significant role for board members to scrutinise performance and hold management to account. In February 2007, the Partnership approved the establishment of a Performance and Audit Committee which initially met in August 2007 but has yet to decide its proposed frequency and scheduling of meetings. The Partnership is to be commended for putting such arrangements in place so promptly and we will monitor the effectiveness of the committee as it develops. We will also be pleased to offer support by way of training and workshops as appropriate.



23. An internal audit service is provided by the City of Edinburgh Council's Chief Internal Auditor. From our review of the service, we found that the work is conducted in accordance with CIPFA's Code of Practice for Internal Audit in Local Government, that the audit plan was sufficient and that all work on which we planned to place reliance was completed and the relevant assurances obtained.

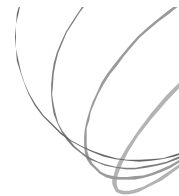
Systems of internal control

24. Sustran's financial transactions are processed through the City of Edinburgh's financial systems. It is therefore the responsibility of the Council's management to maintain adequate financial systems and associated internal controls. A Financial Rules Manual was developed for the Partnership which reflects the Partnership's financial regulations and existing arrangements with the City of Edinburgh Council. 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 City of Edinburgh Council, supplemented by specific audit work on Sustran's financial statements. Overall there are no material issues of concern in relation to the operation of the main financial systems.

Prevention and detection of fraud and irregularities

26. The Partnership has arrangements in place to prevent and detect fraud, inappropriate conduct and corruption. These arrangements include standing orders and financial regulations, a whistle blowing policy and codes of conduct for elected members and staff. While the Financial Rules Handbook directs anyone discovering fraud or irregularity to inform the Chief Internal Auditor who will make enquiries and take any action deemed appropriate, the Partnership does not yet have an anti-fraud and corruption policy and response plan. Steps should be taken to put such a policy in place which will strengthen the developing governance framework.

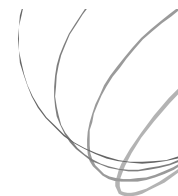
Key Risk Area, Action 1



Final Remarks

27. The members of the South East of Scotland Regional 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 Sustran and the City of Edinburgh Council is gratefully acknowledged.

Audit Scotland
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	26	<p>An anti-fraud and corruption policy and response plan should be developed to strengthen the Partnership's evolving corporate governance arrangements.</p> <p>Risk: The absence of such a policy increases the risk that fraud and inappropriate practices are not highlighted or dealt with appropriately.</p>			