

# South East of Scotland Transport Partnership

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



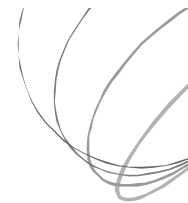
October 2008





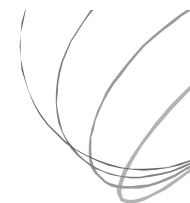
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# Introduction

1. This report summarises the findings from our 2007/08 audit of the South East of Scotland Transport Partnership (SEStran). The scope of the audit is set out in our Annual Audit Plan (AAP), which was submitted to the partnership in March 2008.
2. The financial statements of SEStran 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 Board to prepare financial statements that present fairly its financial position and the income and expenditure for the year.
3. The members and officers of SEStran are responsible for the management and governance of the partnership. 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
  - SEStran's system of recording and processing transactions provides an adequate base for the preparation of the financial statements and the effective management of assets and interests
  - SEStran 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
  - SEStran has proper arrangements for securing best value in its use of resources.



# Financial statements

## Introduction

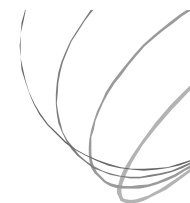
4. In this section we summarise key outcomes from our audit of SEStran's financial statements for 2007/08. We also summarise the key aspects of SEStran's reported financial position and performance to 31 March 2008.
5. We audit the financial statements and give an opinion on:
  - whether they present fairly the financial position of SEStran 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 on the system of internal financial control by considering the adequacy of the process put in place by SEStran to obtain assurances on systems of 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 SEStran for 2007/08.
8. The partnership's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. SEStran 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 by the target date of 30 September 2008 and are now available for presentation to the Partnership Board and publication.

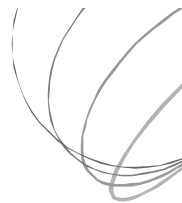
## Financial position

9. In the year to 31 March 2008, SEStran's gross revenue expenditure amounted to £16.3 million. This was largely funded by funding from the Scottish Government of £16.0 million and requisitions from constituent councils of £0.1 million.
10. The Treasurer summarises performance against budget in the Foreword to the accounts. Overall the partnership incurred an underspend of £41,000. This relates primarily to slippage on the revenue



projects budget which is funded by Scottish Government grant. This grant will be carried forward to 2008/09 to allow completion of the relevant projects.

11. The partnership received interest of £242,000 in 2007/08 which exceeded budget by £235,000. This enabled the partnership to reduce the net expenses to be met by constituent councils in 2007/08 from £300,000 to £70,000. The balance of £230,000 in respect of these unspent requisitions has been included within creditors in the balance sheet. The interest received arises from Scottish Government grant received in advance of need and placed on deposit with the City of Edinburgh Council's loans fund. The transfer of capital grant funding to local authorities means that this source of income will be substantially reduced in future years.
12. Also included in the income and expenditure account are the results of grants received from the Scottish Government 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 resulting asset, the activities are therefore properly reflected by inclusion in the income and expenditure account.
13. Capital grant made available by the Scottish Government totalled £14.8 million. Actual expenditure incurred was £14.6 million leaving £0.2 million. During the year SEStran entered into a temporary swap arrangement with Strathclyde Passenger Transport for £0.2 million. By agreement with all parties the Scottish Government top-sliced SEStran's grant award and transferred funds direct to SPT who used them in 2007/08. In 2008/09 the Scottish Government will reverse this transfer and the funds will be returned to SEStran where they are earmarked for a specific project. The transfer was made possible because this project had already been deferred and there was no impact on the completion of the project.
14. The partnership's balance sheet shows a net asset of £23,000. The change in this position from 31 March 2007 arises from movements in the valuation of pension fund assets and liabilities. At 31 March 2008, the pension fund had a surplus of assets over liabilities in respect of the pension liabilities falling due in future years. These valuations, however, represent a 'snapshot' of the position at the time of the valuation only and are subject to market volatility.
15. Auditing Standards require us to consider an organisation's ability to continue as a going concern when forming an opinion on the financial statements. The partnership's statement of accounting policies confirms that it has been considered appropriate to adopt a going concern basis for the preparation of the financial statements as the constituent councils have an obligation to fund the net expenses of the partnership. We are satisfied that the process the partnership has undertaken to consider going concern is reasonable.

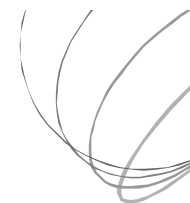


## Legality

16. 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.
17. There are no additional legality issues arising from our audit which require to be brought to members' attention.

## Future outlook

18. From 2008/09 onwards, the Scottish Government has decided to transfer regional transport capital grant funding from Regional Transport Partnerships to local authorities. This means that SEStran will have to work with partner local authorities to ensure that future capital projects are funded either through direct delivery by the partners or through pooled funding to SEStran.
19. In addition to the changes in the funding regime, the introduction of Single Outcome Agreements (SOAs) will have a significant impact on the activities of SEStran. The partnership will have a key role in supporting the delivery of the SOAs across the SEStran area and will need to ensure that it can fulfil this challenge with the available resources.



# Governance

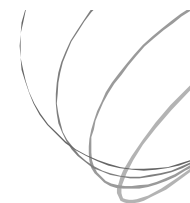
## Introduction

20. During 2007/08 SEStran has built on the successes of its first year with the approval of the Regional Transport Strategy and other supplementary guidance documents to provide guidance to partner authorities and contribute to developing consistency of service provision across the SEStran area, and the funding of a number of major projects. This has been achieved in a year that has seen significant change for SEStran through the Scottish Government decision to transfer the capital budget to local authorities along with the introduction of SOAs.
21. In this section we comment on key aspects of SEStran's governance arrangements during 2007/08.

## Overview of arrangements in 2007/08

22. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. SEStran 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.
23. 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 the system of internal financial control
24. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.
25. Effective scrutiny is central to good governance, with a significant role for board members to scrutinise performance and hold management to account. SEStran has established a Performance and Audit Committee to fulfil the scrutiny role. The Committee now meets regularly to review aspects of performance and considers reports covering a range of activities including internal and external audit, risk management and reports from the Legal Officer, in particular revisions to governance documents.
26. The 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.





27. The partnership has worked to further strengthen the governance framework through the adoption of an anti-fraud and corruption policy together with a fraud response plan. In January Board members were provided with training covering their role, SEStran's financial arrangements, and internal and external audit to assist them in fulfilling their roles.

## Systems of internal control

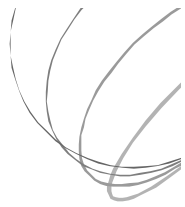
28. SEStran's financial transactions are processed through the City of Edinburgh Council's financial systems. It is therefore the responsibility of the Council's management to maintain adequate financial systems and associated internal controls. The auditor evaluates significant financial systems and associated 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.
29. Our review of these systems was conducted as part of the audit of City of Edinburgh Council, supplemented by specific audit work on SEStran's financial statements. Overall there are no material issues of concern in relation to the operation of the main financial systems.
30. We noted however that no formal Service Level Agreement (SLA) exists to define the relationship between the City of Edinburgh Council and the partnership. Such an agreement detailing the services to be provided, the standards to be delivered, performance indicators, legal compliance and procedures for the resolution of problems and/or disputes would enhance the governance of the partnership by allowing members to ensure that the service provided by the City of Edinburgh Council supports continuous improvement and best value. The City of Edinburgh Council would also benefit from having a clearly documented remit.

**Key Risk Area, Action 1**

## Future outlook

31. The change in funding arrangements and the introduction of SOAs will have a considerable impact on the way SEStran operates. In particular the spending priorities of partner local authorities may not coincide with those of SEStran, and may impact on the delivery of local and region wide transport initiatives. SEStran will need to ensure that its partnership working arrangements continue to support delivery of the Regional Transport Strategy.

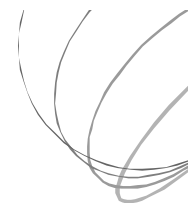
**Key Risk Area, Action 2**



# Final Remarks

32. The members of the South East Scotland Transport partnership are invited to note this report. We would be pleased to provide any additional information that members may require.
33. The co-operation and assistance given to us by officers of SEStran and the City of Edinburgh Council is gratefully acknowledged.

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



# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	30	<p><b>Service level agreement</b> There is no formal SLA between the partnership and the City of Edinburgh Council to define the relationship between the two parties.</p> <p><b>Risk: service provision may not adequately meet the needs of the partnership and may not support continuous improvement and best value.</b></p>	<p>Develop a SLA for financial services and agree with CEC.</p> <p>Develop a SLA for Legal services and agree with Fife Council.</p> <p>Develop a SLA for HR support services and agree with Falkirk Council.</p>	<p>Andrew Ferguson</p> <p>Andrew Ferguson</p> <p>Andrew Ferguson</p>	<p>March 2009.</p> <p>February 2009</p> <p>March 2009.</p>
2	31	<p><b>Funding regime</b> Changes to the funding regime and the introduction of SOAs will have a considerable impact on the way SEStran operates. In particular the spending priorities of partner local authorities may not coincide with those of SEStran, and may impact on the delivery of local and region wide transport initiatives</p> <p><b>Risk: local and region-wide transport initiatives which support the Regional Transport Strategy may fail to be delivered.</b></p>	<p>Project monitoring process agreed with Partner authorities.</p> <p>Implement regular project monitoring and report to SEStran Board every two months.</p> <p>Develop a comprehensive monitoring regime for the RTS cross referencing to LA SOAs, Corporate plans and LTSs and relating to targets in the RTS and Government national outcomes.</p> <p>Incorporate monitoring report in the Annual report submitted to the Board.</p> <p>Update the RTS delivery plan as part of the annual business plan.</p>	<p>Ian Mathie</p> <p>Ian Mathie</p> <p>Alastair Short</p> <p>Alastair Short</p> <p>Ian Mathie</p>	<p>August 2008</p> <p>October 2008</p> <p>March 2009</p> <p>August 2009</p> <p>February 2009</p>