

# South East of Scotland Transport Partnership

Report to Members and the Controller of Audit  
on the 2008/09 Audit

October 2009



 AUDIT SCOTLAND

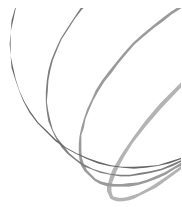


# South East of Scotland Transport Partnership

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# Introduction

1. This report is the summary of our findings arising from the 2008/09 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 January 2009.
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 those resources. It is the responsibility of the partnership board to prepare financial statements that give a true and fair view of its financial position and its 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 management 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.



# Financial statements

## Introduction

4. In this section we summarise key outcomes from our audit of the partnership's financial statements for 2008/09. We also summarise the key aspects of the partnership's reported financial position and performance to 31 March 2009.
5. We audit the financial statements and give an opinion on whether they:
  - give a true and fair view of the financial position of SEStran and its income and expenditure for the year
  - have been prepared 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 the partnership to obtain assurances on systems of internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the organisation.

## Audit opinion

7. We have given an unqualified opinion that the financial statements of SEStran for 2008/09.
8. The partnership's unaudited financial statements were submitted to the Controller of Audit by 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 2008 (the SORP). Financial statement preparation processes and working papers were satisfactory and this enabled the audit to progress smoothly.
9. The financial statements were certified by the target date of 30 September 2008 and are now available for presentation to members and publication. The financial statements are an essential means by which the partnership accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

## Financial position

10. In the year to 31 March 2009, the partnership's gross revenue expenditure amounted to £1.8 million (2007/08 - £16.3 million). This was largely met by Scottish Government grants of £1.3 million (2007/08 - £16.0 million) and requisitions from constituent councils of £0.3 million (2007/08 - £0.1 million). The



drop in these sums since the prior year reflects the Scottish Government's decision to transfer ring fenced grant funding to councils.

11. The Treasurer summarises performance against budget on the Foreword to the financial statements. Overall the partnership returned an underspend of £77,000. This relates primarily to slippage of £25,000 on the revenue projects budget and £38,000 on the travel plan budget both of which are funded by Scottish Government grant. The revenue projects grant underspend will be returned to the Scottish Government but the Scottish Government has given its approval for the £38,000 travel plan underspend to be carried forward to 2009/10.
12. The partnership received interest of £85,000 in 2008/09 which exceeded budget by £24,000. This, plus a core budget underspend of £15,000, enabled the partnership to reduce the net expenses to be met by constituent councils in 2008/09 from £315, 000 to £276,000. A balance of £269,000 in respect of unspent requisitions has been included within creditors in the balance sheet. £230,000 of this has been earmarked to be utilised as funding for the Regional Real Time Bus Passenger Information System. 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.
13. The partnership's balance sheet shows a net liability of £66,000. The change in this position from 31 March 2008 arises from movements in the valuation of pension fund assets and liabilities. At 31 March 2009 the pension fund had a deficit of £75,000 in respect of the pension fund 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.
14. Auditing standards require us to consider an organisation's ability to continue as a going concern when forming an opinion on 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 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. Through our planned audit work we consider the legality of the partnership's financial transactions. In addition the Treasurer confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the partnership's management team, the financial transactions of the partnership were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.



## Future outlook

### IFRS adoption

16. Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2010/11. Because local government has already adopted some aspects of IFRS, we expect the transition to be fairly smooth but it is important that the partnership starts the transition period in 2009/10. A comparative balance sheet as at 1 April 2009 will be required.

#### **Key risk area, Action 1**

17. Influenced by demographic, environmental and cost factors the demand for affordable and sustainable alternatives to existing forms of transport has been growing. The current economic climate however is impacting on this demand and the partnership will need to monitor closely the viability of planned projects to ensure that they still meet the needs of the South east of Scotland area.
18. The economic recession has had a major impact on the finances of local authorities and current projections are that constraints on public sector expenditure are likely to increase significantly as the Government attempts to reduce its debt burden. It is likely, therefore, that the partnership will face greater competition for funding as both the Scottish Government and constituent authorities seek to balance their priorities against their expenditure.



# Governance

## Introduction

19. The partnership continues to build on its successes in previous years. The Regional Transport Strategy has been reviewed in the light of revised funding arrangements and the partnership has been working with the Community Planning partnerships established by constituent councils to support the development of Single Outcome Agreements

## Overview of arrangements in 2008/09

20. 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.
21. A Statement on the System of Internal Control is included within the annual financial statements and highlights the Treasurers view that reasonable assurance can be placed upon the adequacy and effectiveness of the system of internal financial control.
22. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.
23. Effective scrutiny is central to good governance, with a significant role for board members to scrutinise performance and hold management to account. To be effective scrutiny should be balanced and proportionate.
24. For SEStran the scrutiny function is fulfilled by the Performance and Audit Committee. During 2008/09 the committee decided that, due to the volume of work it has, it should meet less frequently. Elected members' time is valuable to both the partnership and the constituent authorities and it is entirely appropriate that the committee should not meet more frequently than is necessary. However, the volume of work and the number of meetings should remain under review to ensure that the level of scrutiny remains proportionate.
25. 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.



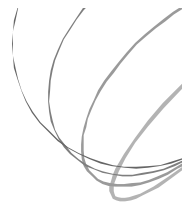


26. The partnership has worked to further strengthen the governance framework during 2008/09. The approach to risk management has been developed and a risk management framework introduced. Risk is recorded and monitored through the “Magique” based risk register and regular risk management reports are presented to the Performance and Audit Committee. As a part of the risk management process the partnership has identified the need for, and introduced, a Business Continuity Plan. The plan identifies a number of key risks that pose a threat to the operation of the partnership and the actions to be taken should those risks crystallise.

## Systems of internal control

27. 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.
28. Our review of these systems was conducted as part of the audit of City of Edinburgh Council supplemented by specific work on SEStran's financial statements. Overall there are no material issues of concern in relation to the operation of the main financial systems.
29. In our report on the 2007/08 audit we noted that there were no formal Service Level Agreements between the partnership and the constituent councils from which it procures services. We are advised that the introduction of SLAs has been subject to slippage and that these are not yet in place. The use of SLAs benefits both the service user, by strengthening governance, and the service provider by providing a clear remit.

**Key risk area, Action 2**



# Final remarks

## Introduction

30. 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.
  
31. The co-operation and assistance given to us by officers of SEStran and the City of Edinburgh Council is gratefully acknowledged. .



# 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
16.		<p><b>IFRS adoption</b></p> <p>Local government will move from UK GAAP to IFRS based accounting with effect from 2010/11. It is important that the partnership starts the transition period in 2009/10 to ensure that it is prepared for 2010/11.</p> <p><i><b>Risk:</b> the necessary management information processes may not be in place to generate IFRS compliant financial statements.</i></p>	<p>The Treasurer's staff are participating in training appropriate to ensure IFRS compliant financial statements are prepared. Implementation is being undertaken in consultation with financial advisers, appointed to advise a number of Scottish local government organisations. The Treasurer's staff will liaise timeously with staff in SESTran to ensure the necessary information is obtained for IFRS compliant financial statements.</p>	Treasurer/Chief Officer	March 2010
29.		<p><b>Service level agreements</b></p> <p>There are no formal SLAs between the partnership and the constituent councils from which it procures services.</p> <p><i><b>Risk:</b> service provision may not adequately meet the needs of the partnership and may not support continuous improvement and best value.</i></p>	<p>SLAs will be developed by the end of this financial year for financial, legal and HR services.</p>	Legal Adviser/Chief Officer	March 2010