

South East of Scotland Transport Partnership

Annual report on the 2011/12 audit



Prepared for Members of South East of Scotland Transport Partnership and the Controller of Audit
October 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Key messages	4
2011/12 audit findings	4
Outlook.....	4
Introduction	5
Financial statements	6
Audit opinion	6
Accounting issues	7
Financial position	8
Financial results	8
Outlook.....	9
Governance and accountability	10
Corporate governance.....	10
Standards of conduct and arrangements for the prevention/ detection of bribery and corruption	11
Outlook.....	11
Best Value, use of resources and performance	12
Management arrangements	12
Best Value and Use of Resources.....	13
National performance reports	13
Outlook.....	13
Appendix A: audit reports	15
Appendix B: action plan	16

Key messages

2011/12 audit findings

In 2011/12 we looked at the key strategic and financial risks faced by South East of Scotland Transport Partnership ("SEStran" or the "Partnership"). We audited the financial statements and looked at aspects of governance, use of resources and performance. This report sets out our main findings, summarising key outcomes from the 2011/12 audit and the outlook for the period ahead.

We have given an unqualified opinion that the financial statements of SEStran for 2011/12 give a true and fair view of the state of the affairs of the Partnership as at 31 March 2012 and of the income and expenditure for the year then ended.

We found the financial stewardship of the Partnership during the year to be satisfactory, with governance arrangements being sound overall.

Outlook

The financial constraints facing the Scottish public sector are well documented with public sector bodies facing prolonged cuts in funding and growing pressure to make good any funding gaps through savings. Council requisitions for 2012/13 are 11% lower than in 2011/12 while funding from Scottish Government has remained at the same level as 2011/12.

The Partnership faces significant financial pressures going forward that may impact on delivery of the Regional Transport Strategy. We note the Partnership has established a Service Review Group to consider service delivery and how to secure best value for the constituent Councils.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of South East of Scotland Transport Partnership ("SEStran" or the "Partnership"). The nature and scope of the audit were outlined in the Audit Plan presented to the Performance and Audit Committee on 31 January 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the public sector audit model.
2. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that SEStran understands its risks and has arrangements in place to manage these risks. The Board should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
3. This report is addressed to the members and the Controller of Audit and should form a key part of discussions with the Performance and Audit Committee, either prior to, or as soon as possible after, the formal completion of the audit of the financial statements. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
4. This report will be published on our website after consideration by the board.
5. The management of SEStran is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

6. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
7. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
8. Auditors review and report on, as appropriate, other information published with the financial statements, including the annual governance statement, the remuneration report and the foreword. This section summarises the results of our audit on the financial statements.

Audit opinion

9. We have given an unqualified opinion that the financial statements of SEStran for 2011/12 give a true and fair view of the financial position and expenditure and income of the Partnership for the year.

Legality

10. 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.

Going concern

11. The Partnership has adopted a 'going concern' basis for the preparation of the financial statements as constituent authorities of the Partnership are required to meet all liabilities of the Partnership as they fall due. We are satisfied that the process which the Partnership has undertaken to consider the organisation's ability to continue as a going concern is reasonable.

Annual governance statement and remuneration report

12. We were satisfied with disclosures made in the annual governance statement and the adequacy of the process to obtain assurances on systems of control.
13. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011 and the disclosures within the 2011/12 financial statements include the required information.

Accounting issues

14. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the 2011 Code). We are satisfied that the partnership prepared the 2011/12 financial statements in accordance with the 2011 Code.

Accounts submission

15. The Partnership's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2012. The financial statements were certified by the target date of 30 September 2012 and are now available for presentation to members and publication.
16. We are pleased to record that the financial statement preparation processes and working papers were satisfactory and this enabled the audit to progress smoothly.

Presentational and monetary adjustments to the unaudited accounts

17. A provision of £0.026 million had been created to account for a contribution retained by SEStran from one of the partners. This had been received during the financial year 2011/12 but not used by year end. Under the 2011 Code this would represent funds received in advance of need. To mitigate this, the funding was changed to a short term creditor and so the partner remained the owner of the funding.

Pension costs

18. SEStran is a member of Lothian Pension Fund which is a multi-employer defined benefit scheme. In accordance with pensions accounting standard IAS19 'Employee Benefits' the partnership has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation at 31 March 2012 provided by the scheme's actuaries increased the Partnership's share of the deficit from £0.056 million last year to £0.226 million this year.

Real Time Passenger Information

19. In 2010/11 we raised an observation about the ownership of the Real Time Passenger Information (RTPI) scheme assets and whether they should be included in the SEStran accounts. In 2011/12 these assets have been recorded as assets under construction within non current assets; and the Partnership has confirmed that they are the owners of the RTPI assets.

Financial position

20. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
21. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
22. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

23. In the year to 31 March 2012, the partnership's gross revenue expenditure amounted to £1.552 million (2011: £1.273 million). This expenditure was met by income of £2.836 million (2011: £1.620 million) comprising Scottish Government grants of £0.782 million (2011: £0.920 million); requisitions from constituent councils of £0.225 million (2011: £0.300 million); and other income sources of £1.829 million (2011: £0.400 million). The resulting surplus on the provision of services was £1.284 million (2011: £0.347 million).
24. Actuarial losses relating to the pension scheme of £0.194 million reduced the total surplus to £1.090 million (2011: an actuarial surplus of £0.126 million and an overall surplus of £0.473 million). The most significant change in the year is the recognition of over £1.100 million funding for the Real Time Passenger Information (RTPI) system, included in other income sources above.
25. The Treasurer summarises performance against budget in the foreword to the financial statements. The partnership incurred Core Service expenditure of £0.498 million (2011: £0.644 million) which was £28,000 above the revised revenue budget. This was mainly due to a shortfall of staff costs recharged to EU projects. The Partnership also incurred expenditure of £1,331,100 on the RTPI system which was funded from balances carried forward from previous years, revenue grant and a contribution of £130,000 from a partner. The Treasurer reports that the Partnership recorded a (net) break even position overall against budget in 2011/12.
26. Following adjustment of the reported net position to reflect differences in the statutory accounting requirements and management accounting practice (disclosed at note 6 of the financial statements) the usable reserves figure at the year end is reported as zero, with

unusable reserves of £1.356 million (2011: usable reserves zero; unusable reserves £0.266 million).

27. The Partnership's balance sheet reflects this reserves position with non-current assets of £1.588 million (2011: £0.328 million); net current liabilities of £2.154 million (2011: 1.283 million); and pension liabilities of £0.226 million (2011: £0.056 million). The biggest change is the recognition in the accounts of the increased activity on the RTPI system, which is reflected as Assets Under Construction within non-current assets.
28. SEStran receive funding from both Europe and the Scottish Government which in this economic climate may be susceptible to revisions. The partnership have to date tolerated delays in receipt of this funding which has impacted on their balance sheet, with both debtors and creditors increased significantly: debtors by £0.777m and creditors by £0.865m. SEStran must ensure that these balances remain controlled and any timing fluctuations do not impact on the Partnership's ability to balance the budget.

SEStran Limited

29. The Partnership established the wholly-owned limited company SEStran Limited in January 2010. Its primary purpose was to address the Partnership's inability to build up any reserves beyond the end of any financial year whereas the limited company would be able to do so. We advised management that its primary purpose could not be achieved in terms of accounting requirements, as SEStran Limited would require to be consolidated into the group accounts of the Partnership.
30. As at 31 March 2012, the private limited company SEStran Limited has not commenced the provision of any services and there have been no transactions to record for the purposes of group accounts. Management are of the view that the company may be able to act as a joint venture partner or as a funding mechanism when the partnership launches some of its projects in the future. The use of this Limited company needs to be monitored and if the reasons for keeping the company do not materialise then the company should be dissolved.

Outlook

31. On 2nd March 2012, the Partnership's Board agreed a revenue budget for 2012/13, which made provision for £0.449m (net) of core service costs and £0.876m of project expenditure in support of Regional Transport Strategy projects. The budget estimates £0.343m of external funding will be available for projects, of which £0.245m is for EU funded projects. The approved capital programme for 2012/13 is £0.647m.
32. The Partnership's 2012/13 revenue budget of £200,000 reflects known cost commitments and savings. It also represents a reduction of 11%. The Scottish Government's cash grant to the Partnership in 2012/13 is £0.782 million which is the same level received in 2011/12. As recognised by the Partnership, it will be necessary to plan and manage expenditure carefully going forward in the present economic climate.

Refer Action Point no. 1

Governance and accountability

33. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
34. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
35. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
36. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

37. *Delivering Good Governance in Local Government* published jointly by, the Chartered Institute of Public Finance and Accountancy and the Society of Local Authority Chief Executives and Senior Managers recommends that the review of the effectiveness of the system of internal control should be reported in an Annual Governance Statement. The partnership has included an Annual Governance Statement for 2011/12 within the financial statements.
38. The Board set up a Performance & Audit Committee which met 5 times in the financial year 2011/12. It comprises one Board Member from each Authority and 2 non-councillor members to ensure appropriate representation of geographical and other interests.
39. The Performance & Audit Sub-Committee Committee is an essential part of the Partnerships' governance framework. It provides assurance to the Board that audit, risk and governance arrangements have scrutinised. The Performance & Audit Sub-Committee was due to consider our ISA 260 Report (ie report to those charged with governance) at its meeting on 28 September 2012. However, the meeting was cancelled as it was not quorate. We had, however, already provided the Treasurer and Partnership Director with copies of the ISA 260 while members of the committee were circulated with copies in advance of the committee date

Refer Action Point no. 2

Internal control

40. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
41. 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.
42. It is the responsibility of the Partnership's management to maintain adequate financial systems and associated internal controls. 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 for this significant aspect of the Partnership's control environment. The auditor evaluates significant financial systems and associated controls both for the purposes of giving an opinion on the financial statements and as part of a review of the adequacy of governance arrangements.
43. Our review of these systems was conducted as part of the 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.

Standards of conduct and arrangements for the prevention/detection of bribery and corruption

44. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We have concluded that the arrangements in SEStran are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Outlook

45. The City of Edinburgh Council Internal Audit function is being put out to tender. Although interim arrangements are in place there is a risk that internal audit may not complete their planned work at SEStran. However, we do not believe the risk to be significant as the planned audit days for SEStran is small and corrective action could be taken promptly should any delays occur in finalising internal audit arrangements.

Best Value, use of resources and performance

46. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
47. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
48. This section includes a commentary on the performance management arrangements within the Partnership.

Management arrangements

49. The Partnership's aim is to develop a transportation system for South East Scotland, as outlined in the Partnership's Regional Transport Strategy 2008 - 2023. The Partnership came into force on 1st December 2005. Under Section 3 of the Transport (Scotland) Act 2005, the net expenses of SEStran, after allowing for government grant and any other income, are met by its constituent councils. The constituent councils of SEStran are the City of Edinburgh, Clackmannanshire, East Lothian, Falkirk, Fife, Midlothian, Scottish Borders and West Lothian.
50. The partnership measures its performance through the monitoring of the Regional Transport Strategy; revenue and capital budget reporting; and through risk management arrangements.
51. The Business Plan defines how to implement the aims of the Regional Transport Strategy and the Annual Report provides a report of performance against objectives, targets and performance indicators as outlined in the Regional Transport Strategy.
52. As recorded in the annual report, monitoring of the achievement of the objectives of the Regional Transport Strategy and the various performance indicators must bear in mind that factors outside of the sphere of influence of SEStran (such as recession, or high fuel prices) may be a major factor in determining performance. Also, it is acknowledged that the timescale for transport-related patterns to change can be longer than for other activity.
53. Revenue and capital budget and outturn information is considered by the Partnership Board, who approve budget proposals, including any amendments, having evaluated the financial and service delivery implications.

54. The risk management arrangements require that risks are regularly reviewed by the Performance and Audit Committee and the Board to ensure that actions are taken to effectively manage the Partnership's highest risks. The Partnership continues to develop its risk register, which now includes individual project risks.

National Transport Strategy and liaison

55. Regional Transport Partnership (RTPs) Chairs and lead officers met quarterly. Also RTP lead officers met regularly with the Scottish Government and COSLA. Arrangements such as these are in place to promote sharing of information on issues of joint interest, including those raised in the National Transport Strategy and in Regional Transport Strategies, with a view to working in partnership and maximising the role of RTPs to deliver the agenda for improving Scotland's transport systems.

Best Value and Use of Resources

56. SEStran seeks opportunities to demonstrate best value in the use of resources. The annual report for 2011/12 records examples of shared services and savings such as the move to different offices during the year, which will give rise to annual recurring savings estimated at £30,000. In addition, SEStran provides accommodation and administrative support for SESplan, the strategic land use planning authority for Edinburgh, the Lothians, Fife and Scottish Borders. Also, SEStran has three service level agreements covering legal, financial and HR services with three of the constituent councils in the Partnership.

National performance reports

57. Audit Scotland carries out a national performance audit programme on behalf of the Auditor General and Accounts Commission. In line with Audit Scotland's strategy to support improvement through the audit process and to maximise the impact from national performance audits, we reviewed the action taken by the Partnership in response to Audit Scotland's report, Transport for Health & Social Care which was published in August 2011.
58. The report was considered by the Partnership Board in October 2011, which formally noted the report. SEStran is actively involved, with partners, in improving arrangements in this area, for example, through the Access to Healthcare Group initiative, which has involved workshops resulting in planned future actions.

Outlook

59. Delivery of the Regional and National Transport Strategies will be challenging given the financial pressures faced in the public sector. In recognition of the current financial constraints faced by public sector organisations, the 2012/13 budget makes provision for an 11% reduction in constituent council requisitions. Council and Scottish Government funding is confirmed for a period of one year. The Partnership is working towards identifying further cashable efficiency savings for 2013/14 and will seek alternative means of funding.

60. We note the Partnership has established a Service Review Group to consider service delivery and how to secure best value for the constituent Councils. We will continue to monitor progress in this area.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	31 January 2012	17 February 2012
Review on the Adequacy of Internal Audit	31 January 2012	17 February 2012
ISA 260 Report	21 September 2012	*28 September 2012
Independent Auditor's Report (Opinion)	28 September 2012	*28 September 2012
Report to Members on the 2011/12 audit	23 October 2012	23 November 2012

* The Audit & Scrutiny Sub-Committee scheduled for 28 September 2012 was cancelled as it was not quorate. The Treasurer, Partnership Director and Committee members had been circulated with copies of the ISA 260 and audit opinion in advance of the meeting.

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	32	<p>Funding</p> <p>Funding levels continue to reduce as due to the continuing financial pressures and constraints placed on partners.</p> <p>Risk: Project expenditure in support of Regional Transport Strategy (RTS) projects cannot be maintained and progress in implementing the RTS is slowed.</p>	<p>Issue raised with Partner Local Authorities and Scottish Government as part of the SEStran Annual Report.</p> <p>Review Delivery Plan in Transport Strategy in line with available funding.</p>	<p>Partnership Director</p> <p>Strategy Manager</p>	<p>November 2012</p> <p>December 2013</p>
2	39	<p>Governance</p> <p>The Performance & Audit Committee is a key part of the Partnership's governance arrangements. The committee was due to consider the external auditor's ISA 260 report at its meeting on 28 September 2012 but the meeting was cancelled as it was not quorate.</p> <p>Risk: Audit and risk issues are not subject to effective scrutiny.</p>	<p>Ensure full list of nominated delegates from Partner Local Authorities.</p>	<p>Office Manager</p>	<p>November 2012</p>