

Appendix C

South East of Scotland Transport Partnership

Annual report on the 2012/13 audit



Prepared for Members of South East of Scotland Transport Partnership
and the Controller of Audit
September 2013

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.

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Key Messages

2012/13

We have given an unqualified opinion that the financial statements of the South East of Scotland Transport Partnership ('the Partnership') for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

The audit of the financial statements progressed satisfactorily. The accounts and working papers were presented for audit on 01 July 2013, in accordance with the agreed timetable, and audit work was completed by the end of July 2013. A number of amendments to the accounts were made as a result of our audit including one minor monetary adjustment.

Overall, the Partnership's arrangements for the prevention and detection of fraud were satisfactory during 2012/13. Internal Audit's review of the key controls within the main financial systems enabled us to conclude that the relevant systems of internal control were operating effectively during 2012/13.

Outlook

We confirm the financial sustainability of the Partnership on the basis of its financial position at present, but going forward this will continue to be challenging with no increase in the funding from constituent councils for 2013/14 and similar levels of funding from other sources coupled with increasing cost pressures. This represents a challenge for the Partnership and expenditure during the year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage.

Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of the South East of Scotland Transport Partnership (the Partnership). The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of the Partnership and no responsibility to any third party is accepted.
3. Appendix A 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 the Partnership understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is also addressed to the Controller of Audit and will be published on our website after consideration by the Partnership Performance and Audit Committee.

Financial statements

Conduct and scope of the audit

5. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, was outlined in the Annual Audit Plan presented to the Performance and Audit Committee on 15 February 2013, and follows the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
6. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not require to carry out any additional work outwith our planned audit activity this fee remains unchanged.

Audit opinion & accounting issues

7. We have given an unqualified opinion that the financial statements of the Partnership for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. The audit opinion was formally signed and issued on the 25 September 2013.
8. We received the unaudited financial statements on 18 June 2013 in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team and we completed our on-site fieldwork on 22 July 2013. The Partnership is required to follow the code of practice on local authority accounting in the United Kingdom Code 2012/13 ('the Code') and we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

Significant findings (ISA260)

9. During the course of the audit we identified a number of issues regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties. The key issue identified is detailed in the following paragraph.
10. **Real Time Passenger Information (RTPI) system funding:** During 2012/13, South West Scotland Transport Partnership (SWESTrans) made a payment towards the cost of the Real Time Passenger Information (RTPI) system, which extends into part of the SWESTrans area. The original documentation relating to this payment indicated the £100,000 plus VAT was a funding contribution, and that ownership of the asset would remain with the Partnership. However, in January 2013 SWESTrans indicated in correspondence that they intended to include the assets within their balance sheet. Despite this correspondence, the financial statements presented for audit treated the payment as a funding contribution, and showed no reduction or disposal of these cross-border assets.

Resolution: Subsequent correspondence with SWESTran has confirmed that they have not included any assets in their balance sheet for the RTPi project. There was also confirmation that the inclusion of VAT on the £100,000 funding contribution was appropriate as SWESTrans have the right to use the assets or receive some tangible benefit from them even if they do not own them.

Financial position

2012/13 Outturn

11. The main financial objective for the Partnership is to ensure that the financial outturn for the year is within the resource budget allocated.
12. The Partnership operated within its resource budgets for 2012/13 as detailed in Table 1: Resource Budget This included the funds received from European Regional Development Fund which had been carried forward from prior years and had been held in the Partnership bank account.

Table 1: Resource Budget 2012/13

	Final Budget (£'000)	Actual Outturn (£'000)	Under / (Over) spend
Core Service	464	460	(4)
Revenue Projects	759	631	(128)
Capital Projects	117	903	786
Total Expenditure	1,340	1,994	654
Interest Receivable	(3)	0	3
Government Grant	(782)	(782)	0
Constituent Council Requisitions	(200)	(200)	0
Other Income - Revenue Projects	(355)	(393)	(38)
Other Income - Capital Projects	0	(619)	(619)
Total Income	(1,340)	(1,994)	(654)

Source: SEStran Audited Financial Statements 2012/13

13. The Partnership realised one of their main targets in 2012/13 by achieving a breakeven position against budget. Expenditure of £0.903 million was incurred on the RTPi project. To help fund this expenditure the Partnership had carried forward a contribution from West Lothian Council of £0.290 million. The Board approved using any underspend on the 2012/13 revenue budget as a commitment towards developing the RTPi.

2012/13 Financial position

14. In the 2012/13 financial year, there has been a substantial rise in the value of Property, Plant and Equipment. This represents the additions to the Real Time Passenger Information project within the Assets Under Construction category. It was noted at the May 2013 meeting of the Partnership board that the RPTI would become active during 2013/14. The movements in debtors, creditors and cash and cash equivalents are all linked to the RPTI project progress.
15. The Partnership has no usable reserves at year end as they hold no statutory powers to operate this type of reserve. Unusable reserves increased by £0.678 million due to an adjustment through the Capital Adjustment Account to reflect the expenditure on the RPTI project that has been financed from revenue.

Financial planning

16. On 1 March 2013, the Partnership's board agreed a balanced budget for 2013/14. In the current economic climate and the financial constraints faced by the public sector, the 2013/14 budget makes no provision for increases in constituent council requisitions, and flat funding levels from the Scottish Government has been confirmed for a period of one year.
17. From 2014/15, the Partnership anticipates that further significant cash savings will be required from local authorities. This represents a challenge for the Partnership and expenditure during 2013/14 and 2014/15 will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage.

Action point 1

Corporate governance and systems of internal control

Overall governance arrangements

18. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements. We found the Partnership generally has sound governance arrangements in place which include a number of standing committees overseeing key aspects of governance. However, we did note that during the last 12 months, the Performance and Audit Committee, which forms part of the Partnership's governance framework and provides assurance to the board that audit, risk and governance arrangements are scrutinised, cancelled 2 of the 4 scheduled meetings as they were not quorate. This issue was also raised in our 2011/12 Annual Report.

Action point 2

19. **Service Level Agreements:** As reported in our Annual Audit Plan, the service level agreements between City of Edinburgh Council and the Partnership for the provision of payroll and finance, with Fife for legal and Falkirk for HR services all expired at the beginning of October 2012. We acknowledged that there was an unofficial agreement to continue as if SLAs were in place.

Resolution: The HR services SLA was signed on the 12 February 2013, the legal SLA was signed on the 21 February 2013 and the payroll and finance SLA was signed on 24 June 2013.

Accounting and internal control systems

20. 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.
21. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
22. Internal audit is an important element of the Partnership's governance structure. Our review established that the work of internal audit is of a good quality allowing us to place reliance on a number of areas including corporate governance and their system of internal controls. This not only avoided duplication of effort but also enabled us to focus on other key risk areas.

Prevention and detection of fraud and irregularity

23. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion the Partnership's overall arrangements for the prevention of fraud are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

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

24. 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. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

Acknowledgements

25. We would like to express our thanks to the staff of the council and the staff at the Partnership for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

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.	17	<p>Future funding</p> <p>Flat funding from constituent authorities and the Scottish Government and increasing costs represents a challenge for the Partnership.</p> <p>There is a risk that Partnership will be unable to provide the same level of service against this backdrop.</p>	Continue to seek additional funding from EU sources.	Director	Ongoing
2.	18	<p>Scrutiny arrangements</p> <p>In the last 12 months two of the four scheduled meetings for the performance and audit committee have been cancelled as they were not quorate. This issue was raised in our 2011/12 Annual Report.</p> <p>There is a risk that issues within papers to be presented are not subject to effective scrutiny.</p>	Continue to encourage member attendance at Performance and Audit Committee meetings. In the event of a cancellation, full consideration to be made at subsequent Partnership Board.	Director	Ongoing