

South East of Scotland Transport Partnership

Annual report on the 2013/14 audit



Prepared for Members of South East of Scotland Transport Partnership and the Controller of Audit
October 2014

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

2013/14

We have given an unqualified opinion that the financial statements of South East of Scotland Transport Partnership ('the Partnership') for 2013/14 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 23 June 2014, ahead of the agreed timetable, and the audit work was completed by the end of July 2014. A number of presentational amendments were made as a result of our audit work.

Overall, the Partnership's arrangements for the prevention and detection of fraud were satisfactory during 2013/14. From our review of the key controls within the main financial systems, we concluded that the Partnership's systems of internal control are operating effectively.

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 and a 'flat cash' grant from the Scottish Government for 2014/15 coupled with increasing cost pressures. The Partnership continues to attract additional funding such as that from the Scottish Government's Bus Investment Fund of £1 million which the Partnership is using to extend the coverage of the Real Time Passenger Information (RTPI) system.

Financial sustainability is a major 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. The significant financial challenges will make maintaining or improving on the performance targets set by the Scottish Government even more challenging.

Introduction

1. This report is the summary of our findings arising from the 2013/14 audit of 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 sets out the key audit risks identified at the planning stage and details how we addressed this risk in arriving at our opinion on the financial statements.
4. 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 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.
5. This report is also addressed to the Controller of Audit and will be published on our website after consideration by the Partnership Board.

Financial statements

Conduct and scope of the audit

6. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Performance and Audit Committee on 7 March 2014, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
7. 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 2013/14 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

8. We have given an unqualified opinion that the financial statements of the Partnership for 2013/14 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 issued and signed on 29 September 2014.
9. We received the unaudited financial statements on 23 June 2014 which was ahead of the agreed timetable. The working papers were of a good standard and the staff provided support to the audit team which allowed us to complete our on-site fieldwork on 31 July 2014. The Partnership is required to follow the code of practice on local authority accounting in the United Kingdom Code 2013/14 ('the Code') and we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

Significant findings and key judgements (ISA260)

10. During the course of the audit we identified one issue regarding the potential effect on the financial statements of any uncertainties.
11. **European Funding receipt for Dryport project:** The Partnership has a debtor balance of £52,500 in the 2013/14 financial statements in relation to this project. Settlement of this debt was made by the EU in August 2014. The money received by the Partnership for the project was £34,500 (after conversion from Euros), the variance between the debt held and payment being SEStran's share of common management costs, which were deducted from the payment. The remaining debtor balance in the accounts will need to be written off in the 2014/15 financial statements. A post balance sheet event disclosure was included in the accounts.
12. The Partnership is involved in seven other European grant claims (excluding RTP1) in the process of being settled as at 31 March 2014, with a total value of £0.158 million. There is a risk that future settlements from Europe may also include significant common management costs which will impact on the levels of projected income at a time when financial sustainability is a major challenge for the Partnership.

Refer Action Point no.1

Financial position

2013/14 Outturn

13. The main financial objective for the Partnership is to ensure that the financial outturn for the year is within the resource budget allocated.
14. The Partnership operated within the resource budget for 2013/14 as detailed in Table 1 below which also shows the budget changes that occurred during the financial year.

Table 1: Resource Budget

	Final Budget (£'000)	Actual Outturn (£'000)	(Under) / Over spend
Core Services	463	433	(30)
Revenue Projects	501	612	111
Capital Projects	222	1,731	1,509
Interest	3	1	(2)
Total Expenditure	1,189	2,777	1,588
Government Grant	(782)	(782)	0
Constituent Councils Requisitions	(200)	(200)	0
Other Income - Revenue Projects	(207)	(345)	(138)
Other Income - Capital Projects	0	(1,450)	(1,450)
Total Income 2013/14	(1,189)	(2,777)	(1,588)

Source: SEStran audited financial statements 2013/14

15. The Partnership realised one of its main targets in 2013/14 by achieving a breakeven position against budget. Expenditure of £1.731 million was incurred on the RTPI project. This expenditure was funded primarily through the European Regional Development Fund although the Partnership also used an underspend from the 2012/13 revenue budget which was carried forward.

2013/14 Financial position

16. In the 2013/14 financial year, there has been a substantial rise in the value of the Property, Plant and Equipment. This represents additions to the Real Time Passenger Information (RTPI) project during the year and further spending on a follow up project entitled the 'Bus Investment Fund' (BIF) which will extend the coverage of RTPI. The expenditure on the BIF

has been included under Assets under Construction as this element of the project had not been completed at year end.

17. The Partnership had increased levels of debtors and creditors at 31 March 2014. These represent timing differences with regards to the funding and payment of the RTPPI costs close to the year end.
18. The Partnership's cash flow is maintained through a 'holding account' with the City of Edinburgh Council which the Partnership can call upon when awaiting receipt of funds such as those for Dryport. The holding account stood at £325,000 at 31 March 2014 which was money due to City of Edinburgh Council. City of Edinburgh Council charge the interest rate from the Loans Fund on any balances due to them by the Partnership. Interest paid by the Partnership during 2013/14 was £1,000. There is a risk that interest rates increase during 2014/15 and future years which would expose the partnership to greater borrowing costs than it currently incurs which would apply additional pressure to already tight Partnership budgeting in 2014/15 and beyond.

Refer Action Point no.2

19. 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 £1.716 million due to an adjustment through the Capital Adjustment Account to reflect the expenditure on the RTPPI project that been financed from revenue.

Financial planning

20. On the 21 March 2014, the Partnership agreed a balanced budget for 2014/15. In the current economic climate and with the financial constraints faced by the public sector, the 2014/15 budget makes no provision for increase in constituent council requisitions, and flat funding levels from the Scottish Government have been confirmed for a period of one year. For 2014/15, £0.346 million of additional funding will be received from the Scottish Government through the Bus Investment Fund.

Corporate governance and systems of internal control

Overall governance arrangements

21. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and overall we found the Partnership had sound governance arrangements in place which included a number of standing committees overseeing key aspects of governance.
22. In previous years we have raised an issue with regards to the Performance and Audit Committee (PAC) achieving a quorate for meetings. We note that all PAC meetings took place in the previous 12 months. We will continue to monitor the situation going forward.

Accounting and internal control systems

23. 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.
24. 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.
25. 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 systems of internal control. 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

26. 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

27. 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.

Best value

Best value and performance

28. Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.
29. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning.

30. We also have a responsibility to review and report on the arrangements that the Partnership has to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
31. The regional transport strategy for 2008-2023 sets out four high level objectives:
- economy
 - accessibility
 - environment
 - safety and health.
32. These are supported by seventeen more specific sub-objectives, each with defined targets and a means to monitor progress towards the targets. The Partnership produces an annual report each year which sets out the progress being made. The 2012/13 annual report was considered by the Partnership Board in October 2013, and the 2013/14 report will be considered later this calendar year.

Acknowledgements

33. We would like to express our thanks to the staff of 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: Key Audit Risks

Key Audit Risks and Associated Audit Work

Audit Risk	Overview of the scope of audit work to address the risks
<p>Assets Under Construction</p> <p>SEStran had a significant balance held under assets under construction within their 2012/13 financial statements. These relate to the Real Time Passenger Information system which is due for rollout into the bus network. Our expectation is that these assets will be moved into Property, Plant and Equipment for the 2013/14 financial statements.</p> <p>We note that a second phase of the RTPI project (Scottish Government Bus Improvement scheme) has commenced and any assets associated with this new phase will remain in assets under construction for 2013/14.</p> <p>There is a risk that the assets are misclassified in the financial statements.</p>	<p>Reviewed the asset register movements as part of the final accounts work and confirmed appropriate adjustment made.</p> <p>This indicated that RTPI AUC costs had been moved across into PPE which was appropriate as these assets were being utilised.</p>
<p>Asset useful lives</p> <p>At 31 March 2013 all assets on the entity's asset register had been fully depreciated, although they all remain in use by the partnership. During 2013/14 an IT refresh occurred with new computer equipment introduced.</p> <p>There is a risk that depreciated assets lives do not properly reflect planned usage of asset.</p>	<p>Officers have deferred the review of assets lives until 2014/15.</p> <p>There is no impact on the 2013/14 financial statement.</p>

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.	12	<p>The Partnership has a debtor balance of £52,500 in the 2013/14 financial statements for the EU funding that was received in August 2014. The money received by the Partnership for the project was £34,500 (after conversion from Euros), the variance between the debt held and payment being SEStran's share of common management costs, which were deducted from the payment. The Partnership is involved in a number of other projects with varying levels of EU funding.</p> <p>There is a risk that budgets will not be achieved if future settlements from Europe include significant common management costs which have not been provided for within the budget.</p>	<p>Adjustments will be made to spend profiles in 2014/15 financial year to accommodate the Dryport central management costs. With regard to ongoing EU funded projects a review of central management costs will be carried out prior to finalisation of the projects.</p>	SEStran Partnership Director	31st March 2015
2.	18	<p>The Partnership maintains a holding account with City of Edinburgh council which the Partnership can call upon as necessary.</p> <p>There is a risk that budgets are not achieved due to increased borrowing costs arising from the Partnership's exposure to interest rate increases during 2014/15 and future years.</p>	<p>Impact of interest rate fluctuations has been included in the SEStran risk register, found to be insignificant and reported to the P&A committee. This will be reviewed as necessary.</p>	SEStran Partnership Director	Ongoing