

South East of Scotland Transport Partnership

2018/19 Annual Audit Report to members of South East of
Scotland Transport Partnership and the Controller of Audit

September 2019





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1. Key messages





Annual accounts audit

South East of Scotland Transport Partnership (SESTRAN) annual accounts for the year ended 31 March 2019 were approved by the Partnership on 27 September 2019. Our independent auditor's report includes an unqualified opinion on the annual accounts and on other prescribed matters. There are no matters which we are required to report by exception.

Our thanks go to management and staff for their assistance with our work.

Wider scope audit

As outlined in our External Audit Plan, our annual audit work in respect of our wider scope audit responsibilities was restricted to:

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the Annual Governance Statement; and
- Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.

Our conclusions and key observations are set out below:



Governance statement

- We have reviewed the Annual Governance Statement and have found that it is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).



Financial sustainability

- The Partnership has yet to develop medium to long term financial plans. As reported in prior years, the Partnership has noted that there is a large degree of uncertainty over funding allocations from council requisitions and the Scottish Government, and therefore does not prepare medium to long-term financial plans. We understand the Partnership intends to review and develop medium term financial plans over the course of 2019/20, following the enactment of the Transport (Scotland) Bill and the publication of three-year funding settlements from the Scottish Government.

Conclusion

This report concludes our audit for 2018/19. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

Scott-Moncrieff
September 2019



2. Introduction

This report is presented to those charged with governance and the Controller of Audit and concludes our audit of South East of Scotland Transport Partnership (the “Partnership”) for 2018/19.

We carried out our audit in accordance with Audit Scotland’s Code of Audit Practice (May 2016). This report also fulfils the requirements of International Standards on Auditing (UK) 260: Communication with those charged with governance.

We have designated the Partnership’s Performance and Audit Committee as “those charged with governance”.



Introduction

1. This report summarises the findings from our 2018/19 audit of the South East of Scotland Transport Partnership (“the Partnership”).
2. We outlined the scope of our audit in our External Audit Plan, which we presented to the Performance and Audit Committee at the outset of our audit. The core elements of our work include:
 - an audit of the 2018/19 annual accounts and related matters;
 - consideration of the Partnership’s arrangements against the audit dimensions within the Code of Audit Practice (Exhibit 1); and
 - any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice



3. The Partnership is responsible for preparing annual accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual report and accounts 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.
4. The report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding on appropriate actions. We give each recommendation a grading to help the Partnership assess their significance and prioritise the actions required.
5. We would like to thank all management and staff for their co-operation and assistance during our audit.

Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We confirm that we have complied with the Financial Reporting Council’s (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.
8. We set out in Appendix 1 our assessment and confirmation of independence.



Adding value through the audit

9. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Partnership through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Partnership promote improved standards of governance, better management and decision making and more effective use of resources.

Feedback

10. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey:
www.surveymonkey.co.uk/r/S2SPZBX
11. This report is addressed to the Partnership and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.



3. Annual accounts

The Partnership’s annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. In this section we summarise the findings from our audit of the 2018/19 annual accounts.



Annual accounts

An unqualified audit opinion on the annual accounts

The annual accounts for the year ended 31 March 2019 were approved by the Partnership on 27 September 2019. We report unqualified audit opinions within our independent auditor's report.

Overall conclusion

An unqualified audit opinion on the annual accounts

12. The annual accounts for the year ended 31 March 2019 were considered by the Performance and Audit Committee on 6 September 2019 and approved by the Partnership on 27 September 2019. We report within our independent auditor's report:
 - An unqualified opinion on the financial statements; and
 - An unqualified opinion on other prescribed matters.
13. We are also satisfied that there were no matters which we are required to report by exception.

Good administrative processes were in place

14. We received the unaudited annual accounts and supporting papers of a good standard. Our thanks go to management and staff at the Partnership and City of Edinburgh Council for their assistance with our work.

Our assessment of risks of material misstatement

15. The assessed risks of material misstatement described in Exhibit 2 are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual accounts is not modified with respect to any of the risks described in Exhibit 2.



Exhibit 2 – Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1. Management override

In any organisation, there exists a risk that management has the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

Excerpt from the 2018/19 External Audit Plan

16. We have not identified any indications of management override in the year. We have reviewed the Partnership's accounting records and obtained evidence to ensure that transactions were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.
17. During our prior year audit, we recommended that user access controls to the financial ledger should be strengthened. At that time, any member of the City of Edinburgh Council finance team with ledger access could post to the Partnership's financial ledger. We noted during our current year audit that arrangements have now been put in place to restrict access to the Partnership's financial ledger.

2. Revenue recognition

Under ISA (UK) 240- *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Partnership could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

Excerpt from the 2018/19 External Audit Plan

18. At the planning stage of our audit cycle, we reported that for Scottish Government grant funding and council requisitions, the risk of revenue recognition could be rebutted due to a lack of incentive and opportunity to manipulate revenue of this nature. Our assessment of this risk has been reviewed throughout the audit and our conclusion to rebut this risk in respect of Scottish Government grant funding and council requisitions has remained appropriate.
19. For all other income streams, we have gained reasonable assurance over the completeness and occurrence of income and are satisfied that income is fairly stated in the annual accounts. To inform our conclusion, we reviewed the controls in place over revenue accounting. We also considered the Partnership's revenue recognition policy and carried out testing to confirm that the policy was consistently applied throughout the year.



3. Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 “*The Audit of Public Sector Financial Statements*” which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

Excerpt from the 2018/19 External Audit Plan

20. While we did not suspect incidences of material fraud and error, we evaluated each type of expenditure transaction and documented our conclusions. We have gained reasonable assurance on the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the annual accounts. To inform our conclusion, we carried out testing to confirm that Partnership’s policy for recognising expenditure is appropriate and has been applied consistently throughout the year.
21. During our prior year audit, we noted that in the absence of the Partnership Director, that appropriate contingency arrangements for the approval of expenditure had not been established. The Partnership took immediate action in response to this finding in 2018 and implemented appropriate arrangements. Further detail of the action taken by the Partnership and our audit findings during the current year are reported in Appendix 2. Overall we have concluded that the associated recommendation to this finding has been implemented.

4. Property, plant and equipment

As at 31 March 2018, the Partnership held £0.422million in property, plant and equipment. This primarily relates to a high volume of low value technology equipment which is held in a variety of locations across the south east of Scotland.

During our 2016/17 audit, we identified a number of control weaknesses with respect of the recording and valuing assets. Improvements were made during 2017/18, but this work is ongoing.

Due to the nature of equipment held by the Partnership there is a risk that asset records maintained may not be accurate and equipment values may not be appropriate if technology becomes obsolete.

Excerpt from the 2018/19 External Audit Plan

22. We have reviewed the steps taken by officers to improve the maintenance of the fixed asset register. The work carried out by the Partnership and the financial accountant have increased the amount of detailed information held on the register for each asset. The previous registers have been amalgamated to include all assets owned by the Partnership on one main register.
23. Our work carried out during the 2018/19 audit has confirmed that the level of detail now held for each asset should mitigate the risk of inaccurate records held.
24. However, in order to ensure the value of assets held is appropriate we require to review the valuation exercise carried out by management throughout the year. During discussions with management we noted that a review has not been carried out prior to year end. Whilst this exercise is important for confirming the condition and value of assets, management have confirmed that they have not identified any concerns over the value of assets currently held by the Partnership throughout the year.



25. Therefore, whilst we have noted a missing control which can be implemented to strengthen the Partnerships year end process, we do not believe this to have had a material effect on the 2018/19 annual accounts.

Action Point 1

5. Pension assumptions

An actuarial estimate of the pension fund assets and liabilities is calculated on an annual basis under IAS 19 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up-to-date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities.

Due to the timing of the publication of unaudited accounts, IAS 19 valuations are typically performed in advance of actual investment returns being available. This results in the valuation also including an assumption regarding the investment returns of assets held by the fund for the final quarter of the financial year. Financial markets have experienced significant volatility in the last year and this trend has continued into 2019 which may result in challenges in estimating expected return on assets.

Excerpt from the 2018/19 External Audit Plan

26. We obtained the information provided to the actuary and agreed to source documentation to confirm accuracy. We reviewed the assumptions used by the actuary and compared these to benchmarks across the sector.
27. The unaudited annual accounts were prepared based on an actuarial report received in April 2019. A subsequent actuarial report was received in May 2019 which had been revised to take account of the year-end results of Lothian Pension Fund. However, this did not result in any change for the Partnership.
28. The net pension liability within the audited annual accounts was further revised to take account of the financial effects of the 'McCloud Judgement' and the Guaranteed Minimum Pension (GMP) equalisation:
- **McCloud Judgement:** This case related to an employment tribunal ruling that transitional provisions impacting on a public sector final salary scheme were unlawfully age discriminatory. This was upheld in the Courts in December 2018 although the Government at that stage sought leave to appeal this judgement. The ruling has implications for all public service schemes including the LGPS funds. In June 2019, the Supreme Court rejected the Government's request for a further appeal.
 - **Guaranteed minimum pension (GMP)** was accrued by members of the Local Government Pension Scheme (LGPS) between 6 April 1978 and 5 April 1997. The value of GMP is inherently unequal between males and females for a number of reasons, including a higher retirement age for men and GMP accruing at a faster rate for women. However overall equality of benefits was achieved for public service schemes through the interaction between scheme pensions and the Second State Pension. The introduction of the new Single State Pension in April 2016 disrupted this arrangement and brought uncertainty over the ongoing indexation of GMPs, which could lead to inequalities between men's and women's benefits. As an interim solution to avoid this problem, GMP rules were changed so that the responsibility for ensuring GMPs kept pace with inflation passed in full to pension schemes themselves for members reaching state pension age between 6 April 2016 and 5 April 2021. This new responsibility leads to increased costs for schemes (including the LGPS) and hence scheme employers.
29. Management requested a revised actuarial report from its Actuary. The financial effect of these pension issues has resulted in an increase in the net pension liability of £30,000.



30. As at 31 March 2019, the Board reported a net pension liability of £0.867million, compared to a net pension liability of £0.662million as at 31 March 2018. In addition to the increase in the deficit due to the circumstances noted above, the in-year movement has arisen primarily due to changes in financial assumptions made by the actuary.

Our application of materiality

31. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the financial statements.
32. Our initial assessment of materiality for the annual accounts was £16,000. On receipt of the 2018/19 draft accounts, we reassessed materiality and reset it to £14,400. We consider that our updated assessment has remained appropriate throughout our audit.
33. Our assessment of materiality is set with reference to gross expenditure. We consider this to be the principal consideration for the users of the financial statements when assessing the financial performance.

Performance materiality

34. Performance materiality is the amount set by the auditor for each financial statement area, to reduce to an appropriately low level the probability that collectively any uncorrected and undetected misstatements are less than materiality for the financial statements as a whole.
35. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

	Area risk assessment		
	High	Medium	Low
Performance materiality	5,760	7,200	9,360

36. We agreed with the Performance and Audit Committee that we would report on all material corrected misstatements, uncorrected misstatements with a value in excess of 5% of the overall materiality figure, as well as other misstatements below that threshold which, in our

view, warranted reporting on qualitative grounds. We also report to the Performance and Audit Committee on disclosure matters that we identified when assessing the overall presentation of the annual accounts.

Audit differences

37. One adjustment was made to the annual accounts in respect of the net pension liability (paragraphs 26-30). There were no unadjusted differences to the unaudited annual accounts.

Board representations

38. We requested that a signed representation letter be presented to us at the date of signing the financial statements. This letter is signed by the Treasurer on behalf of the Partnership.

An overview of the scope of our audit

39. The scope of our audit was detailed in our External Audit Plan, which was presented to the Performance and Audit Committee in March 2019. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Partnership. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.
40. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.
41. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit management team. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

Legality

42. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual



accounts. Our audit procedures included the following:

- Reviewing minutes of relevant meetings;
 - Enquiring of senior management and the Partnership's solicitors the position in relation to litigation, claims and assessments; and
 - Performing detailed testing of transactions and balances.
43. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

Other matters identified during our audit

44. During the course of our audit we noted the following:

The Local Authority Accounts (Scotland) Regulations 2014

45. As part of our audit we reviewed the Partnership's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulations 8 to 10¹ as they relate to the annual accounts. Overall we concluded that appropriate arrangements are in place to comply with these Regulations.

Management commentary

46. The Local Authority Accounts (Scotland) Regulations 2014 require local authority bodies to include a management commentary within the annual accounts. The management commentary is intended to assist readers in understanding the annual accounts and the organisation that has prepared them.
47. As auditors we are required to read the management commentary and express an opinion as to whether it is consistent with the annual accounts. We have concluded that the management commentary is consistent with the annual accounts and has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003.

Annual governance statement

48. We have reviewed the annual governance statement and have found that it is consistent with the annual

accounts and has been prepared in accordance with Delivering Good Governance in Local Government Framework (2016). We have provided further detail on our work and findings within the Wider Scope section of our report (section 4).

Remuneration report

49. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Going concern

50. As at 31 March 2019, the Partnership reported a net liability position of £0.521million.
51. In line with the Transport Scotland Act 2005, the Partnership does not hold useable reserves. The balance on the unusable reserves therefore increased to a net liability position of £0.491million. This is due to the net pension liability of £0.867million as at 31 March 2019.
52. In the Partnership's opinion, the organisation will be able to continue for the foreseeable future. The Partnership has adequate budget to meet the ongoing employer contributions required by Lothian Pension Fund.

Related parties

53. Local government bodies are required to make relevant disclosures in the annual accounts in respect of related parties. We concluded during our audit that while the relevant disclosures had been made in the annual accounts; improvements could be made over the procedures for collating this information as follows:
- **Identification of potential related parties:** One way which the Partnership can identify potential related parties is through the maintenance of a register of interests. We noted during our audit that the 2018/19 annual updating of the register of interests by members of the Partnership had not been fully completed.
 - **Related party transactions:** Once potential related parties have been identified, an exercise should be carried out to review accounting records for transactions associated with those

¹ Regulations 8 to 10 relate to the preparation and publication of unaudited accounts, notice of public right to inspect and object to the accounts and consideration and signing of the audited accounts.



related parties. This part of the process is carried out by the City of Edinburgh Council (the Council) on behalf of the Partnership and is dependent on potential related parties being identified by management at the Partnership and reported to the Council. We would encourage both management at the Partnership and the Council to review existing procedures to ensure these are carried out in the most efficient and effective way.

Action Point 2

Follow up of prior year recommendations

54. As part of our audit we have followed up the agreed audit recommendations from prior years which were yet to be implemented. Detail on these recommendations is included in the action plan at Appendix 2.

Looking forward – IFRS 16 Leases

55. IFRS 16 Leases will be effective from 1 April 2020. IFRS 16 Leases will lead to a substantial change in accounting practice for lessees where the current distinction between operating and finance leases will be removed. Instead, it requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased property, and a lease liability representing the lessee's obligation to pay for that right.
56. There are new requirements for measurement of the lease liability where it will initially be measured at the present value of the lease payments payable over the lease term but may rise to reflect any reassessment or lease modifications, or revised lease payments.
57. This will be a key area of focus for our 2019/20 audit.

Qualitative aspects of accounting practices and financial reporting

58. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the annual accounts. The following observations have been made:



Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the annual accounts, are considered appropriate to the Partnership.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	<p>We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts. Significant estimates have been made in relation to pension liabilities. We consider the estimates made, and the related disclosures, to be appropriate to the Partnership.</p> <p>We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the expert is appropriate.</p>
The appropriateness of the going concern assumption	We have reviewed the financial forecasts for 2019/20. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Board will continue to operate for at least 12 months from the signing date.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts.
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the management commentary or material inconsistencies with the accounts.	The management commentary contains no material misstatements or inconsistencies with the accounts.
Any significant annual accounts disclosures to bring to your attention.	There are no significant annual accounts disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or annual accounts disclosure.	There was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.



4. Wider scope

Following consideration of the size, nature and risks of the Partnership, the application of the full wider scope audit is judged by us not to be appropriate. Our annual audit work on the wider scope has therefore been restricted to:

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and
 - Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.
-



Wider scope conclusions



Governance statement

We are satisfied that the Annual Governance Statement for the year to 31 March 2019 is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).



Financial sustainability

The Partnership has yet to develop medium to long term financial plans. As reported in prior years, the Partnership has noted that there is a large degree of uncertainty over funding allocations from council requisitions and the Scottish Government, and therefore does not prepare medium to long-term financial plans. We understand the Partnership intends to review and develop medium term financial plans over the course of 2019/20, following the enactment of the Transport (Scotland) Bill and the publication of three-year funding settlements from the Scottish Government.

Our approach to the wider scope audit

59. Our approach to the wider scope audit (as set out in our 2018/19 External Audit Plan) builds upon our understanding of the Partnership which we developed from previous years, along with discussions with management and review of relevant minutes and key strategy documents.

60. During our audit we also considered the following risk areas as they relate to the Partnership:

- EU withdrawal
 - Changing landscape of public financial management
 - Dependency on key suppliers
 - Openness and transparency
61. Overall we concluded that the Partnership has appropriate arrangements in place in respect of these areas as noted below:

Impact of EU withdrawal

The Partnership has assessed the impact of EU withdrawal on the organisation and concluded that, given the nature and scope of activities, that the impact will be minimal. The current grant funding from the EU is a relatively low proportion of the overall income the Partnership receives.

Changing landscape of financial management

The Cabinet Secretary for Finance, Economy and Fair Work has confirmed the intention to bring forward a three-year funding settlement for local government from the 2020/21 budget onwards, which may assist the Partnership with planning for longer-term funding assumptions.

The Transport (Scotland) Bill was introduced to Parliament in 2018. The most significant potential impact for the Partnership is that regional transport partnerships would be given the authority to hold reserves. This would provide the Partnership with greater financial flexibility and help facilitate longer term financial planning.

Our findings on the Partnership's development of medium to long term financial plans are set out in paragraph 67).



Dependency on key suppliers

Following the collapse of Carillion, it became apparent that public sector bodies face significant risks where key suppliers are experiencing difficult trading conditions.

The Partnership has not identified any suppliers that they rely on for services which would have a detrimental effect on the Partnership should the relationship cease. We consider this to be appropriate due to the nature of the supplier relationships.

Openness and transparency

We consider the Partnership to exhibit good practice with respect to their openness and transparency arrangements through the following:

- Publication of relevant minutes on its website;
- Key publications including the Regional Transport Strategy, Regional Transport Strategy Delivery Plan, Business Plan and Annual Accounts are available on its website;
- Range of methods used to communicate with stakeholders.



Governance statement

Our audit opinion considers whether the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

62. We are satisfied that the Annual Governance Statement for the year to 31 March 2019 is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).
63. The Treasurer has confirmed that in their opinion, reasonable assurance can be placed upon the adequacy and effectiveness of the systems of internal financial control.
64. From our audit work performed we concluded that the Partnership has adequate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in the Partnership's accounting and internal control systems. We are satisfied that appropriate action has been taken to address the significant governance issue identified in the prior year.
65. The Board's internal audit function is provided by City of Edinburgh Council's Internal Audit service. We have taken cognisance of the work of internal audit in forming our opinion on the appropriateness of the disclosures in the annual governance statement.



Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the Partnership is planning effectively to

continue to deliver its services or the way in which they should be delivered.

Significant audit risk

66. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities

Financial sustainability

In 2017/18 we concluded that while arrangements are in place for short-term financial planning, we recommended that further work is carried out to consider the long-term financial priorities of the Partnership.

The Partnership has a 10 year Regional Transport Strategy (RTS) (2015-2025) in place. During 2019/20 the Partnership plans to commence the process of re-writing the RTS. A supporting business plan for 2018-19 outlines the planned travel and transport projects to be delivered by the Partnership for the next year. While the strategy sets out the long-term objectives of the Partnership, revenue funding is generally only confirmed for the forthcoming financial year. This therefore challenges the Partnership's ability to agree detailed long-term plans and objectives.

The Transport (Scotland) Bill was introduced to Parliament on 8 June 2018 and is currently at Stage 1 in the legislative process. As it stands, the most significant potential impact for the Partnership is that regional transport partnerships would be given the authority to hold reserves which would provide the Partnership with greater financial flexibility.

In addition a review of the National Transport Strategy is currently underway. A formal public consultation on the National Transport Strategy 2 is due to be published in the summer with the expectation that the finalised strategy will be adopted before the end of 2019. This review may bring changes which the Partnership cannot currently be reflected in long term financial planning.

Excerpt from the 2018/19 External Audit Plan

67. The Partnership has yet to develop medium to long term financial plans. Arrangements are in place for short term (1 year) financial planning, with budgets aligned to its annual business plan and its 10 year Regional Transport Strategy (2015-2025). However, as reported in prior years, the Partnership has noted that there is a large degree of uncertainty over funding allocations from council requisitions and the Scottish Government, and therefore does not prepare medium to long-term financial plans. We understand the Partnership intends to review and develop medium term financial plans over the course of 2019/20, following the enactment of the Transport (Scotland) Bill and the publication of three-year funding settlements from the Scottish Government.

Refer to prior year action plan point 6

2019/20 budget

68. In February 2019, the Partnership approved a one-year budget for 2019/20 of £1.274million. The 2019/20 budget assumes no change from the 2018/19 Council requisition (£190,000) and Scottish Government funding settlement (£782,000).

However, the accounting deficit includes certain elements of income and expenditure that need to be accounted for to comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the 2018/19 Code).

The Partnership's performance in 2018/19

69. The Comprehensive Income and Expenditure Statement for 2018/19 shows that the Partnership spent £1.470million on the delivery of services, resulting in an accounting deficit of £147,000.

70. Taking account of these adjustments, no surplus or deficit has been generated in 2018/19. This is in line with technical guidance (based on interpretation of the Transport (Scotland) Act 2005), where regional transport partnerships are not permitted to generate a surplus or deficit on the general fund.



71. The Partnership did however report an underspend against budget of £40,000 as shown in Exhibit 3. The underspend position was primarily due to a combination of core revenue budget and project budget underspends, offset by additional costs

incurred on the RTPi project. In March 2019, the Partnership approved in principle that the underspend be carried forward to 2019/20 to be available for allocation to Sustainable and Active Travel projects.

Exhibit 3: Performance against target

	Revised Budget £000	Outturn £000	Variance £000
Core Service	531	544	13
Revenue Projects – Net Expenditure	375	303	(72)
RPTI Project – Net Expenditure	66	86	20
Net Interest	0	(1)	(1)
Total Expenditure 2018/19	972	932	(40)
Government Grant	(782)	(782)	0
Constituent Council Requisitions	(190)	(150)	40
Total Government Grant and Council Contributions 2018/19	(972)	(932)	40



5. Appendices





Appendix 1: Respective responsibilities of the Partnership and the Auditor

Responsibility for the preparation of the annual accounts

The Board is required to make arrangements for the proper administration of its financial affairs and to secure that proper officer of the Partnership has the responsibility for the administration of those affairs. At the Partnership, that officer is the Treasurer.

The Treasurer is responsible for the preparation of the annual accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing the annual accounts, the Treasurer is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- complying with legislation; and
- complying with the Code.

The Treasurer is also responsible for:

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual accounts and give an opinion on whether:

- they give a true and fair view in accordance with applicable law and the 2018/19 Code of the state of the affairs of the body as at 31 March 2019 and of its income and expenditure for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 Code;
- they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003;
- the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014;
- the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government Scotland Act 2003; and
- the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

We are also required to report, if in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with accounting records; or
- we have not received all the information and explanations we require for our audit.



Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money. The Code recognises that full application of its requirements may be impractical or inappropriate due to the nature or size of the audited body.

We have concluded that the full application is not appropriate due to the size of the organisation. As part of our annual audit we consider and report against:

- appropriateness of the disclosures in the governance statement; and
- financial sustainability of the body and the services that it delivers over the medium to longer term.

Best value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

Our work in respect of the Partnership's best value arrangements has been integrated into our audit approach, including our work on the wider scope audit dimensions.

Independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we complied with FRC's Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff, the Partnership and senior management that may reasonably be thought to bear on our objectivity and independence.



Appendix 2: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

Action plan grading structure

To assist the Partnership in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated.

The rating structure is summarised as follows:

Grade	Explanation
Grade 5	Very high risk exposure - Major concerns requiring immediate attention.
Grade 4	High risk exposure - Material observations requiring management attention.
Grade 3	Moderate risk exposure - Significant observations requiring management attention.
Grade 2	Limited risk exposure - Minor observations requiring management attention
Grade 1	Efficiency / housekeeping point.



Current year action plan

Action plan point	Issue & recommendation	Management comments
<p>1. Property Plant and Equipment – impairment and verification exercise</p> <p>Rating</p> <p>Grade 3</p> <p>Paragraph Ref</p> <p>25</p>	<p>Issue</p> <p>We have identified that management have not carried out an exercise over the fixed asset register to confirm the existence of its assets and the current condition to identify any required impairments.</p> <p>Risk</p> <p>There is a risk that assets have become impaired throughout the year and this has not been identified by management. This could lead to inaccuracies in the asset register.</p> <p>Recommendation</p> <p>We would encourage the Partnership to carry out both an impairment exercise over its assets as well as a continual verification exercise. This will allow the Partnership to hold assets at the correct carrying value.</p>	<p>Work to address previous years External Audit comments in respect of the fixed asset register required an ongoing exercise to update property, plant and equipment asset records during 2018/19, reducing the risk of inaccuracies in the asset register for 2018/19. From 2019/20 onwards, a formal exercise will be carried out to confirm the existence of assets and their current condition.</p> <p>Responsible officer: Partnership Director</p> <p>Implementation date: 31 March 2020</p>



Action plan point	Issue & recommendation	Management comments
<p data-bbox="196 275 451 317">2. Related Parties</p> <p data-bbox="196 338 451 380">Rating</p> <p data-bbox="196 443 451 485">Grade 3</p> <p data-bbox="196 537 451 579">Paragraph Ref</p> <p data-bbox="196 600 451 642">53</p>	<p data-bbox="516 247 573 275">Issue</p> <p data-bbox="516 279 930 453">We concluded during our audit that while the relevant disclosures had been made in the annual accounts; improvements could be made over the procedures for collating this information as follows:</p> <ul data-bbox="516 485 930 1325" style="list-style-type: none"> <li data-bbox="516 485 930 779">• Identification of potential related parties: One way which the Partnership can identify potential related parties is through the maintenance of a register of interests. We noted during our audit that the 2018/19 annual updating of the register of interests by members of the Partnership had not been fully completed. <li data-bbox="516 789 930 1325">• Related party transactions: Once potential related parties have been identified, an exercise should be carried out to review accounting records for transactions associated with those related parties. This part of the process is carried out by the City of Edinburgh Council (the Council) on behalf of the Partnership and is dependent on potential related parties being identified by management at the Partnership and reported to the Council. We would encourage both management at the Partnership and the Council to review existing procedures to ensure these are carried out in the most efficient and effective way. <p data-bbox="516 1335 565 1362">Risk</p> <p data-bbox="516 1367 930 1419">There is a risk that the disclosure within the annual accounts is incomplete.</p> <p data-bbox="516 1451 711 1478">Recommendation</p> <p data-bbox="516 1482 930 1635">We would encourage both management at the Board and the Council to review existing procedures to ensure these are carried out in the most efficient and effective way.</p>	<p data-bbox="995 247 1385 327">In the past members were sent reminders, biannually, of the need to update the register.</p> <p data-bbox="995 338 1385 438">With effect from the current financial year, a record of those members not responding is kept and they are sent follow-up reminder emails, monthly.</p> <p data-bbox="995 449 1412 579">A review was undertaken of the Register of Interests, when preparing the Audited Annual Accounts for 2018/19. No additional disclosures were identified.</p> <p data-bbox="995 590 1412 695">As part of the preparation of the Unaudited Annual Accounts for 2019/20 onwards, a review will be undertaken of the Register of Interests.</p> <p data-bbox="995 705 1352 758">Responsible officer: Partnership Director/Treasurer</p> <p data-bbox="995 768 1401 800">Implementation date: 31 March 2020</p>



Follow up of prior year recommendations

Of the six recommendations raised within our previous annual audit reports and which were outstanding, we note that three have been fully implemented, and one is partially complete and two remain outstanding. Details are given below.

1. User Access Controls

Initial rating	Issue & recommendation	Management comments
Grade 3	<p>Issue</p> <p>Our review of the journals environment identified that all City of Edinburgh Council staff with access to Oracle journal input function in the financial ledger system, have the ability to post to the Board's financial ledger.</p> <p>Risk</p> <p>There is a risk that incorrect or fraudulent postings could be made without detection by the Board's officers.</p> <p>Recommendation</p> <p>While our audit review in respect of the 2017/18 financial year did not identify any indications of user access being manipulated, we recommend that Partnership officers in conjunction with City of Edinburgh Council review user access controls for the financial ledger.</p>	<p>The City of Edinburgh Council is undertaking an investigation into the technical requirements and cost implications of introducing additional user access controls for journal entry input to the financial ledger</p> <p>Responsible officer: Treasurer/Partnership Director</p> <p>Implementation date: Immediate</p>
Current status	Audit update	Management response
Complete	<p>We have reviewed the actions taken to ensure access to post journals has been limited to those with appropriate authority.</p> <p>Recommendation has been closed with new authorisation measures in place.</p>	N/A



2. Authorisation of Invoices

Initial rating	Issue & recommendation	Management comments
Grade 5	<p>Issue</p> <p>The Partnership Director has been absent since December 2017. In the interim, an arrangement was put into place where the Chair of the Board would approve invoices greater than £2,000 before passing to City of Edinburgh Council finance for payment.</p> <p>This arrangement was not reported to the Board or Performance and Audit Committee and does not demonstrate good governance.</p> <p>Risk</p> <p>There is a risk that the Chair cannot provide effective challenge or scrutiny to officers due to involvement in operational decision making.</p> <p>Recommendation</p> <p>The Partnership should ensure that all invoices that were approved by the Chair are reported to the Performance and Audit Committee and Board. Moving forward, the schedule of Certifying Officers and Limits of Authority should be revised to require two officer signatures.</p>	<p>Since its creation as a statutory body, the process to pay Partnership invoices has required that the Partnership Director sign invoices of value greater than £2,000 and during the Partnership Director's holiday period, invoices with a value greater than £2,000 be signed by a nominated officer, in consultation with the Partnership Chair.</p> <p>Once relevant signatures are obtained by the Partnership, invoices are passed to the Finance Team in the City of Edinburgh Council for scrutiny by a Principal Accountant and Accountant, before being passed to the Council's invoice Payment Team. The Invoice Payment Team review invoices to ensure the supplier is an approved supplier, before payment is processed.</p> <p>Scrutiny of all payments is made as part of the quarterly financial performance reporting to the Partnership Board. In addition, any invoice payment subject to European grant funding is subject to review by external auditors who are appointed as part of the EU grant funding process.</p> <p>A report will be presented to the Partnership's Performance and Audit Committee on 7th September 2018, detailing all invoice payments signed by the Partnership Chairperson, during the Partnership Director's absence.</p> <p>A report will be presented to the Partnership Performance and Audit Committee on 7th September 2018 detailing changes to the schedule of Certifying Officers and Limits of Authority, to revise this to require two officer signatures.</p> <p>During any absence of the Partnership Director, any invoice payment requests in excess of £2,000 will be counter-signed by a Principal Accountant of the City of Edinburgh Council; this in addition to signature by two officers of the Partnership.</p> <p>Responsible officer: Treasurer</p> <p>Implementation date: Immediate</p>
Current status	Audit update	Management response
Complete	Audit testing during 2018/19 confirmed that the approval processes outline above have been applied in practice.	N/A



3. Governance Scheme

Initial rating	Issue & recommendation	Management comments
Grade 3	<p>Issue</p> <p>During 2017/18, a number of independent members' terms of appointment came to an end including the Chair of the Performance and Audit Committee.</p> <p>For a single meeting, the Chair of the Board acted as Chair of the Performance and Audit Committee until a permanent Chair could be appointed by the Partnership Board to the Committee.</p> <p>Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2018) states that organisations 'should adopt a model that establishes the committee as independent and effective.' Best practice recommends that the Chair should not be permitted to be a member of the Performance and Audit Committee.</p> <p>Risk</p> <p>There is a risk that the Performance and Audit Committee is not operating independently and could not provide effective scrutiny and challenge to officers.</p> <p>Recommendation</p> <p>The Partnership has reviewed its Governance Scheme following a recommendation from internal audit. We recommend that a further review is conducted specifically considering whether the Chair of the Partnership should be entitled to substitute for any member of the committee.</p> <p>CIPFA have recently published a reviewed Audit Committee guide and we further recommend that the Committee performs a self-assessment against the guide.</p>	<p>Ministerial approval for the appointments of the new Non-Councillor Members was not granted within the expected timeframe, resulting in the Performance and Audit Committee not having full Non-Councillor Member representation, or a Chair, for the June 2018 meeting. There were concerns that the meeting would not be quorate and as the Governance Scheme states that the Chair of the Partnership is entitled to substitute for any member of the Committee, it was considered appropriate, as an emergency measure, for him to Chair a one-off meeting.</p> <p>At the 22 June Partnership Board meeting, appointments to the Performance and Audit Committee were made, including a permanent Chair.</p> <p>In respect of the Chair being able to substitute for any member of the committee, a further review of the Governance Scheme will be carried out and reported to the December Partnership Board.</p> <p>Responsible officer: Head of Programmes</p> <p>Implementation date: First part complete, second part by end December 2018</p>

Current status	Audit update	Management response
Outstanding	<p>The review of the Governance Scheme is due to be reported to the Partnership at the September 2019 meeting.</p>	<p>The Governance Scheme has been reviewed and updated to confirm that the Chair of the Partnership cannot be a member, and cannot be a substitute for any other member, of the Performance & Audit Committee. The necessary report will be presented to the Partnership Board on 27 September 2019.</p> <p>Responsible officer: Partnership Director</p> <p>Implementation date: 27 September 2019</p>



4. Asset Recording and Tagging

Initial rating	Issue & recommendation	Management comments
Grade 4	<p>Observation</p> <p>Assets within the asset register are not allocated a unique reference number and are instead grouped by type. In addition to this the physical assets are not individually labelled. It is therefore not possible to undertake a physical verification of assets from the register to the floor (or vice versa). There has been significant issues verifying the number of assets held and the value per item in year</p> <p>Recommendation</p> <p>To ensure assets are accounted for appropriately and prevent against the possible misappropriation of assets, we recommend that new assets acquired, across all sites are:</p> <ul style="list-style-type: none"> • brought into the fixed asset register with sufficient detail to allow each unit to be individually identifiable including purchase date and value per item; and • appropriately labelled when brought into use to create a direct link between the fixed asset register and the physical assets. 	<p>2016/17 management comments</p> <p>The Partnership Director has instructed that the Projects team oversee the creation of a full and comprehensive asset register for the Partnership.</p> <p>2017/18 management comments</p> <p>SEStran appreciates the acknowledgement that significant work has been done, to date and that the presentation of the information can be improved. Accordingly, work will continue to complete the Fixed Asset Register, ensuring that all necessary information is included and that it is presented in a consistent manner.</p> <p>Responsible officer: Head of Programmes</p> <p>Implementation date: 31 December 2018</p>
Current status	Audit update	Management response
Complete	The updated asset register has been reviewed and has been updated.	N/A



5. Register of Interests

Initial rating	Issue & recommendation	Management comments
Grade 3	<p>Observation</p> <p>From our review of the Registers of Interests of members it was found that a number of the declarations forms had not been updated since 2014. Upon further review we identified an undisclosed related party transaction of £0.086million relating to an undeclared related party for Edinburgh and Lothians Greenspace Trust. The annual accounts have been updated to reflect the appropriate disclosures.</p> <p>Recommendation</p> <p>The Partnership should ensure registers of interest are updated on at least an annual basis</p>	<p>2016/17 management comments</p> <p>All members of the Partnership Board are reminded and have been in Summer 2017 of the provision of regulations which provide for Board Members to give notice of registerable interests as outlined in the Partnership Code of Conduct and all members of the Board at the first meeting of the new session has been reminded of their Code of Conduct responsibilities. Keeping entries in the Register of Interests up to date is ultimately the responsibility of individual Members. The Secretary of the Partnership is the proper officer for these purposes. We should stress that they receive an annual reminder.</p> <p>2017/18 management comments</p> <p>The members concerned have been advised of the omissions and the necessary interests have now been recorded.</p> <p>Code of Conduct training is arranged for 21 September 2018.</p> <p>Responsible officer: Secretary to the Partnership</p> <p>Implementation date: 21 September 2018</p>
Current status	Audit update	Management response
Partially Complete	<p>We noted during our audit that the 2018/19 annual updating of the register of interests by members of the Partnership had not been fully completed.</p>	<p>As referred to above, Board members not responding to requests for information on the biannual approaches will be sent reminders by emails monthly until the necessary updates are received.</p> <p>Responsible officer: Partnership Director</p> <p>Implementation date: On-going</p>



6. Longer Term financial planning

Initial rating	Issue & recommendation	Management comments
Grade 4	<p>Observation</p> <p>The Partnership develops a budget for one financial year which is aligned to the annual business plan and Regional Transport Strategy. There is a risk that funding is used to support short term need rather than long term strategic priorities.</p> <p>Recommendation</p> <p>In order to ensure financial sustainability the Partnership should develop medium to long term financial plans on a 3 to 5 year basis. This would assist the Partnership in highlighting risks to its sustainability and ensure funding is allocated in line with the long term strategic aims of the Regional Transport Strategy.</p>	<p>2016/17 management comments</p> <p>The removal of capital funding in 2009/10 means there is a difficulty for long-term strategic funding of RTS projects. The Director continues to monitor and advocate for investment by stakeholders in strategic priorities and for the return of long-term significant funding to RTPs through the second National Transport Strategy review process. However, given our main funder Transport Scotland has only been able to issue one year funding settlements in recent years, this has limited our ability to take a long-term budgetary approach to investment.</p> <p>2017/18 management comments</p> <p>The Transport (Scotland) Bill, currently out to consultation, includes a proposal to allow RTPs to carry forward reserves. If approved, this may assist with financial planning over a time period longer than one year.</p> <p>However, as Transport Scotland continues to issue one-year funding settlements, there is limited scope to take a long-term approach to financial planning. Within the scope of funding information available, a plan shall be developed, which will seek to align to the Business Plan and Regional Transport Strategy,</p> <p>Responsible officer: Partnership Director/Treasurer</p> <p>Implementation date: 31 March 2019</p>
Current status	Audit update	Management response
Outstanding	<p>Refer to paragraphs 67 of this report. We understand the Partnership intends to review and develop medium term financial plans over the course of 2019/20, following the enactment of the Transport (Scotland) Bill and the publication of three-year funding settlements from the Scottish Government.</p>	<p>The Board continues to prepare its revenue budget in the context of one-year funding settlements from the Scottish Government and constituent councils.</p> <p>A financial plan, which extends beyond one year, will be presented to the Board at its meeting in December 2019, when the Board is due to consider its initial financial plans for 2020/21.</p> <p>Responsible officer: Partnership Director and Treasurer</p> <p>Implementation date: December 2019</p>

