



South East of Scotland Transport Partnership

2019/20 Annual Audit Report to members of South East of Scotland Transport Partnership and the Controller of Audit

November 2020



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Key messages



Annual accounts audit

We report within our independent auditor's report unqualified opinions on the financial statements and on other prescribed matters. There are no matters which we are required to report by exception.

We specifically updated our risk assessment and audit plan in light of the COVID-19 pandemic and recognised this as a key audit risk. Our findings as they relate to this risk are documented under each section of this report.

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 concluded that it is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government Framework (2016).
- The Partnership has appropriate 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 throughout the period or as a result of remote working during the COVID-19 pandemic.



Financial sustainability

- Three year financial plans (commencing 2020/21) have been developed in 2019/20 and approved by the Partnership. The Partnership continues to progress and update its future financial plans, taking into account the COVID-19 pandemic, through a review of its three year planning assumptions.
- The Partnership note in the annual accounts that, as a result of the COVID-19 pandemic, through some modification to project methodologies and by making the most of available technologies to support consultation, engagement and project meetings, it has so far been possible to progress all areas of the Partnership's work.

Conclusion

This report concludes our audit for 2019/20. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

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November 2020

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 2019/20.

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

The Partnership’s Performance and Audit Committee is designated as “those charged with governance”.

Introduction

1. This report summarises the findings from our 2019/20 audit of South East of Scotland Transport Partnership (“the Partnership”).
2. We outlined the scope of our audit in our External Audit Plan, which we presented at the outset of our audit. The core elements of our work include:
 - an audit of the 2019/20 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 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. We would like to thank all management and staff for their co-operation and assistance during our audit.
- ### Confirmation of independence
5. 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.
 6. We confirm that we complied with the Financial Reporting Council’s (FRC) Ethical Standards. In our professional judgement, the audit process is

independent, and our objectivity has not been compromised in any way.

7. We set out in Appendix 1 our assessment and confirmation of independence.

Adding value through the audit

8. 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

9. 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 any member of your audit team.

Openness and transparency

10. This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

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 2019/20 annual accounts.

Annual accounts

An unqualified audit opinion on the annual accounts

The annual accounts for the year ended 31 March 2020 were approved by the Partnership on 20 November 2020. Our independent auditor's report includes an unqualified opinion on the annual accounts and on other prescribed matters.

Overall conclusion

11. The annual accounts for the year ended 31 March 2020 were considered by the Performance and Audit Committee on 6 November 2020 and approved by the Partnership on 20 November 2020. We report within our independent auditor's report:
 - An unqualified opinion on the annual accounts; and
 - An unqualified opinion on other prescribed matters.
12. We are also satisfied that there were no matters which we are required to report by exception.

Our assessment of risks of material misstatement

13. The assessed risks of material misstatement described in the table below 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 below.

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

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*.

Noted in the 2019/20 External Audit Plan

14. 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 outside the normal course of business 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.

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.

Noted in the 2019/20 External Audit Plan

15. 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.
16. 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.

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.

Noted in the 2019/20 External Audit Plan

17. We have 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 the Partnership's policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

Pension assumptions

An actuarial estimate of the pension fund asset/liability 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 date 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. There is a risk that the assumptions used are not appropriate.

Noted in the 2019/20 External Audit Plan

18. We reviewed the reasonableness of those assumptions used in the calculation against other local government pension fund actuaries and other observable data, with no issues identified. In addition we reviewed the information in the actuarial report for completeness and accuracy against the published pension fund data.
19. We have considered the competence, capability and objectivity of the actuary in line with the requirements of ISA (UK) 500 'Audit Evidence'. From this review we did not identify any items which gave us cause for concern over the suitability of the actuary.

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20. The net pension liability within the audited annual accounts has been revised to take account of the latest reliable, available information on the 'McCloud Judgement':

McCloud judgement

21. This case relates 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. In June 2019, the Supreme Court rejected the Government's request for a further appeal.
22. In July 2020, the Government released its consultation on applying the remedy to address the age discrimination inherent within the transitional protections that were adopted by the public service schemes in 2014 and 2015. The SPPA on behalf of Scottish Ministers also released a consultation document which sets out its preferred policy approach for remedying the discrimination in the Local Government Pension Scheme. The Partnership's Actuaries highlighted that the remedy consultation could have a material impact on the treatment of McCloud in the March 2020 actuarial pension valuations.
23. Estimates require to be based on the latest available, reliable information, including information that becomes available after 31 March. The issue of the consultation paper from SPPA on the McCloud judgement is an adjusting event as it provides evidence of conditions that existed as at 31 March 2020.
24. The financial effect of this pension issue is a past service gain of £15,000. As a consequence, the net pension liability of £676,000 as reported in the unaudited annual accounts is now a net pension liability of £661,000.

Goodwin tribunal

25. The Goodwin tribunal relates to a recent employment tribunal that changes the pension entitlement of male survivors in opposite sex marriages to take into account the female member's service from 6 April 1978. Previously, the male spouse survivor's entitlement was based on service accrued from 6 April 1988. The change is backdated to 5 December 2005. The change therefore affects the pension of male spouse survivors where their entitlement arose (i.e. where the female member died) on or after 5 December 2005.
26. Management instructed its Actuaries to calculate an estimated cost of the Goodwin impact on the Employer's future obligations. The Actuaries estimated that the closing obligations as at 31 March 2020 may be around 0.01% higher as a result of the Goodwin tribunal.
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Based on this information, management assessed the impact on the Partnership's pension liability to be immaterial and no adjustment has been made in respect of the Goodwin tribunal.

Update to our initial risk assessment

27. Planning is a continuous process and our audit plans are updated during the

course of our audit to take account of developments as they arise. We have specifically updated our risk assessment and audit plan in light of COVID-19. We recognised this as a key audit risk¹.

COVID-19

The COVID-19 pandemic is presenting unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. Core areas of service delivery have been suspended or substantially reduced, systems and processes have been amended to support remote working, arrangements for governance, decision making and performance management have been adapted, and many organisations are forecasting large operating deficits due to loss of income and/ or additional cost pressures. It is uncertain how long these challenges will persist.

The implications of these risks and uncertainties are under consideration by the Partnership. We continue to monitor government and relevant announcements as they pertain to the audit and have adapted our audit approach as required.

28. In response to this risk we identified potential areas where there was the risk of material misstatement to the annual accounts and/or our audit opinion. These areas included:

- Content of the annual accounts;
- Access to audit evidence; and
- Timescales/administrative processes.

Content of the annual accounts

29. In response to the impact of the COVID-19 pandemic, the Scottish Government issued Finance Circular 10/2020 which allows bodies to

disapply specified requirements for Finance Circular 5/2015 (which provides statutory guidance on the preparation of a Management Commentary).

30. The Partnership took the decision to include, where applicable to the organisation, the full disclosures in the Management Commentary.

Access to audit evidence

31. Our audit this year has been carried out remotely. As a consequence, we identified a risk that access to and provision of sufficient, appropriate

¹ A key audit risk is one which may result in a material misstatement to the financial statements or

significantly impact on our audit judgements and conclusions on the wider scope dimensions..

audit evidence in support of our audit opinion may be impacted by the inherent nature of carrying out our audit remotely.

32. We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.
33. We are pleased to report we received all audit evidence requested to allow us to form our audit opinion.
34. We received the unaudited annual accounts and supporting papers of a high standard. Our thanks go to staff at the Partnership and City of Edinburgh Council for their assistance with our work.

Timescales/Administrative processes

35. Schedule 6 of the Coronavirus (Scotland) Act 2020 allows a local government body to postpone submitting the unaudited accounts to auditors and publishing the audited accounts until it is reasonably practicable. The Scottish Government has provided guidance on this in Finance Circular 10/2020. The guidance advises that 30 November should be considered a reasonably practicable date for publishing the audited accounts.
36. Audit Scotland has revised the deadline for auditors to submit the audited annual accounts from 30 September to 30 November 2020. However, it is for local auditors to agree a timetable with each local government body with a view to completing the process as early possible while still delivering a high quality audit.

37. The annual accounts were considered and approved by the Partnership on 20 November 2020; thereby meeting the revised timetable as set out above.

An overview of the scope of our audit

38. The scope of our audit was detailed in our External Audit Plan. 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.
39. 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.
40. 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 below.

Our application of materiality

41. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would

reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We review our assessment of materiality throughout the audit.

42. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.
43. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
44. Our initial assessment of materiality for the annual accounts was £14,400. This was increased upon receipt of the unaudited annual accounts to £21,550. This equates to approximately 1% of the Partnership's 2019/20 gross expenditure. We consider our updated assessment has remained appropriate throughout our audit.

	Materiality £
Overall materiality: Our assessment is made with reference to the Partnership's gross expenditure. We consider this to be the principal consideration for the users of the annual accounts when assessing the performance of the Partnership.	21,550
Performance materiality: Using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.	16,160

45. We noted within our External Audit Plan that we would report on all audit differences in excess of 5% of the overall materiality figure, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report on disclosure matters that we identify when assessing the overall presentation of the financial statements.

Audit differences

46. Two adjustments were made to the annual accounts:
 - An adjustment was made to the annual accounts in respect of the net pension liability (paragraphs 20-24); and
 - An adjustment was made for an invoice which had been accrued for twice in the annual accounts.
47. There were no unadjusted differences to the unaudited annual accounts. We identified some disclosure and presentational adjustments during our

audit. These have been reflected in the final set of financial statements.

Representations

48. We have requested that a signed representation letter be presented to us at the date of signing the annual accounts. This letter is to be signed by the Treasurer on behalf of the Partnership.

Legality

49. 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.
50. 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

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

The Local Authority Accounts (Scotland) Regulations 2014

52. 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 102 as they relate to the annual accounts.
53. The Scottish Government included in its Finance Circular 10/2020 guidance on the publication and inspection of the unaudited annual accounts as a result of the COVID-19 pandemic.
54. Overall we concluded that appropriate arrangements were in place to comply with the Regulations and the guidance as set out in Finance Circular 10/2020.

Management commentary

55. 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.
56. 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

² 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.

and has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003 (refer to paragraphs 29-30 of this report).

Annual governance statement

57. We are satisfied that the governance statement within the annual accounts is consistent with the financial statements and it has been prepared in accordance with the 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.

Remuneration report

58. 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.

Reserves

59. The Transport (Scotland) Act 2019 allows Regional Transport Partnerships (RTPs) to hold reserves. The Partnership in its annual accounts now reports a general fund reserve. We have reviewed the accounting treatment associated with those reserves and concluded that it is in accordance with the relevant guidance and standards.

Going concern

60. As at 31 March 2020, the Partnership reported a net liability position of £0.173million.

61. The balance on the unusable reserves includes the net pension liability of £0.661million.

62. 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.

Systems of internal control

63. We have evaluated Partnership's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatement in the annual accounts. Our approach has included documenting key internal financial controls and performing walkthroughs to confirm they are operating as intended.

64. We did not identify any material weaknesses in the Partnership's accounting and internal control systems.

Follow up of prior year recommendations

65. As part of our audit we have followed up on the audit recommendations from prior years. Detail is included in the action plan at Appendix 2.

Prevention and detection of fraud and irregularity

66. Our audit was planned to provide a reasonable expectation of detecting material misstatement in the annual accounts resulting from fraud and irregularity. We found the Partnership's arrangements for the prevention and detection of fraud and other irregularities to be adequate and appropriate.

Qualitative aspects of accounting practices and financial reporting

67. 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.</p> <p>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 2020/21. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Partnership 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.

Qualitative aspect considered	Audit conclusion
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.	While disclosure and presentational adjustments were made during the audit process 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. Our audit this year has been carried out remotely. We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

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.
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Wider scope conclusions

Governance statement



We are satisfied that the Annual Governance Statement for the year to 31 March 2020 is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

The Partnership has appropriate 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 throughout the year or as a result of remote working during the COVID-19 pandemic.

Financial sustainability



Three year financial plans (commencing 2020/21) have been developed in 2019/20 and approved by the Partnership. The Partnership continues to progress and update its future financial plans, taking into account the COVID-19 pandemic, through a review of its three year planning assumptions.

The Partnership note in the annual accounts that, as a result of the COVID-19 pandemic, through some modification to project methodologies and by making the most of available technologies to support consultation, engagement and project meetings, it has so far been possible to progress all areas of the Partnership's work.

Our approach to the wider scope audit

68. Our approach to the wider scope audit (as set out in our 2019/20 External Audit Plan) builds upon our understanding of the Partnership which we developed from previous years, along with discussions with management and review of Partnership minutes and key strategy documents.
69. Our annual audit work on the wider scope is 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.



Annual 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) and is consistent with the financial statements.

70. We are satisfied that the Annual Governance Statement for the year to 31 March 2020 is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).
71. The Treasurer has confirmed that in his opinion, reasonable assurance can be placed upon the adequacy and effectiveness of the Partnership's internal control system.
72. From our audit work performed we concluded that the Partnership has appropriate 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.
73. The Partnership'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
74. With national lockdown announced on 23 March 2020, all Partnership activity moved to being delivered remotely and they have continued to operate throughout the period.
75. The March 2020 Partnership meeting was cancelled due to the pandemic to allow resource to be refocused. Decisions due to be taken at that meeting were dealt with as Items of Urgency under the provisions of the Partnership's Standing Orders.
76. Partnership meetings resumed in June 2020 and were held virtually. The September 2020 Partnership meeting was postponed however to November 2020 to better align with the revised timetable for finalising the annual accounts. The Performance and Audit Committee has continued to meet virtually throughout the period.
77. The Treasurer has reflected on the impact of COVID-19 in the Annual Governance Statement and provided assurance over the arrangements in place during this period. We are satisfied that the accounting and internal control system has continued to operate effectively during remote working with no significant changes in controls.

Impact of COVID-19

74. With national lockdown announced on 23 March 2020, all Partnership activity moved to being delivered remotely



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

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

Financial sustainability

The Partnership has yet to fully develop medium to long term financial plans. In December 2019, the Partnership received an update on the development of a medium-term financial plan (covering the three year period commencing 2020/21).

The Transport (Scotland) Bill received Royal Assent in November 2019. The Act allows Scotland's Regional Transport Partnerships' (RTPs) to manage year-end finances by enabling them to hold a balance of funds. RTPs' will also be able to hold and operate capital funds, renewals and repair funds and insurance funds in a similar way to Scottish local authorities. The Scottish Government has carried out a 12 week consultation on these proposals, the results of which have yet to be published.

The Act will have a significant impact on the way in which the Partnership develops its revenue and, if applicable, capital financial plans. A reserves policy has been prepared which will be presented to the Partnership for consideration in 2020.

As noted in the 2019/20 External Audit Plan

79. In December 2019, the Partnership received a report which set out its proposed revenue budget for 2020/21 and indicative financial plans for 2020/21 and 2022/23. These were further considered by the Performance and Audit Committee in March 2020. The 2020/21 revenue budget was subsequently approved by the Partnership under emergency delegated powers due to the COVID-19 pandemic.
80. The Partnership has progressed its future financial plans, taking into account the COVID-19 pandemic, through a review of its three year planning assumptions which were initially considered in December 2019. The planning assumptions have been updated for:
- A reduction in estimated staff recharges over the three year period commencing 2020/21; and
 - Revisions to the pay award and pay increment provision in 2021/22 and 2022/23.

81. Indicative revenue budgets for 2021/22 and 2022/23 are due to be presented to the Partnership in November 2020. These assume a balanced position each year and are based on the Partnership receiving £782,000 grant from the Scottish Government, £190,000 from constituent council requisitions and the balance met from External Funding:

	20/21	21/22	22/23
	£'000	£'000	£'000
Total budget	1,661	1,462	1,334
External funding	689	490	362
Scottish Government	782	782	782
Council requisition	190	190	190
Total funding	1,661	1,462	1,334

Source: *Financial Planning 2021/22 to 2022/23 report to Performance and Audit Committee November 2020*

82. The Transport (Scotland) Act 2005 prohibited regional transport partnerships from generating a surplus or deficit on a general fund and hence adding to reserves. The enactment of provisions within the Transport (Scotland) Act 2019 allow RTP's to manage year-end finances by enabling them to hold a balance of funds.
83. The Partnership has prepared a Reserves Policy. The Reserves Policy sets out the following:
- Maintain a minimum general reserve level of 5% of the approved annual core revenue budget; to mitigate core revenue budget risks; specifically, to provide a contingency to cushion the impact of unexpected financial events;
 - Where slippage occurs on revenue projects, which are included in the approved annual revenue Projects budget, retain within the General Fund reserve an earmarked balances of the underspent Project budget
84. The Partnership approved, under emergency delegated powers due to the COVID-19 pandemic, the Reserves Policy and agreed to work towards establishing an unallocated general fund reserve of £29,000,

based on 5% of the proposed core revenue budget for 2020/21, following review of the 2019/20 year-end position.

85. The Partnership however sets a balanced budget at the start of each year and therefore will only achieve the target unallocated general fund reserve position through reported underspends in the year. The Partnership should, as part of its annual budgeting process, develop a strategy which sets out how the unallocated general fund reserve is built up and maintained.

Action Plan Point 1

The Partnership's performance in 2019/20

86. The Comprehensive Income and Expenditure Statement for 2019/20 shows that the Partnership spent £2.189million on the delivery of services, resulting in an accounting surplus of £107,000. However, the accounting surplus 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 2019/20 Code).
87. Taking account of these adjustments, the Partnership reported a surplus of £189,000, which following the enactment of specific provisions within the Transport (Scotland) Act 2019 has been reported and held within a general fund reserve.
88. As at 31 March 2020, the general fund comprises £12,000 in unallocated general funds and £177,000 in earmarked balances (representing slippage on revenue projects).
89. As noted at paragraph 84, the Partnership's approved Reserves Policy is to work towards unallocated general fund reserve of £29,000. In

2019/20, the Partnership fell below this target level.

Impact of COVID-19

90. The Partnership note in the annual accounts that through some modification to project methodologies and by making the most of available technologies to support consultation, engagement and project meetings, it has so far been possible to progress all areas of the Partnership's work.

Appendices



Appendix 1: Respective responsibilities of the Partnership and the Auditor

Responsibility for the preparation of the annual accounts

The Partnership is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. The Treasurer has been designated as that officer.

The Treasurer is responsible for the preparation of the Partnership's 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 2019/20 Code of the state of the affairs of the body as at 31 March 2020 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 2019/20 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 use of the going concern basis of accounting in the preparation of the financial statements is appropriate or the Treasurer has disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue;
- 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.

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 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.

Confirmation of independence

We confirm that we have complied with the FRC's Ethical Standards. 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 Azets, the Partnership or 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

The recommendations have been rated to help the Partnership assess the significance of the issues and prioritise the actions required.

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

Reserves Policy

Initial rating	Issue & recommendation	Management comments
Grade 3	<p>Issue</p> <p>Per its Reserves Policy, the Partnership has set a minimum unallocated general fund level of £29,000. However, by setting a balanced annual budget, achievement of this is dependent on delivering underspends in year.</p> <p>Risk</p> <p>There is a risk that the Partnership cannot build or maintain an unallocated general fund reserve in line with its approved policy.</p> <p>Recommendation</p> <p>The Partnership should, as part of its annual budgeting process, develop a strategy which sets out how the unallocated general fund reserve is built up and maintained.</p>	<p>Indicative plans for the Partnership's budget for 2021/22 will be presented to the Partnership Board on 20 November 2020, with a budget presented to the Partnership for approval by 31st March 2021.</p> <p>The revenue budget to be presented for approval in March 2021 will be developed, setting out how the unallocated general fund reserve will be built up and maintained.</p> <p>Responsible officer: Treasurer and Partnership Director</p> <p>Implementation date: 31 March 2021</p>

Follow up of prior year recommendations

The five recommendations included in our 2018/19 annual audit report have been closed as described below.

Property, plant and equipment – impairment and verification exercise

Initial rating	Issue & recommendation	Management comments
Grade 3	<p>Issue</p> <p>We have identified that management have not carried out an exercise over the fixed assets 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 tassets 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>
Current status	Update	
Closed	An impairment review was carried out during 2019/20. This resulted in an impairment charge in the annual accounts.	

Related parties

Initial rating	Issue & recommendation	Management comments
Grade 3	<p>Issue</p> <p>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 style="list-style-type: none"> • 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 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 	<p>In the past members were sent reminders, biannually, of the need to update the register.</p> <p>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>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>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>Responsible officer: Partnership Director/ Treasurer</p> <p>Implementation date: 31 March 2020</p>

Initial rating	Issue & recommendation	Management comments
	<p>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> <p>Risk</p> <p>There is a risk that the disclosure within the annual accounts is incomplete.</p> <p>Recommendation</p> <p>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>	
Current status	Update	
Closed	As part of the preparation of the Annual Accounts for 2019/20 a review was undertaken of the Register of Interests. No additional related parties were identified.	

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</p>	<p>2017/18 management comments</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>2018/19 management comments</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>

Initial rating	Issue & recommendation	Management comments
	<p>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>Implementation date: 27 September 2019</p>
Current status	Update	
Closed	<p>The revised Governance Scheme was approved by the Partnership in September 2019. This had been 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 and Audit Committee.</p>	

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> <p>2018/19 management comments</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>

Initial rating	Issue & recommendation	Management comments
Current status	Update	
Closed	An annual exercise was performed in 2019/20 to update the register of interests.	

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>2018/19 management comments</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</p>

Initial rating	Issue & recommendation	Management comments
		<p>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>
Current status	Update	
<p>Closed</p>	<p>Three year financial plans (commencing 2020/21) have been developed in 2019/20 and approved by the Partnership. The Partnership continues to progress and update its future financial plans, taking into account the COVID-19 pandemic, through a review of its three year planning assumptions.</p>	



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