



South East of Scotland Transport Partnership

2015/16 Annual audit
report to Members and
the Controller of Audit

September 2016

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The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies (www.audit-scotland.gov.uk/about/ac/). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General (www.audit-scotland.gov.uk/about/).

Stephen O'Hagan, Senior Audit Manager, Audit Scotland is the engagement lead of South East of Scotland Transport Partnership for 2011/12 to 2015/16.

This report has been prepared for the use of South East of Scotland Partnership and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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Key messages

Audit of financial statements

- Unqualified auditor's report on the 2015/16 financial statements.
- Working papers were of a good standard and officers provided good support which enabled the audit team to complete fieldwork by the planned target date.
- All monetary, presentational and disclosure issues identified in unaudited accounts, including commentary in the Annual Governance Statement, were corrected by management in the audited financial statements.

Financial management and sustainability

- During 2015/16, the Partnership recorded a breakeven position with total outturn expenditure matching total income of £2.966m.
- A significant proportion of the Partnership's expenditure and income relates to EU projects. The Partnership is currently reviewing its future planned expenditure ahead of the likely triggering of Article 50 and the UK's departure from the EU. Current EU projects are not subject to risk, however there remains a degree of uncertainty around potential future income streams for EU projects.

Governance and transparency

- Following the end of the Chair's tenure in December 2015, the Partnership operated without a Chair until July 2016. Officers have reviewed business decisions through this period and concluded no post-ratification of these was necessary, due to the nature of decisions.
- In all other respects we have concluded that the Partnership had effective overarching and supporting governance arrangements in place during the year.

Best Value

- A refresh of the existing Regional Transport Strategy was presented to the Partnership in December 2015. In July 2016, the board undertook to develop a new strategy for the future.
- The Partnership continues to progress the delivery of real time passenger information across the region. It is reviewing the implications of First East Scotland's withdrawal from routes in East Lothian, and will explore options for potential redeployment of bus kits, to maximise utilisation of assets purchased through the project.



Outlook

- The Partnership has approved a revenue budget for 2015/16 which makes provision for £0.551m of core service costs and £1.069m of project expenditure. The Partnership has been successful in sourcing additional funding for projects to date. However, there is a risk around the delivery of the Partnership's objectives if adequate funding cannot be sourced beyond 2016/17.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of South East of Scotland Transport Partnership (the Partnership). The report is divided into sections which reflect our public sector audit model.
2. The management of South East of Scotland Transport Partnership is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of the Partnership, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. Appendix 2 summarises the local reports issued by Audit Scotland during the course of the year. Appendix 3 is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that the Partnership understands its risks and has arrangements in place to manage these risks. The Partnership should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
6. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
7. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
8. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of South East of Scotland Transport Partnership will be Scott Moncrieff. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

Audit of the 2015/16 financial statements

| | |
|--------------------------|---|
| Audit opinion | <ul style="list-style-type: none">• We have completed our audit of the Partnership and issued an unqualified independent auditor's report. |
| Going concern | <ul style="list-style-type: none">• The financial statements of the Partnership have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the Partnership's ability to continue as a going concern. |
| Other information | <ul style="list-style-type: none">• We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. The Annual Governance Statement has been amended to include reference to the Partnership chair vacancy during 2015/16, and the subsequent action to appoint a new chair. We have nothing else to report as a result of our review. |

Submission of financial statements for audit

9. We received the unaudited financial statements in accordance with the agreed timetable. The working papers were of a good standard and staff provided good support to the audit team which assisted the delivery of the audit to deadline.

Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Partnership in March 2016.
11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee

for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix 1 sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.
13. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

14. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).

15. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
16. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of South East of Scotland Transport Partnership, we set planning materiality for 2015/16 at £21,000 (1% of gross expenditure). We report all misstatements greater than £1,000. Performance materiality was calculated at £16,000, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.
17. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and set planning materiality for 2015/16 at 34,000. We report all misstatements greater than £2,000. Performance materiality was calculated at £26,000.

Evaluation of misstatements

18. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. These adjustments have reduced both the gross expenditure and gross income within the cost of services by £87,000. The effect on the balance sheet was to

increase debtors by £58,000 and reduce creditors by £87,000. Grant income/contributions received in advance also increased by £145,000. The net effect on of these adjustments on both the net cost of services and net assets in the balance sheet is nil.

Significant findings from the audit

19. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
 - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
 - Significant difficulties encountered during the audit.
20. The following table details those issues or audit judgements that, in our view, require to be communicated to those charged with governance in accordance with ISA 260.
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
 - Written representations requested by the auditor.
 - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

Table 1: Significant findings from the audit**Significant findings from the audit in accordance with ISA260****Issue: Compliance with legislative requirements**

The Regional Transport Partnerships (Scotland) Order 2005 stipulates a maximum 10 year period for the chairpersonship of a Partnership. The Partnership's Chair reached this threshold at the end of 2015. At its December 2015 meeting, the Partnership decided not to appoint a new Chair until after the local government elections in May 2017 and instead created a Vice-Chair post as an interim measure. The former Chair was then appointed to this post.

Internal Audit reviewed this decision as part of its audit work for the year, and concluded that it could be perceived as not complying with the 2005 Order, given the 17 month delay in appointing a new chair. It could also potentially result in Partnership decisions being subject to challenge on the grounds of non-compliance with the Order. Their findings were reported to the Partnership in July 2016, and on the basis of the findings, the Partnership appointed a new Chair (Councillor Lesley Hinds) on 1 July 2016. Officers also reviewed Partnership decisions in the intervening period and concluded that no post ratification was necessary, based on the nature of business and the expiration of the time period for any potential legal challenge.

The Annual Governance Statement in the unaudited annual accounts was prepared in June 2016, prior to the Partnership's consideration of Internal Audit's report, and as such made no reference to Internal Audit's findings on the vacant post of chair. In line with the CIPFA Good Governance Guide, the statement included in the annual accounts for certification has been updated to make reference to the significant issues highlighted by Internal Audit in their report.

Resolution: The Treasurer's certification in the Annual Governance Statement within the audited annual accounts has been amended to reflect the governance issue raised by Internal Audit.

Significant findings from the audit in accordance with ISA260

Issue: Carry forward of budget underspend

The 2015/16 budget included requisitions of £200,000 from constituent authorities. When reviewing the financial performance in December 2015 and the projected underspend position, the Partnership approved the carry forward of £87,000 of requisitions to 2016/17, to meet future commitments on RTPI.

The unaudited financial statements included an adjustment of £87,000 to increase expenditure in respect of these underspend requisitions, instead of reducing income. This resulted in both income and expenditure being overstated by £87,000. The unaudited statements also reflected the £87,000 underspend as a creditor in the balance sheet, rather than a contribution received in advance. The net effect of correcting this error on both the net cost of services and net assets is nil.

Resolution: The audited financial statements have been adjusted to correct for this error, including the update of management commentary narrative.

Issue: Classification of cash flow transactions

Working papers to support the cash flow statement within the unaudited financial statements included misclassification errors. Bus Improvement Fund grant income of £776,000 was incorrectly classified as “other receipts from operating activities” instead of “government grants”. On further review it was identified that prior year BIF monies of £558,000 were also misclassified in the cashflow statement. In addition salary recharges of £190,000 in the prior year had also been misclassified as “other receipts” instead of “cash paid to suppliers”. Officers have amended the cashflow statement figures for current and prior year to reflect these reclassification errors. The correction of these errors has no effect on the “change in cash and cash equivalents” and no effect on the financial results for the Partnership.

Resolution: The audited financial statements have been adjusted to correct for these classification errors.

Significant findings from the audit in accordance with ISA260

Issue: Grant income received in advance

During 2015/16 the Partnership received a total of £58,000 of grant funding that relates to future financial years. This has been included within the unaudited financial statements as a credit entry within debtors. However, the Local Authority Code of Practice 2015-16 states this should be disclosed separately as grant income received in advance. Both debtors and grant income received in advance were therefore understated in the unaudited financial statements by £58,000. The net effect of adjusting this error is nil.

Resolution: The audited financial statements have been amended to separately disclose grant funding in advance within the balance sheet.

Future accounting and auditing developments

Code of Audit Practice

21. A new Code of Audit Practice will apply to all audits from financial year 2016/17. There will be a focus on four areas:
 - Financial sustainability
 - Financial management
 - Governance and transparency; and
 - Value for money.
22. In addition, as well as the annual audit report, other significant outputs, such as the annual audit plan, will be published on Audit Scotland's website.

Financial management and sustainability

Financial management

23. As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the officer responsible for finance has sufficient status to be able to deliver good financial management
 - standing financial instructions and standing orders are comprehensive, current and promoted within the body
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance
 - members provide a good level of challenge and question budget holders on significant variances.
24. The main financial management arrangements for the Partnership have been set down in the financial regulations and based on our accumulated knowledge and our review of relevant papers we conclude that the Partnership has made appropriate financial management arrangements.

Financial outcomes

25. The main financial objective for the Partnership is to ensure that the financial outturn for the year is within the resource budget allocated.
26. The Partnership's outturn expenditure for 2015/16 was £198,000 less than budgeted. However the Partnership achieved a breakeven position, with its outturn income matching the actual expenditure incurred as detailed in Table 2 below.

Table 2: Resource Budget

| | Final Budget (£'000) | Actual Outturn (£'000) | (Under) / Over spend |
|-----------------------------------|----------------------|------------------------|----------------------|
| Core Service | 549 | 544 | (5) |
| Revenue Projects | 1,384 | 1,380 | (4) |
| Capital Project | 1,230 | 1,042 | (188) |
| Interest | 1 | 0 | (1) |
| Total Expenditure | 3,164 | 2,966 | (198) |
| Government Grant | (782) | (782) | 0 |
| Constituent Councils Requisitions | (200) | (113) | 87 |

| | Final Budget (£'000) | Actual Outturn (£'000) | (Under) / Over spend |
|---------------------------------|----------------------|------------------------|----------------------|
| Other Income - Revenue Projects | (1,044) | (1,157) | (113) |
| Other Income - Capital Projects | (1,138) | (910) | 228 |
| Other Income - Conference | 0 | (5) | (5) |
| Total Income 2015/16 | (3,164) | (2,966) | 198 |

Source: SEStran unaudited financial statements 2015/16

27. Capital expenditure of £1.042 million was incurred on the Real Time Passenger Information (RTPI) project. This expenditure was funded principally by income from the bus operators, the Bus Investment Fund and by using the underspend which was carried forward from the Partnership's revenue budget for 2014/15.
28. The Partnership recorded an underspend of £87,000 against its revenue budget for 2015/16. At its meeting in December 2015 the Board agreed that this amount would be used to meet future commitments on the RTPI project.
29. The Partnership has no usable reserves at the year end as it holds no statutory powers to operate this type of reserve. Unusable reserves decreased by £86,000 mainly due to the net effect of adjustments through the Capital Adjustment Account and Pension Reserve.

2016/17 and beyond

30. In March 2016 the Partnership agreed a balanced budget for 2016/17 which made provision for £0.551 million of core service costs and £1.069 million of project expenditure in support of Regional Transport Strategy projects. The 2016/17 budget is based on confirmed Scottish Government and council funding for a one year period.
31. The Partnership has been successful in sourcing additional funding for projects to date. However there is a risk around the delivery of the Partnership's objectives if adequate funding cannot be sourced to support new projects beyond 2016/17.
32. There is a particular risk around the Partnership's EU funding in future years. The Partnership has a number of EU funded projects ongoing as at 1 April 2016, all at various stages of completion and attracting varying degrees of EU funding proportions as percentage of overall project costs. Anticipated remaining total project income from these projects is approximately £400,000, phased over the next four financial years from 2016/17.
33. Following the EU referendum in June 2016, the Partnership is actively monitoring and reviewing the implications of the vote on future funding. The UK Treasury has provided assurance that all multi-year projects with signed contracts or funding agreement in place, along with projects to be signed in the ordinary course of business before the 2016 UK Autumn Statement, will be fully funded, even when these projects continue beyond the UK's departure from the EU. Consequently the risk attached to the grant

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- funding for these projects arising from a likely triggering of Article 50 is minimal.
34. The Partnership currently has one bid in progress for an EU funded project with potential income value of £132,000 over three years, and a number of other planned bids whose financial value is not yet quantifiable. These include an intention to work with Napier University's Transport Research Institute (TRI) on further Horizon 2020 bids later this year, which the Partnership has been successful in bidding for in the past.
 35. Beyond the autumn statement, the EU Commission have been clear to UK organisations like SEStran bidding for competitive funds from the INTERREG and Horizon 2020 programmes that the referendum result does not change eligibility of these funds, and that UK organisations should continue to bid while they remain EU members. The Treasury has confirmed that on these funds, as with ESIF, they will underwrite the payment of such awards, even when specific projects continue beyond the UK's departure from the EU. However there is less certainty around future accessibility to other EU project funding.
 36. Notwithstanding these assurances and guarantees, there exists a degree of uncertainty around the Partnership's future potential income streams associated with EU projects.
 37. The Partnership should regularly revisit and review its estimates of the potential impact of a likely future triggering of Article 50, taking into account the rapidly changing political environment at a Scottish, UK and European level.
 38. In the absence of confirmed budget allocations for local government beyond 2016/17, longer-term funding assumptions remain subject to considerable uncertainty. Those projections that are available, however, point to a tightening of the overall fiscal position and potential cash-reductions in funding provided through the Scottish Block grant over the following two years. The Partnership intends to develop a revenue budget proposal for 2017/18 for consideration by the Partnership Board in December 2016.

Appendix 3 – action plan point 1

Governance and transparency

Corporate governance

39. Members and management of the Partnership are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.
40. The Partnership board comprises elected members from the eight constituent authorities and non-councillor members and is responsible for overseeing key aspects of governance. In addition there are a number of standing committees overseeing specific aspects of governance.
41. From our work undertaken during the year, we have concluded that the Partnership has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making, with the exception of the following issue.
42. As noted in table 1 earlier in this report, the Partnership operated for a period of the financial year without an appointed chair. This issue was highlighted in Internal Audit's annual statement, and following review, the Partnership appointed a new chair in July 2016. Officers

also conducted a review of business decisions in the intervening period and concluded that no post-ratification of these business decisions was necessary, based on the nature of the business and the expiration of the time period for any potential legal challenge to these decisions. We have reviewed this issue and the mitigating actions taken by the Partnership and consider these to be adequate.

Accounting and Internal control systems

43. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
44. A number of key financial systems of the Partnership are provided through City of Edinburgh Council (CEC), and our consideration of the internal control environment for the Partnership is informed by our CEC audit work. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Internal audit

45. Internal audit provides members and management of the Partnership with independent assurance on risk management,

internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.

46. Our review established that the work of internal audit is of a good quality allowing us to place reliance on their work. We placed reliance on aspects of internal audit's work in relation to payroll and the Annual Governance Statement, supplemented by our own substantive procedures.

Arrangements for the prevention and detection of fraud

47. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
48. There were no instances of fraud or corruption reported by the Partnership in 2015/16.
49. We assessed the arrangements for the prevention and detection of fraud during the planning phase of our audit. The Partnership's anti-fraud and corruption and anti-bribery policies provide a framework for deterring and preventing fraud and also dealing with any frauds which may occur.

50. We concluded that there are effective arrangements for the prevention and detection of fraud, although it should be noted that no system can eliminate the risk of fraud entirely.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

51. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

Best Value

Performance management

- 52. The aims of the Partnership are set out in the Regional Transport Strategy (RTS). A refreshed strategy was presented to the Partnership Board in December 2015, and in July 2016 the Board approved the undertaking to produce a completely new RTS.
- 53. The annual Business Plan sets out the levels of capital and revenue expenditure approved by the Board and the projects and activities that will be taken forward by the Partnership in the year.
- 54. Progress towards the achievement of the Partnership's objectives is monitored on an annual basis, with the results reported in an Annual Report. In addition, progress on projects is reported to the Board on a quarterly basis.

Overview of performance targets in 2015/16

- 55. A key project within the Partnership's Business Plan is Real Time Passenger Information (RTPI). The Partnership's Annual report notes that £1m was expended on this project in 2015/16.
- 56. Following an agreement made in 2014/15, the June 2016 projects report notes that RTPI has in the course of 2015/16 delivered live bus times for all of the services operated by both First East Scotland and Stagecoach Fife, within the SEStran region. This includes the transfer of all of Stagecoach's on-bus RTPI units to First East Scotland, following a decision in 2014/15 by Stagecoach to implement its own RTPI system instead of the SEStran system.
- 57. The Partnership has noted in its accounts that First East Scotland took the decision to cease bus operations in the East Lothian from 14 August 2016. Since then, Lothian Buses announced their decision in July 2016 to take over operations in the region. Around 350 First East Scotland buses are fitted with RTPI equipment, and it is anticipated the majority of these will continue to operate within the SESTrans area. When the operational arrangements are confirmed, the Partnership will explore options around potential redeployment of any surplus on-bus kits, to support the delivery of RTPI across the region.
- 58. As at June 2016, the Partnership had committed to 145 digital screen installations in a variety of public buildings within the SEStran area, displaying real time passenger information. The Partnership intends to distribute a further 136 screens during 2016/17 taking the total number of public information screens across the region to 281.
- 59. The Partnership is continuing to encourage the uptake of the real-time system in commercial premises. The trial in the RBS Headquarters at Gogarburn has proved successful and will shortly be in place in their premises at Edinburgh Park. The Partnership is also in discussions with several other businesses at Edinburgh Park, and will continue to actively pursue other businesses in order to generate further income to help support the RTPI scheme in the long term.

60. The June 2016 projects report also outlines progress for a range of other projects, including Thistle Card App, Sustainable Travel Awareness and a number of European projects, most notably CHUMS and Socialcar.

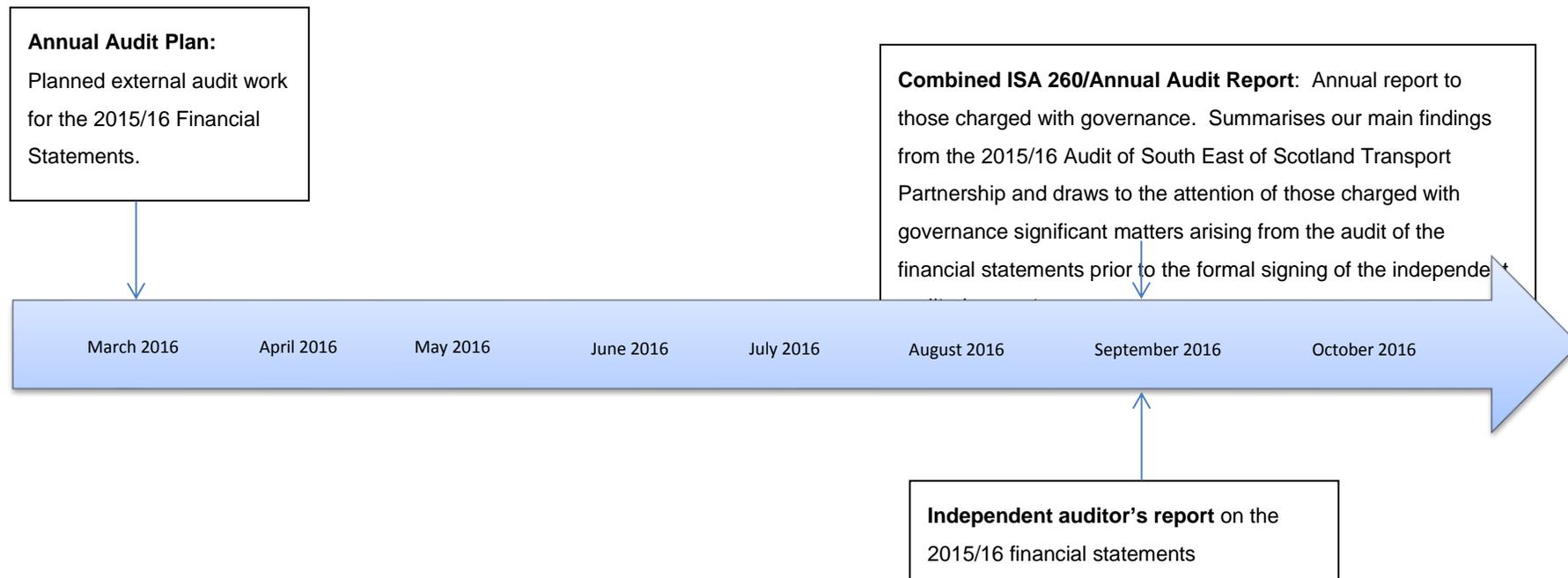
Appendix 1: Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

| Audit Risk | Assurance procedure | Results and conclusions |
|--|--|--|
| Financial statement issues and risks | | |
| <p>Management override of controls: ISA 240 highlights the unique position of management to influence the financial statements by overriding controls that otherwise operate effectively. The ability to override these controls represents a financial statements risk due to fraud.</p> | <ul style="list-style-type: none"> • Detailed testing of journal entries • Review of accounting estimates for bias • Evaluation of significant transactions that are outside the normal course of business. | <ul style="list-style-type: none"> • Journals and estimates reviewed as part of financial statements work • No issues identified from testing performed. |
| <p>Fraud risk over income: ISA 240 requires auditors to presume a risk of fraud where income streams are significant. The extent and complexity of income means there is an inherent risk that income could be materially misstated.</p> | <ul style="list-style-type: none"> • Detailed substantive testing of revenue transactions focusing on identified areas of greatest risk. | <ul style="list-style-type: none"> • Transactions tested as part of financial statements work • No issues identified from testing performed. |
| <p>Receipt of European funding: Around £63,000 of ERDF funding claimed by the Partnership has been disallowed by the EU. There is a risk that this shortfall in funding</p> | <ul style="list-style-type: none"> • Review of board papers and minutes, including future financial plans • Comment on financial sustainability within Annual Audit Report. | <ul style="list-style-type: none"> • Reports and minutes reviewed • Disallowed expenditure position reported to Partnership Board in March 2016 • Shortfall represents 2% of RTP1 contract. |

| Audit Risk | Assurance procedure | Results and conclusions |
|---|---|--|
| <p>impacts adversely on other projects being delivered by the Partnership.</p> | | <p>Shortfall contained within wider expenditure plans of Partnership and no material impact on other projects.</p> <ul style="list-style-type: none"> No issues identified from testing performed. |
| <p>Re-allocation of salary costs: In the past audit adjustments have been required to correct presentational errors identified in the processing of salary re-charge journals. There is a risk that similar presentational errors in 2015/16 lead to material disclosure errors in the financial statements.</p> | <ul style="list-style-type: none"> Detailed review of salary recharge journals as part of financial statements work. | <ul style="list-style-type: none"> Substantive testing performed on payroll costs within the ledger. Prior year classification issue highlighted in cashflow presentation, but no issues re core statements. |
| <p>The Bus Improvement Fund projects: The Bus Improvement Fund projects 2 and 3 are two projects with £500k each of potential funding attached to them. They are both due to be financially 'wound-up' at the end of this financial year. Therefore there is a greater risk of irregular expenditure towards the end of the projects as the pressure to spend the remaining funds increases.</p> | <ul style="list-style-type: none"> Focused testing on Bus Improvement Fund expenditure as part of financial statements work. | <ul style="list-style-type: none"> Substantive review of expenditure as part of financial statements work. No issues identified from testing performed. |

Appendix 2: Summary of local audit reports 2015/16



Appendix 3: Action plan

| No. | Para ref. | Issue/risk/Recommendation | Management action/response | Responsible officer / Target date |
|-----|-----------|--|--|--|
| 1. | 37 | <p>Issue</p> <p>The Partnership has a number of current projects and potential future project bids that are funded by EU income to various degrees.</p> <p>The Partnership is proceeding on the basis of current advice that the current rights and obligations of EU membership continue to apply and the programmes of funding will continue within their current framework and agreed delivery outcomes.</p> <p>There currently exists a degree of uncertainty around the Partnership's future potential income streams associated with EU projects.</p> <p>Recommendation</p> <p>The Partnership should regularly revisit and review its estimates of the potential impact of a likely future triggering of Article 50, taking into account the rapidly changing political environment at a Scottish, UK and European level.</p> | <p>EU funding position is included on risk register.</p> <p>Standing item on current EU funding exposure to be included on performance and audit committee agenda over the short term.</p> <p>Quarterly review of Article 50 implications for Partnership funding, with significant developments reported to the board.</p> <p>Future project proposals presented to the Partnership for approval to include an analysis of EU funding stream implications, and any UK government underwriting in place.</p> | <p>George Eckton/Complete</p> <p>George Eckton/Ongoing</p> <p>George Eckton/Ongoing</p> <p>George Eckton/Ongoing</p> |