



Scott-Moncrieff  
business advisers and accountants

# Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee

2016/17 Annual Audit Report to members of  
Strathclyde Partnership for Transport, the  
Strathclyde Concessionary Travel Scheme Joint  
Committee and the Controller of Audit

September 2017

# Contents

- Key messages..... 1**
- Introduction..... 4**
- Annual accounts..... 6**
- Financial management..... 12**
- Financial sustainability ..... 16**
- Governance and transparency ..... 18**
- Value for money..... 21**
- Strathclyde Concessionary Travel Scheme Joint Committee ..... 24**
- Appendix 1: Action plan..... 30**
- Appendix 2: Respective responsibilities of the Partnership and the Auditor ... 32**

# Key messages

## Annual accounts

Strathclyde Partnership for Transport (SPT) and Strathclyde Concessionary Travel Scheme Joint Committee (SCTS) annual accounts for the year ended 31 March 2017 were approved by the Partnership on 29 September 2017.

We report within each independent auditor's report an unqualified opinion on the annual accounts and on other prescribed matters and that there are no matters which we are required to report by exception.

The annual accounts and supporting schedules were of a good standard. Our thanks go to staff at SPT for their assistance with our work.

## SPT - Wider scope

### Financial management

- We concluded that SPT has appropriate arrangements in place for managing its financial position and its use of resources. Our conclusion is based on a review of SPT's financial performance and financial reporting. SPT reported a breakeven position for 2016/17; this is after a transfer of £11.517million to its subway modernisation fund.
- We have evaluated SPT's key financial systems and internal financial controls and determined whether these are adequate to prevent material misstatements in the annual accounts. We have not identified any significant deficiencies in the operation or design of the key financial systems. Arrangements for the prevention and detection of fraud and corruption are operating appropriately.

### Financial sustainability

- SPT has appropriate arrangements in place for short and medium term revenue financial planning. Each year, the Partnership is presented with a rolling two-year revenue budget. In addition, management consider differing budget scenarios for a further four year period.
- SPT also prepares a three year rolling capital programme and budget which seeks to balance the transport project delivery aspirations and the funding available to it.

### Governance and transparency

- Overall we have concluded that SPT's governance arrangements are adequate and appropriate.

### Value for money

- SPT has appropriate performance management arrangements in place which support the achievement of value for money.

## Key facts

### Strathclyde Partnership for Transport

- SPT spent £82.024million on the provision of services in 2016/17.
- SPT achieved a breakeven position in 2016/17.
- A contribution of £11.517million was made to the subway modernisation fund in the year.
- Capital expenditure of £59.648million was reported, against a revised capital budget of £61.435million.
- The most recent trend information (January 2017) shows that of the 32 indicators monitored against the Regional Transport Strategy (RTS), 19 were in step with the desired RTS direction of travel, 10 indicators were maintained and three were not in step with the desired RTS direction of travel.

### Strathclyde Concessionary Travel Scheme Joint Committee

- SCTS spent £4.256million on the delivery of services.
- Taking into account interest received and local authority requisitions, SCTS reported a surplus of £23,000 in 2016/17.

## Conclusion

This report concludes our audit for 2016/17. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK and Ireland) and Ethical Standards.

**Scott-Moncrieff**  
**September 2017**

1

# Introduction

# Introduction

1. This report summarises the findings from our 2016/17 audit of Strathclyde Partnership for Transport (SPT) and Strathclyde Concessionary Travel Scheme Joint Committee (SCTS). The scope of our audit was set out in our External Audit Annual Plan, which was presented to the Audit and Standards Committee at the outset of our audit.
2. The core elements of our audit work in 2016/17 have been:
  - an interim audit concentrating on the key financial systems;
  - an audit of the 2016/17 annual accounts;
  - a review of the arrangements for financial management, financial sustainability, governance and transparency and value for money;
  - consideration of the National Fraud Initiative data-matching exercise; and
  - consideration of the local impact of Audit Scotland's national performance report [The Role of Boards](#).
3. The following sections of this report; annual accounts, financial management, financial sustainability, governance and transparency and value for money relate solely to SPT. The findings from our audit of SCTS are reported in a separate section of this report.
4. SPT and SCTS are responsible for preparing annual accounts that 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.
5. This report contains an action plan with one recommendation. Senior management should assess this recommendation and consider the wider implications before deciding appropriate actions. The recommendation is given a

grading to help SPT assess the significance and prioritise the actions required.

6. We would like to thank all members of the SPT's management and staff who have been involved in our work for their co-operation and assistance during our audit work.

## Adding value through the audit

7. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to SPT 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 SPT promote improved standards of governance, better management and decision making and more effective use of resources.
8. This report is addressed to SPT, SCTS and the Controller of Audit and will be published on Audit Scotland's website. [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
9. We welcome any comments you may have on the quality of our work and this report via: [www.surveymonkey.co.uk/r/S2SPZBX](http://www.surveymonkey.co.uk/r/S2SPZBX).

2

# Annual accounts

# Annual accounts

- 10. Strathclyde Partnership for Transport's (SPT) annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. The respective responsibilities of SPT and the auditor in relation to the annual accounts are outlined in Appendix 2.
- 11. In this section we summarise the findings from our audit of the 2016/17 annual accounts.

## Overall conclusion

### An unqualified audit opinion on the annual accounts

- 12. The annual accounts for the year ended 31 March 2017 were approved by the Partnership on 29 September 2017. We report, within our independent auditor's report:
  - an unqualified opinion on the annual accounts;
  - an unqualified audit opinion on other prescribed matters.

### Good administrative processes were in place

- 13. We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. Our thanks go to staff at SPT for their assistance.

### Our assessment of risks of material misstatement

- 14. The assessed risks of material misstatement described 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 in Exhibit 1 below.

## Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

### 1. Management override

In any organisation, there exists a risk that management have 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 annual accounts. This is treated as a presumed risk area in accordance with ISA 240 - The auditor's responsibilities relating to fraud in an audit of financial statements.

*Excerpt from the 2016/17 External Audit Plan*

- 15. We have not identified any indications of management override in the year. We have reviewed SPT's accounting records and obtained evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed the journal entries processed in the period and around the year end.

## Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

### 2. Revenue recognition

Under ISA 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 SPT could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement the reported financial position.

*Excerpt from the 2016/17 External Audit Plan*

16. While we did not suspect incidences of material fraud and error, we evaluated each type of revenue transaction and documented our conclusions. We have reviewed the controls in place over revenue accounting and found them to be sufficient. We have evaluated key revenue transactions and streams, and carried out testing to confirm that SPT's revenue recognition policy is appropriate and has been applied reasonably.

### 3. Property, plant and equipment

SPT has a significant capital investment programme. The Capital Programme 2016/17 (March 2016) planned for capital expenditure of £90.320million (Category 1 and 2 programmes combined).

There is a risk of material misstatement to the annual accounts relating to the recognition of capital expenditure, impairments, subsequent expenditure and disposals.

*Excerpt from the 2016/17 External Audit Plan*

17. SPT reported total capital investment in 2016/17 of £59.648million. A valuation exercise was completed during the year on all land and buildings (subject to some exclusions as outlined in the annual accounts). This exercise resulted in an overall net increase in the value of property, plant and equipment.
18. During our audit we carried out audit testing to ensure the results from the valuation exercise had been correctly accounted for in the annual accounts. We also carried out testing on material additions, disposals and depreciation. Overall we concluded that property, plant and equipment as reported on SPT's balance sheet is free from material misstatement.
19. We note that it is SPT's policy to fully depreciate capitalised internal staff costs in the year incurred (or whenever transferred out of assets under construction). In 2016/17, approximately £4.75million was capitalised and fully depreciated in the same year. While we concluded that the capitalisation of these costs was in accordance with accounting standards, we would expect these to be aligned to the appropriate asset and depreciated over the life of the asset or component of the asset. On review of the asset register, management provided us with revised depreciation calculations. The depreciation charge for 2016/17 would have been approximately £322,000 had these costs been depreciated over the life of the asset. This is not deemed to be a material misstatement of the annual accounts and has therefore not been reflected in the audited annual accounts. We understand that management are reviewing this policy for 2017/18.

*Action plan point 1*

## Our application of materiality

20. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual accounts.
21. Our initial assessment of materiality for the annual accounts was £1.3million. We revised our assessment, following receipt of the unaudited annual accounts, to £1.2million and it remained at this level throughout our audit. Our assessment of materiality is set with reference to gross expenditure. We consider this to be the principal consideration for the users of the accounts when assessing the performance of SPT.
22. We set a performance (testing) materiality for each area of work which is based on a risk assessment for the area. We perform audit procedures on all transactions and balances that exceed our performance materiality. This means we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

Area risk assessment	Weighting	Performance materiality
High	45%	£540,000
Medium	55%	£660,000
Low	70%	£840,000

23. We agreed with the Audit and Standards Committee that we would report all audit differences in excess of 2% of the overall materiality figure, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Standards Committee on disclosure matters that we identified when assessing the overall presentation of the annual accounts.

## Audit differences

24. We are pleased to report that there were no

material adjustments to the annual accounts. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts.

25. We also identified one potential adjustment which is not considered material to the annual accounts (paragraph 19). This has been discussed with management and is detailed within an appendix to the letter of representation. The letter covers a number of issues and we have requested that it be presented to us at the date of signing the annual accounts.

## An overview of the scope of our audit

26. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit and Standards Committee in March 2017. 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 SPT. 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.
27. 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.
28. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical review. 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 manager and audit partner. In performing our work, we have applied the concept of materiality, which is explained earlier in this report.

## Legality

29. 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 SPT's solicitors the position in relation to litigation, claims and assessments; and
- Performing detailed testing of transactions and balances.

30. 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

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

#### The Local Authority Accounts (Scotland) Regulations 2014

32. As part of our audit we reviewed SPT's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulations 8 to 10<sup>1</sup> as they relate to the annual accounts. Overall we concluded that appropriate arrangements are in place to comply with these Regulations.

#### Management commentary

33. We are satisfied that the information given in the management commentary is consistent with the accounts and has been prepared in accordance with the statutory guidance issued under the Local Government Scotland Act 2003.

#### Remuneration report

34. 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.

#### Annual governance statement and statement of internal financial control

35. The Chief Executive and the Chair have confirmed that in SPT's view, the systems for internal control were effective during 2016/17 with no identified material weaknesses. The Annual governance statement and statement of internal financial control notes that the systems of internal financial control will be improved

through implementation of recommended actions from internal and external audit reports, and continuous corporate business planning.

36. We have reviewed SPT's Annual Governance Statement and Statement of Internal Financial Control and have found that it is consistent with the accounts and has been prepared in accordance with Delivering Good Governance in Local Government: Framework (2016).

### Qualitative aspects of accounting practices and financial reporting

37. We have considered 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 in the annual accounts. Our findings are summarised below:

<sup>1</sup> 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.

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 SPT.
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.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts. Significant estimates have been made in relation to property, plant and equipment and pension liabilities. We consider the estimates made, and the related disclosures, to be appropriate to SPT.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts.
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the management commentary or material inconsistencies with the accounts.	The management commentary contains no material misstatements or inconsistencies with the accounts.
Any significant annual accounts disclosures to bring to your attention.	There are no significant annual accounts disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or annual accounts disclosure.	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.

**3**

# Financial management

# Financial management

38. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. It is SPT's responsibility to ensure that its financial affairs are conducted in a proper manner.

## Overall conclusion

39. We concluded that SPT has appropriate arrangements in place over the management of its finances. Our conclusion is based on a review of SPT's financial performance and financial reporting.

## SPT's financial performance in 2016/17

40. The Comprehensive Income and Expenditure Statement for 2016/17 shows that SPT spent £82.024million on the provision of services, resulting in an accounting surplus of £21.061million. 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 2016/17 Code), and which are subsequently adjusted to show their impact on reserves.

41. Taking account of these adjustments, no surplus or deficit has been generated in 2016/17. This is in line with technical guidance (based on interpretation of the Transport (Scotland) Act 2005), where regional transport partnerships, including SPT, are not permitted to generate surpluses or deficits on the general fund.

42. A "subway modernisation fund" does however exist on the balance sheet which includes contributions/receipts in advance from the constituent local authorities. In 2016/17, £11.517million was contributed to this fund. The balance on this fund as at 31 March 2017 was £18.990million (2015/16: £24.560million). £17.087million was utilised in the year as a direct revenue contribution to capital.

## Revenue performance against budget

43. SPT achieved a breakeven position in 2016/17. The net revenue budget of £38.418million was met from local authority contributions (£37.381million) and a contribution of £1.037million direct from the Scottish Government.

## Exhibit 2: Revenue performance against budget

Directorate	Annual budget £million	Actual £million	Variance over/(under) £million
Subway operations	3.336	2.246	(1.090)
Bus operations	17.796	16.131	(1.665)
Operations – other	2.052	1.476	(0.576)
Business support	3.485	2.921	(0.564)
Corporate	11.749	15.644	3.895
<b>Total</b>	<b>38.418</b>	<b>38.418</b>	<b>0</b>

Source: Annual accounts 2016/17 and budget monitoring reports

45. Additional funding was received during the year from Glasgow City Council for Queen Elizabeth Hospital bus service contracts. Additional income was also received from City of Edinburgh Council in relation to school contracts. The underspends generated across the directorates resulted in an increase in the contribution to the subway modernisation fund. A contribution of £11.517million was made in 2016/17. This was budgeted at £8.303million.

## Capital position

46. SPT prepares a three year rolling capital programme and budget which seeks to balance the transport project delivery aspirations and the funding available to it. In 2016, SPT prepared a three year programme; highlighting that years' two and three were indicative as no funding information was available at the time. As such approval was given only to the capital programme, budget and funding plan for 2016/17.

### Exhibit 3: Capital programme - performance against budget

Category	Budget 2016-17 as approved by SPT in March 2016 £million	Final approved budget £million	Actual £million	Variance over/(under) £million
Subway modernisation	39.350	27.970	27.758	(0.212)
Subway infrastructure	14.750	19.300	19.500	0.200
Fastlink	5.000	3.750	2.736	(1.014)
General capital	13.335	10.415	9.654	(0.761)
<b>Total</b>	<b>72.435</b>	<b>61.435</b>	<b>59.648</b>	<b>(1.787)</b>

Source: Capital monitoring report March 2017

47. In 2016/17 the capital outturn was £59.648million against a revised capital budget of £61.435million. A number of budget adjustments were approved during the year. Of significance was a £10.273million adjustment to the subway capital budget. This relates to the manufacturing and supply agreement contract for the new rolling stock and control systems. The original budget was set in advance of the contract award and has subsequently been reviewed and updated. The second stage for the contract is now expected in 2017/18 and the capital budget has been re-profiled based on this information.

## Systems of internal control

48. We have evaluated the key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach has included audit testing on a

sample of internal financial controls to establish whether they provide adequate assurance to support the preparation of the annual accounts. We also considered the security and robustness of key IT systems.

49. As reported in our External Audit Interim Audit Report, we did not identify any significant deficiencies in the adequacy or design of internal financial controls over SPT's key financial systems. We did however identify a number of areas with scope for improvement, which, if addressed, would further strengthen the internal financial control regime. An action plan has been developed and agreed with management.

## Internal audit

50. SPT's internal audit service is an independent assurance function that provides an opinion on SPT's control environment. It objectively

examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

51. A formal external quality assessment of internal audit's compliance with the Public Sector Internal Audit Standards (PSIAS) is required at least once every five years. The external quality assessment of SPT's internal audit service was carried out by Ernst and Young LLP in 2016/17. No areas of non-conformance with the PSIAS were noted following this review.
52. To avoid duplication of effort and to ensure an efficient audit process we have taken cognisance of all of the work of internal audit.

### **Fraud and corruption**

53. In accordance with the Code of Audit Practice, we have reviewed the arrangements for the prevention and detection of fraud and corruption. Overall, we found the SPT's arrangements to be sufficient and appropriate.

### **National Fraud Initiative (NFI)**

54. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error.
55. The NFI exercise produces data matches by comparing a range of information held on various public bodies' systems to identify potential fraud or error. Bodies investigate these matches and record appropriate outcomes based on their investigations.
56. The most recent NFI exercise commenced in October 2016 and as part of our 2016/17 audit we monitored SPT's participation in NFI. We submitted an assessment of SPT's participation in the exercise to Audit Scotland in June 2017. Overall we concluded that SPT has actively participated in the NFI exercise.



4

# Financial sustainability

# Financial sustainability

57. Financial sustainability looks forward to the medium and longer term and considers whether SPT is planning effectively to continue to deliver its services or the way in which they should be delivered.

## Overall conclusion

58. SPT has appropriate arrangements in place for short and medium term revenue financial planning. Each year, the Partnership is presented with a rolling two-year revenue budget. In addition, management consider differing budget scenarios for a further four year period.
59. SPT also prepares a three year rolling capital programme and budget which seeks to balance the transport project delivery aspirations and the funding available to it.

## Revenue budget 2017/18

60. In February 2017 the Partnership approved a net revenue budget for 2017/18 of £37.670million; funded by local authority requisitions of £36.633million and a contribution of £1.037million from the Scottish Government. This represented an overall reduction of 2% in support from the constituent local authorities in comparison with 2016/17. As part of approving the 2017/18 budget, the Partnership also agreed to an increase in fares, fees and charges.
61. A service line review was undertaken in preparation of the 2017/18 budget. The main significant changes as a result of this review were the reduction in revenue support to capital expenditure (£1.8million) and an increase to the level of contribution to the subway modernisation fund (£2.703million).
62. At the same time, the Partnership was presented with an outline of the 2018/19 budget.
63. In preparing the revenue budget, management consider differing budget scenarios; covering up to 2022/23.

## Future capital plans

64. In February 2017, the Partnership approved, in principle, subject to funding, the capital plan for the financial years 2017/18 to 2019/20.

65. For 2017/18 the capital budget is £82.806million. SPT sets a capital plan which is greater than the funding available to ensure that the plan delivery is maximised within the funding available and project delivery movements. As a consequence, for 2017/18, there is a projected short fall of £2.549million. SPT expect movement in the project delivery from the previous financial year which will impact on the 2017/18 capital budget.
66. As no funding information is available for years two and three of the capital plan, SPT only set indicative budgets for these two years.
67. The subway modernisation comprises a significant proportion of the capital plan (approximately £61.646million). Ministers previously committed to fund up to £246million of the total project cost with SPT directly contributing the remaining £42million. The Partnership have been advised that the profile for funding the subway modernisation project has been agreed covering the period to 2020/21.

**5**

# **Governance and transparency**

# Governance and transparency

68. Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. The Partnership is responsible for ensuring the proper conduct of its affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements.

## Overall conclusion

69. Overall we have concluded that SPT's governance arrangements are adequate and appropriate.

## Governance arrangements

### Partnership changes

- 70. The Partnership consists of twenty elected members representing the twelve constituent local authorities in the West of Scotland and between seven and nine appointed members.
- 71. Following the local government elections in May 2017, there has been 13 changes in elected members. The newly appointed Chair and two Vice Chairs were previously on the Partnership (albeit in different roles).
- 72. An induction programme has been developed for new members to ensure they understand their role and the roles of the committees.

## Standards of conduct

- 73. In our opinion, SPT's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate and appropriate.
- 74. To inform our conclusion we have reviewed the arrangements for adopting and reviewing standing orders, financial regulations and schemes of delegation and complying with national and local codes of conduct.
- 75. SPT's governance framework and governance arrangements are set out in a governance manual (incorporates the scheme of delegated functions, financial regulations and standing orders), local code of corporate governance and various other codes of conduct, policies and guidance. The standing orders and scheme of delegated functions were reviewed in 2016.

## Role of boards

- 76. In September 2010 the Auditor General for Scotland published a report aiming to assess the role and work of boards across 67 public bodies and 39 colleges. The report made a number of recommendations as detailed in Exhibit 4 below.

## Exhibit 4: Key messages from 'Role of Boards' report

All non-executives should receive a formal induction	Boards should review the skills and expertise required on the Board and attract people to plug the gaps	Performance of non-executives should be assessed on a regular basis	Scrutiny efforts should be focused on organisational performance, financial and risk management
Performance information provided to the Board could be improved	Boards should aim to maximise openness and accessibility of papers	Declarations of interests should be considered at every meeting	Boards should review the use of Committees and ensure delegation levels are appropriate

Source: Role of Boards Report (September 2010)

- 77.** As part of our work in 2016/17 we followed up on the issues highlighted by Audit Scotland. Our aim was to identify any causes for concern or areas of good practice. Our detailed findings have been shared with Audit Scotland and are summarised below.

**Arrangements for scrutiny and decision-making are appropriate**

- 78.** We consider that arrangements for scrutiny and decision-making at SPT are appropriate.
- 79.** A programme of training is in place for all members to ensure they remain well versed in their role and the role of the committees.
- 80.** Minutes of Partnership and committee meetings are published on SPT's website. Declarations of interest are a standing item on the Partnership and committee meeting agendas.

6

# Value for money

# Value for money

81. Value for money is concerned with using resources effectively and continually improving services. In this section we report on our audit work as it relates to consideration of SPT's reported performance and to what extent this demonstrates continuous improvement.

## Overall conclusion

82. We found that the SPT has appropriate performance management arrangements in place which support the achievement of value for money.

## Performance management framework

83. SPT has developed a performance management framework. Financial performance information is monitored via revenue and capital monitoring reports presented to the Strategy and Programmes Committee. Operational performance relating to transport services is reported to the Operational Committee. Minutes of both these committees are reported to meetings of the Partnership.
84. The financial and performance information presented to the relevant committees comprises sufficient detail to facilitate scrutiny and challenge. From review of committee papers we found that members are actively scrutinising and challenging the financial position and operational performance of SPT.

## Regional Transport Strategy

85. 'A Catalyst for Change' the statutory Regional Transport Strategy (RTS) for the west of Scotland 2008-21 was approved by Scottish Ministers in 2008. A RTS Delivery Plan links the RTS to SPT's business planning processes through the strategic priorities and sets out the services, projects and initiatives that will enable the delivery of the RTS. The existing RTS Delivery Plan covers the three year period 2014-2017.
86. The Delivery Plan is structured around four RTS outcomes:
- Attractive, Seamless Reliable Travel;
  - Improved Connectivity;
  - Access for All;
  - Reduced Emissions.

87. Fifteen workstreams make up the key actions and outputs necessary to make progress towards achieving the RTS outcomes. The workstreams include capital projects and investments (for example subway modernisation), operational responsibilities and services, transport planning services and initiatives, and transport policy development and implementation measures.

88. Key indicators have been developed for each RTS outcome. Trend information and statistics are reported to the Operations Committee. Progress against workstreams is reported in SPT's Annual Report. Each year, SPT produces a Transport Outcomes Reports which demonstrates how its activities contribute to single outcome agreements and provide a summary of what it is doing in each council area. Trend information is also available on SPT's website.

## RTS indicators - performance

89. The most recent trend information (January 2017) showed that of the 32 indicators monitored, 19 were in step with the desired RTS direction of travel, 10 indicators were maintained and three were not in the desired RTS direction of travel.

## Regional Transport Strategy review

90. In 2016, the Partnership approved a review of the RTS. The review will and has begun to consider the following:
- Changing context/trends;
  - Policy/legislative changes;
  - Delivery/areas for improvement;
  - How the RTS has been used; and
  - Roles and responsibilities.
91. A key part of the approach has been targeted engagement. The primary forum has been the RTS Review Stakeholder Group which includes representatives from Transport Scotland, Glasgow City Regional Deal, Ayrshire Growth Deal and Clydeplan. Sessions have been held with Partnership members and council officers. Updates on the review are reported to the Partnership.
92. The current RTS Delivery Plan has a lifespan to

the end of the financial year 2016/17. To allow the current RTS review to be completed, the development of a new RTS, and subsequently a new Delivery Plan, the existing Delivery Plan has been extended to the end of 2017/18.

7

# Strathclyde Concessionary Travel Scheme Joint Committee

# Strathclyde Concessionary Travel Scheme Joint Committee

## Introduction

93. The Strathclyde Concessionary Travel Scheme (SCTS) offers reduced fares on rail, subway and ferry services. SCTS covers the 12 local authorities within the designated Strathclyde Partnership for Transport (SPT) area, and all local authorities are represented on the Joint Committee plus the chair of SPT. The cost of the scheme is met by the 12 local authorities. SPT administers the Scheme on behalf of the Joint Committee.
94. SCTS is classified as a 'section 106 body' as defined in section 106 of the Local Government (Scotland) Act 1973. As a consequence, SCTS has a duty to observe proper accounting practices. Annual accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code is recognised as setting out proper accounting practices.
95. In this section of our report we set out our findings of our audit of SCTS for the year ended 31 March 2017 including:
- Our findings from our audit of the 2016/17 annual accounts; and
  - Our findings from our annual audit work in respect of our wider scope audit responsibilities. For 2016/17 these were restricted to:
    - Audit work to allow conclusions to be made on the appropriateness of the disclosures in the Annual Governance Statement and Statement on Internal Control; and
    - Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.

## Financial statements

### An unqualified audit opinion on the annual accounts

96. The annual accounts for the year ended 31 March 2017 were approved by SPT on 29 September 2017. We report within our independent auditor's report:
- An unqualified opinion on the annual accounts; and
  - An unqualified opinion on other prescribed matters.

### Good administrative processes were in place

97. We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. Our thanks go to staff at SPT for their assistance with our work.

### Our assessment of risks of material misstatement

98. The assessed risks of material misstatement described 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 in Exhibit 5 below.

**Exhibit 5: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks**

**1. Management override**

In any organisation, there exists a risk that management have 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 annual accounts. This is treated as a presumed risk area in accordance with ISA 240 – “The auditor’s responsibilities relating to fraud in an audit of financial statements”.

*Excerpt from the 2016/17 External Audit Plan*

- 99. We have reviewed the accounting records, including journals, and did not identify any significant transactions outside the normal financial control processes. We did not identify any evidence of management override.

**2. Revenue recognition**

Under ISA 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 SCTS could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

*Excerpt from the 2016/17 External Audit Plan*

- 100. We do not believe the risk of fraud in revenue recognition is material to the annual accounts and have therefore rebutted this risk. This view has been based on the fact that SCTS is funded by contributions received from the local authorities within the area served by the Scheme and, where required, from a draw on reserves. The funding is set as part of the budget process. These income streams are agreed in advance of the year and any changes require approval.

**Our application of materiality**

101. Our initial assessment of materiality for the financial statements was £80,000 and it remained at this level throughout our audit. Our assessment of materiality equates to approximately 1.8% of SCTS’ 2016/17 gross expenditure. Achieving a breakeven position is a key target for SCTS and one of the principal considerations for the users of the financial statements when assessing financial performance.

102. We set a performance materiality for each area of work based on a risk assessment for the area and percentage application of overall materiality. We then perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we are performing

a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

Area risk assessment	Weighting	Performance materiality
High	45%	£36,000
Medium	55%	£44,000
Low	70%	£56,000

103. We agreed with SPT's Audit and Standards Committee that we would report on all audit differences in excess of 2% of the overall materiality figure, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Standards Committee on disclosure matters that we identified when assessing the overall presentation of the annual accounts.

### Audit differences

104. We are pleased to report we did not identify any audit adjustments or any unadjusted items. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual accounts.

### Joint Committee representations

105. 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 SCTS.

### An overview of the scope of our audit

106. The scope of our audit was detailed in our External Audit Plan (covering both SPT and SCTS), which was presented to the Audit and Standards Committee in March 2017.

### Legality

107. 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 SPT's solicitors the position in relation to litigation, claims and assessments; and
  - Performing detailed testing of transactions and balances.
108. 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

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

### The Local Authority Accounts (Scotland) Regulations 2014

110. As part of our audit we reviewed SCTS' compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulations 8 to 10<sup>2</sup> as they relate to the annual accounts. Overall we concluded that appropriate arrangements are in place to comply with these Regulations.

### Management commentary

111. We are satisfied that the management commentary is consistent with the accounts and has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003.

### Remuneration report

112. As noted in the annual accounts, SCTS has no employees and no allowances or expenses were paid to any committee member during the year. A remuneration report has therefore not been included within the annual accounts.

### Qualitative aspects of accounting practices and financial reporting

113. 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:

---

<sup>2</sup> 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.

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 SCTS.
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.	The accounting estimates and judgements used by management in preparing the annual accounts are considered appropriate.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts.
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the management commentary or material inconsistencies with the accounts.	The management commentary contains no material misstatements or inconsistencies with the accounts.
Any significant annual accounts disclosures to bring to your attention.	There are no significant annual accounts disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or annual accounts disclosure.	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.

## Wider scope

### Annual governance statement and statement of financial control

114. We are satisfied that the Annual governance statement and statement of financial control for the year to 31 March 2017 is consistent with the accounts and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).
115. The Annual governance statement and statement of financial control is consistent with the governance statement presented in SPT's annual accounts. The Joint Committee's governance statement notes that "*although the Joint Committee is a separate legal entity, due to the administrative relationship between SCTS and SPT, there are a number of shared systems between the two bodies. The corporate governance and internal financial control arrangements that govern SCTS are also that of SPT*".

### Financial sustainability

116. Financial sustainability looks forward to the medium and longer term and considers whether SCTS is planning effectively to continue to deliver its services or the way in which they should be delivered.

### 2016/17 financial performance

117. The 2016/17 Comprehensive Income and Expenditure Statement shows that SCTS spent £4.256million on delivery of services. Taking into account interest received (£21,000) and the local authority requisitions (£4.258million), SCTS reported a surplus of £23,000.
118. At the start of the year, SCTS approved a budget of £4.329million. Funding contributions from the constituent local authorities were agreed at £4.258million with the balance to be funded from reserves (£71,000).
119. The favourable reported position against budget reflects the Joint Committee's continuing control of costs. Measures were implemented in 2010/11 which were aimed at protecting the long-term sustainability of the scheme. These included:
- A review and revision to the SCTS objectives;
  - An increase in the basic concessionary

fare on rail and subway services;

- Re-introduction of a basic concessionary fare on ferry services, consistent with rail and subway; and
- Introduction of a price differential between the single and return basic concessionary fare.

### Looking forward

120. In 2017, the Joint Committee approved its 2017/18 budget (along with an indicative budget for 2018/19). A budget of £4.173million has been approved for 2017/18, to be funded fully by local authority requisitions. This does represent a reduction in local authority requisition in comparison with 2016/17 (2% reduction). The approved budget takes account of the on-going pressures facing local authorities to reduce their overall expenditure. The reduction in requisition is however being managed with a small increase in concessionary fares; the first increase in since 2011/12. The impact of this will be monitored by the Joint Committee throughout the year. In preparing the budgets, we note that SPT, on behalf of the Joint Committee, have prepared indicative budgets up to 2022/23.

# 8

# Appendices

# Appendix 1: Action plan

Our action plan details the control weakness that we have identified during the course of our audit together with the officer responsible for implementing the recommendation and the implementation date.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work, and may not be all that exist. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements. 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.

## Action plan grading structure

To assist SPT in assessing the significance of the issue raised and prioritising the action required to address it, the recommendation has been rated.

The grading structure for our recommendations is 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.

Action plan point	Issue & Recommendation	Management Comments
<b>1. Property, plant and equipment</b>	<p>It is SPT's policy to fully depreciate capitalised internal staff costs in the year incurred (or whenever transferred out of assets under construction). In 2016/17, approximately £4.75 million was capitalised and fully depreciated in the same year. While we concluded that the capitalisation of these costs was in accordance with accounting standards, we would expect these to be aligned to the appropriate asset and depreciated over the life of the asset or component of the asset.</p> <p>We understand management are reviewing this policy for 2017/18.</p>	<p>A review of capitalisation and associated balance sheet treatment of capitalised salaries and related costs is already underway with Scott-Moncrieff.</p> <p>Further discussion will take place prior to amending our practice if required.</p> <p><b>Responsible officer:</b> Chief Accountant</p> <p><b>Implementation date:</b> 30 November 2017</p>
<b>Rating</b>		
<b>Grade 3</b>		
<b>Paragraph ref</b>		
<b>19</b>		

# Appendix 2: 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 the responsibility for the administration of those affairs. The Assistant Chief Executive (Business Support) has been designated as that officer within SPT.

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

### In preparing the annual accounts, the Assistant Chief Executive (Business Support) 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 Assistant Chief Executive (Business Support) 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 2016/17 Code of the state of the affairs of the body as at 31 March 2017 and of the its surplus 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 2016/17 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 part of the Remuneration Report to be audited 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 and Statement of Financial Control 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 part of the Remuneration Report to be audited are not in agreement with accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

### 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.

### Independence

We are required by International Standards on Auditing to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that we have complied with the Ethical Standards. In our professional judgement the audit process has been independent and our objectivity has not been compromised. In particular, there have been no relationships between Scott-Moncrieff and SPT or senior management that may reasonably be thought to bear on our objectivity and independence.



**Scott-Moncrieff**  
business advisers and accountants

© Scott-Moncrieff Chartered Accountants 2017. All rights reserved. "Scott-Moncrieff" refers to Scott-Moncrieff Chartered Accountants, a member of Moore Stephens International Limited, a worldwide network of independent firms. Scott-Moncrieff Chartered Accountants is registered to carry on audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants of Scotland.