

# South East of Scotland Transport Partnership

Report to Members and the Controller of Audit  
on the 2009/10 Audit

October 2010



 AUDIT SCOTLAND



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# Introduction

1. This report is the summary of our findings arising from the 2009/10 audit of the South East of Scotland Transport Partnership (SEStran). The scope of the audit is set out in our Annual Audit Plan (AAP), which was submitted to the partnership in March 2010.
2. The financial statements of SEStran are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources. It is the responsibility of the partnership board to prepare financial statements that give a true and fair view of its financial position and its income and expenditure for the year.
3. The members and officers of SEStran are responsible for the management and governance of the partnership. As external auditors we review and report on the management arrangements in place and seek to gain assurance that:
  - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed
  - SEStran's system of recording and processing transactions provides an adequate base for the preparation of the financial statements and the effective management of assets and interests
  - SEStran has adequate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability
  - the systems of internal control provide an appropriate means of preventing or detecting material misstatement, error, fraud or corruption.



# Financial statements

## Introduction

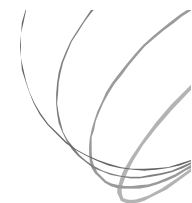
4. In this section we summarise key outcomes from our audit of the partnership's financial statements for 2009/10. We also summarise the key aspects of the partnership's reported financial position and performance to 31 March 2010.
5. We are pleased to record that financial statement preparation processes and working papers were satisfactory and this enabled the audit to progress smoothly.

## Audit opinion

6. We have given an unqualified opinion that the financial statements of SEStran for 2009/10 give a true and fair view of the financial position and expenditure and income of the partnership for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
7. We were satisfied with disclosures made in the annual governance statement and the adequacy of the process to obtain assurances on systems of control.
8. The partnership's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June.
9. The financial statements were certified by the target date of 30 September 2010 and are now available for presentation to members and publication.

## Accounting issues

10. SEStran is required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2009 (the SORP). We were satisfied that the accounts were prepared in accordance with the 2009 SORP.
11. The partnership has adjusted the financial statements to reflect audit findings which tended to be immaterial, typographical or presentational. As is normal practice, relevant matters arising have been reported to the Treasurer and the Audit Committee via our letter issued in line with International Standard on Auditing 260 (ISA 260) *Communication of audit matters to those charged with governance*. The accounting issues which arose during the course of our audit are summarised below.



12. **Going concern:** The partnership's balance sheet at 31 March 2010 has an excess of liabilities over assets of £289,000 due to pension liabilities. The partnership has adopted a 'going concern' basis for the preparation of the financial statements as future liabilities will be met, as they fall due, by government grant and contributions from constituent authorities. Formal assurance has been given by the Treasurer in his letter of representation as to the partnership's ability to continue as a going concern (see also paragraph 20 below).
13. **Liabilities:** As noted in the Treasurer's foreword, the partnership's balance sheet includes balances retained of £319,000 for the regional real time bus passenger travel information system and a provision of £200,000 for the Kirknewton level crossing project. These projects reflect commitments on behalf of the partnership to third parties and are for material sums. The Treasurer has provided his assurance that the balances committed are properly stated and have been agreed with the relevant parties.

## Other issues

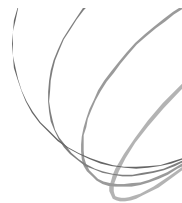
14. SEStran occupies office accommodation under a five year lease agreement which expires in May 2011. I have discussed with the partnership director that consideration should be given as to whether there will be a need to provide for any dilapidations work required under the terms of the lease in order to bring the accommodation up to the necessary standard.

### ***Key risk area 1***

15. I also drew officers' attention to two invoices accrued in full into the 2009/10 financial statements. One invoice related to an annual charge which covered the period 1 September 2009 to 31 August 2010 (£22,873) while the other referred to an event taking place in July 2010 (£2,000). Officers advised that as no adjustment had been made in previous years to reflect the matching of the expenditure to the date of service delivery and that each year included a full year's charge, it was not considered necessary to accrue into the appropriate year. The SORP requires the non-cash effects of transactions to be reflected in the financial statements for the accounting period in which those effects are experienced and not in the period in which any cash is received or paid.

### ***Key risk area 2***

16. With effect from 2010/11, local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS). Given that local government has already adopted some aspects of IFRS and due to the nature of SEStran's business together with experienced finance staff, we expect the transition to be fairly smooth. For the 2010/11 financial statements, an opening balance sheet as at 1 April 2009 and a 2009/10 restated balance sheet will be required. We are aware that an opening balance sheet has been prepared and staff are continuing to progress the restatement of the comparative balance sheet on an IFRS basis. Staff are using the



knowledge gained through City of Edinburgh Council's engagement of PwC and CIPFA to aid with the transition process.

## Financial position

17. In the year to 31 March 2010, the partnership's gross revenue expenditure amounted to £1.78 million (2008/09 - £1.77 million). This was met by Scottish Government grants of £1.01 million (2008/09 - £1.07 million), requisitions from constituent councils of £0.31 million (2008/09 - £0.28 million) and other revenue income of £0.46 million (£0.42 million).
18. The Treasurer summarises performance against budget in the foreword to the financial statements. Overall the partnership returned a small underspend of £1,000. This underspend arose due to an overspend in expenditure of £1,000 which was offset by additional revenue interest received of £2,000.
19. A balance of £319,000 in respect of unspent requisitions has been included within creditors in the balance sheet. As noted above, this unspent requisition has been earmarked to be utilised as funding for the Regional Real Time Bus Passenger Information System.
20. The partnership's balance sheet shows a net liability of £289,000. The change in this position from 31 March 2009 (£66,000 net liability) has arisen mainly from movements in the valuation of pension fund assets and liabilities. At 31 March 2010 the pension fund had a deficit of £295,000 in respect of the pension fund liabilities falling due in future years. These valuations, however, represent a 'snapshot' of the position at the time of the valuation only and are subject to market volatility.
21. Auditing standards require us to consider an organisation's ability to continue as a going concern when forming an opinion on financial statements. The partnership's statement of accounting policies confirms that it has been considered appropriate to adopt a going concern basis for the preparation of the financial statements. As noted above, the constituent councils have a legal obligation to fund the net expenses of the partnership. Future pension liabilities will therefore be met as they fall due by contributions from constituent authorities in the normal way. We are satisfied that the process the partnership has undertaken to consider going concern is reasonable.

## SESTRAN Limited

22. SEStran established the wholly-owned limited company SESTRAN Limited in January 2010. Its primary purpose was to address SEStran's inability to build up any reserves beyond the end of any financial year whereas the limited company would be able to do so.



23. We considered whether the intended purpose could be achieved, in terms of accounting practice. The SORP requires authorities to prepare group accounts in addition to their own accounts when they have interests in other entities. SESTRAN Limited would therefore require to be consolidated into the accounts of SEStran and as a consequence any balances transferred to and held by the company at the year end would have to be included within the group accounts. Our view was that its primary purpose could not therefore be achieved in terms of accounting requirements.

### ***Key risk area 3***

24. Management are of the view that the company may be able to act as a joint venture partner or as a funding mechanism when the partnership launches some of its projects.
25. As at 31 March 2010, the company has not yet commenced the provision of any services and there have been no transactions to record for the purposes of group accounts.

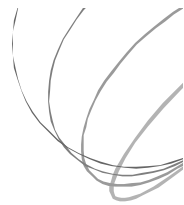
## **Legality**

26. Through our planned audit work we consider the legality of the partnership's financial transactions. In addition the Treasurer confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the partnership's management team, the financial transactions of the partnership were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.

## **Future outlook**

27. The financial challenges facing the Scottish public sector are well documented, with public bodies facing deep and prolonged cuts in funding. In June 2010 the new UK Government set out an Emergency Budget, planning for a period of significant fiscal consolidation. It immediately implemented £6 billion of UK budget reductions. The Scottish Government agreed that it would defer its share of these 2010/11 cuts (estimated as £332 million) until 2011/12, and will have to implement these alongside continuing reductions in the Scottish budget.
28. There remains uncertainty about what the financial implications for SEStran and its funding partners will be as the settlement for local government is not expected to be finally known until January 2011. It is likely, therefore, that the partnership will face greater competition for funding as both the Scottish Government and constituent authorities seek to balance their priorities against their expenditure. The partnership needs to plan for reduced resources over the medium term





29. In addition, while the demand for affordable and sustainable alternatives to existing forms of transport has been growing, the current economic climate is impacting on this demand and the partnership will need to monitor closely the viability of planned projects to ensure that they still meet the needs of the South East of Scotland area.



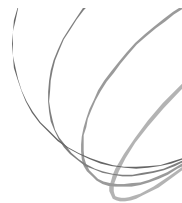
# Governance

## Introduction

30. The partnership continues to build on its successes in previous years. The Regional Transport Strategy has been reviewed in the light of revised funding arrangements and the partnership has been working with the Community Planning Partnerships established by constituent councils to support the development of Single Outcome Agreements.

## Overview of arrangements in 2009/10

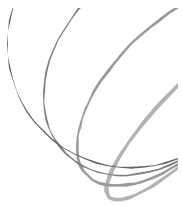
31. Corporate governance is about direction and control of organisations. The partnership has assessed its own arrangements against the CIPFA/SOLACE guidance: *Delivering Good Governance in Local Government*. The assessment suggests that there is a sound governance framework. The partnership included an Annual Governance Statement for 2009/10 within the financial statements.
32. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.
33. Effective scrutiny is central to good governance, with a significant role for board members to scrutinise performance and hold management to account. To be effective scrutiny should be balanced and proportionate.
34. For SEStran the scrutiny function is fulfilled by the Performance and Audit Committee. The committee was scheduled to meet six times during 2009/10. One meeting was cancelled due to lack of business.
35. The internal audit service is provided by the City of Edinburgh Council's Chief Internal Auditor. From our review of the service, we found that the work is conducted in accordance with CIPFA's Code of Practice for Internal Audit in Local Government, that the audit plan was sufficient and that all work on which we planned to place reliance was completed and the relevant assurances obtained.
36. The partnership continues to embed risk management within its practices. Risk is recorded and monitored through the "Magique" based risk register and risks are reviewed on a bi-monthly basis with regular reports provided to the board. A number of the key risks identified relate to the funding and performance of the partnership.
37. We noted that the partnership is working with its local authority partners and has adopted the single outcome agreements relevant to transport. The indicators are now included within the local road transport strategy monitoring arrangements and performance monitoring will be reported to the board in future.



## Systems of internal control

38. SEStran's financial transactions are processed through the City of Edinburgh Council's financial systems. It is therefore the responsibility of the council's management to maintain adequate financial systems and associated internal controls. The auditor evaluates significant financial systems and associated controls both for the purpose of giving an opinion on the financial statements and as part of a review of the adequacy of governance arrangements.
39. Our review of these systems was conducted as part of the audit of City of Edinburgh Council supplemented by specific work on SEStran's financial statements. Overall there are no material issues of concern in relation to the operation of the main financial systems.
40. In our report on the 2008/09 audit we noted that there were no formal Service Level Agreements (SLAs) between the partnership and the constituent councils from which it procures services (City of Edinburgh Council [financial services], Fife Council [legal services] and Falkirk Council [HR services]). Some progress has been made during 2009/10 with two of the SLAs having been agreed and formally signed while the third (Falkirk Council) is currently being finalised. The use of SLAs benefits both the service user, by strengthening governance, and the service provider by providing a clear remit.

**Key risk area 4**



# Final remarks

## Introduction

41. The members of the South East Scotland Transport Partnership are invited to note this report. We would be pleased to provide any additional information that members may require.
  
42. The co-operation and assistance given to us by officers of SEStran and the City of Edinburgh Council is gratefully acknowledged.



# Appendix A: Action Plan

## Key risk areas and planned management action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	14	<p><b>Leased Accommodation</b> SEStran occupies leased office accommodation which expires in May 2011.</p> <p><i>Risk:</i> Depending on the terms of the lease, there may be a requirement for SEStran to provide for dilapidations work resulting in additional expenditure.</p>	Appointment of Estates Functions Officer approved at board meeting 8/10/10.	Estates Functions Officer	May 2011
2	15	<p><b>Accrued Expenditure</b> Instances were identified where expenditure was not matched with service received.</p> <p><i>Risk:</i> Expenditure is charged to the incorrect accounting period</p>	Detailed scrutiny of invoices to ensure compliance with SORP.	Treasurer	Immediate
3	23	<p><b>SESTRAN Limited</b> The wholly-owned limited company SESTRAN Limited was created in January 2010. Bodies are required to produce group accounts when they have interests in other entities. Any transactions by SESTRAN Limited will need to be recorded in group accounts by SEStran.</p> <p><i>Risk:</i> On consolidation, any balances held by SESTRAN Limited will require to be consolidated into the group accounts of SEStran thereby negating the intended impact of carrying forward balances.</p>	SEStran Ltd will remain dormant until needed.	Director	Complete
4	40	<p><b>Service level agreements</b> There remains one outstanding SLA to be agreed between the partnership and Falkirk Council for HR services.</p> <p><i>Risk:</i> Service provision may not adequately meet the needs of the partnership and may not support continuous improvement and best value.</p>	SLAs with Falkirk, Fife and Edinburgh are now all completed and signed off by both parties.	Clerk	Complete