

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

2018/19 Annual Audit Report to members of Strathclyde Partnership  
for Transport, the Strathclyde Concessionary Travel Scheme Joint  
Committee and the Controller of Audit

September 2019





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# 1. Key messages

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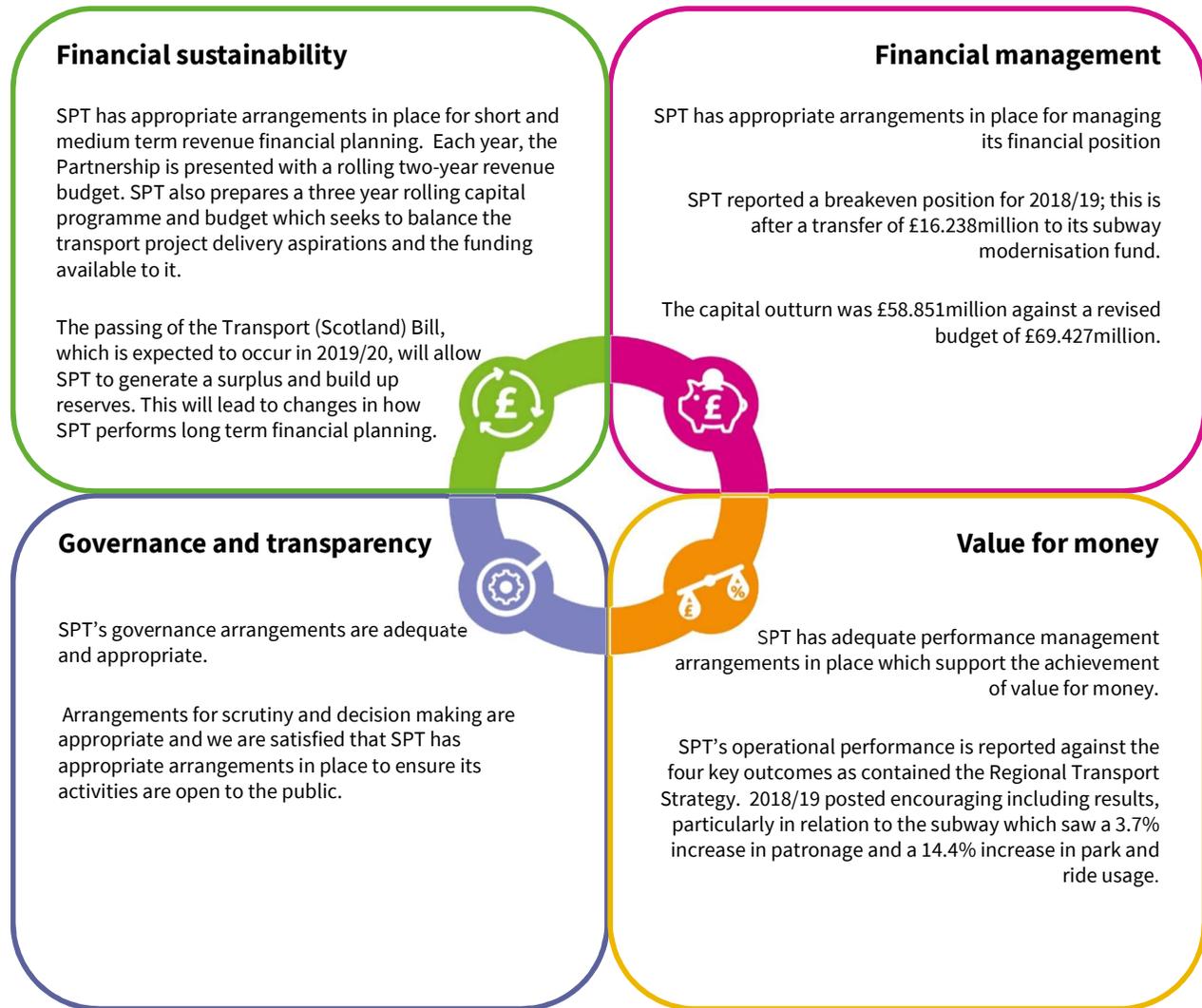


## Annual accounts audit

Strathclyde Partnership for Transport (SPT) and Strathclyde Concessionary Travel Scheme Joint Committee (SCTS) annual accounts for the year ended 31 March 2019 were approved by the Partnership and the Joint Committee respectively on 20 September 2019.

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

## Wider scope audit and best value- SPT



Our work in respect of SPT's best value arrangements has been integrated into our audit approach, including our work on the wider scope audit dimensions. Based on the audit work performed during 2018/19 over the wider scope audit dimensions, we are satisfied that SPT has made proper arrangements to secure best value.



## Wider scope audit – SCTS

Our annual audit work in respect of our wider scope audit responsibilities for SCTS was restricted to:

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

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

SCTS have posted a deficit in both the current year and the prior year which indicates that the funding made available to the scheme through requisitions from the local authorities is insufficient to meet the costs of providing concessionary travel. SCTS have met the previous deficits from reserves and hold sufficient reserves for this to continue in the short term. Discussions are continuing to consider potential solutions to ensure that SCTS remains financial sustainable in the long term.

## Conclusion

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

**Scott-Moncrieff**  
**September 2019**



## 2. Introduction

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**This report is presented to those charged with governance and the Controller of Audit and concludes our audit of Strathclyde Partnership for Transport (SPT) and Strathclyde Concessionary Travel Scheme Joint Committee (SCTS) for 2018/19.**

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

**For both SPT and SCTS, SPT’s Audit and Standards Committee has been designated as “those charged with governance”.**

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## Introduction

1. This report summarises the findings from our 2018/19 audit of Strathclyde Partnership for Transport (SPT) and Strathclyde Concessionary Travel Scheme Joint Committee (SCTS).
  - an audit of the 2018/19 annual accounts;
  - consideration of the wider dimensions of public audit work, as set out in Exhibit 1;
  - consideration of the Accounts Commission Strategic Priorities as they relate to SPT (refer to Appendix 2);
  - monitoring SPT's participation in the National Fraud Initiative (NFI); and
  - any other work requested by Audit Scotland.
2. We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit and Standards Committee at the outset of our audit. The core elements of our work include:

### Exhibit 1: Audit dimensions within the Code of Audit Practice



3. 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.
4. We would like to thank all members of SPT's management and staff who have been involved in our work for their co-operation and assistance during our audit.
5. 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.
6. We have complied with Financial Reporting Council's (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.

## Adding value through the audit

7. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the 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

## Confirmation of independence

5. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis



governance, better management and decision making and more effective use of resources.

## Feedback

8. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: [www.surveymonkey.co.uk/r/S2SPZBX](http://www.surveymonkey.co.uk/r/S2SPZBX).
9. While this report is addressed to SPT and SCTS, it will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



# 3. Annual Accounts



**SPT’s annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.**

**In this section we summarise the findings from our audit of the 2018/19 annual accounts.**





## Annual Accounts

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### An unqualified audit opinion on the annual accounts

The annual accounts for the year ended 31 March 2019 were considered by the Audit and Standards Committee on 30 August 2019 and approved by the Partnership on 20 September 2019. We report unqualified audit opinions within our independent auditor's report.

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### Overall Conclusion

#### An unqualified audit opinion on the annual accounts

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10. The annual accounts for the year ended 31 March 2019 were considered by the Audit and Standards Committee on 30 August 2019 and approved by the Partnership on 20 September 2019. We report within our independent auditor's report:
  - An unqualified opinion on the annual accounts; and
  - An unqualified opinion on other prescribed matters.
11. We are also satisfied that there are no matters which we are required to report by exception.

#### Good administrative processes were in place

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12. We received unaudited 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

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



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

### 1. Management override

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

*Excerpt from the 2018/19 External Audit Plan*

14. We have not identified any indication of management override in the year. We have reviewed SPT's accounting records and obtained evidence to ensure that transactions were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

### 2. Revenue recognition

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

*Excerpt from the 2018/19 External Audit Plan*

15. At the planning stage we concluded that for funding received as requisition from the constituent local authorities and Scottish Government grant funding, the risk of revenue recognition could be rebutted due to a lack of incentive and opportunity to manipulate transactions of this nature. We did however conclude that the risk of fraud in relation to revenue recognition is present in all non-government or requisition revenue streams. We evaluated each type of revenue transaction and documented our conclusions.
16. We have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the annual accounts. To inform our conclusion we evaluated SPT's key revenue streams and reviewed the controls in place over revenue accounting. We also carried out testing to confirm that the revenue recognition policy is appropriate and that it was applied consistently throughout the year.



### 3. Risk of fraud in the recognition of expenditure

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

*Excerpt from the 2018/19 External Audit Plan*

17. We have evaluated each type of expenditure transaction and documented our conclusions. We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the annual accounts. To inform our conclusion we carried out testing to confirm that SPT’s policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

### 4. Asset valuation and additions

SPT has a significant capital investment programme. The Capital Programme 2018/19 (February 2018) planned for capital expenditure of £74.525million (Category 1 programmes).

SPT’s assets are revalued regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Land and buildings were revalued by SPT’s external valuer as at 31 March 2017 and are revalued in accordance with the external valuer’s 5-year programme. In 2017/18, two subway stations were revalued following the completion of modernisation works. Investment properties are valued annually at fair value, in line with the Code.

There is a risk of material misstatement to the annual accounts relating to the recognition of capital expenditure and asset valuations.

*Excerpt from the 2018/19 External Audit Plan*

#### Additions

18. SPT reported total capital investment in 2018/19 of £58.851million. We carried out sample testing on additions and concluded, based on the audit work performed, that additions had been accounted for in the annual accounts in accordance with SPT’s accounting policies and the applicable accounting standards.
19. We reviewed expenditure on repairs and maintenance to ensure it had been categorised correctly in the annual accounts. We concluded that this expenditure had been categorised correctly.

#### Asset valuations

20. During 2018/19, one subway station and an interlink bus station were revalued following the completion of modernisation works, resulting in an overall net decrease of £1.423million in the value of property, plant and equipment. Due to their specialised nature, subway stations are held at depreciated replacement cost as a proxy for market value.
21. A full valuation exercise was last undertaken in 2016/17 on land and buildings in line with SPT’s valuation programme.



22. Investment properties are valued annually at fair value, in line with the Code, in 2018/19; the value of investment properties held by SPT reduced by £0.030million as a result of disposals made in the year and fair value adjustments. We compared the fair value movements in year against industry averages to ensure that the valuer's assumptions and methodology were appropriate. Based on the audit work performed, we are satisfied movements in valuations have appropriately taken account of changes in circumstances, are in line with industry averages and that these results have been correctly accounted for in the annual accounts.
23. We considered the instructions and information provided to the valuer, and performed procedures to confirm the accuracy and completeness of information. We reviewed the professional valuations provided and are satisfied that the valuer has appropriate experience and competence to complete this exercise.
24. From our review of the instructions provided to the valuer and assessment of expertise of the valuer, we are satisfied that reliance can be placed on the work of this expert.

## 5. Pension assumptions

An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under IAS 19 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership date held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate.

*Excerpt from the 2018/19 External Audit Plan*

25. We obtained the information provided to the actuary and agreed to source documentation to confirm accuracy. We reviewed the assumptions used by the actuary and compared these to benchmarks across the sector.
26. The net pension liability within the audited accounts has been revised to take account of the financial effects of the 'McCloud Judgement' and the Guaranteed Minimum Pension (GMP) equalisation:
  - **McCloud Judgement:** This case related to an employment tribunal ruling that transitional provisions impacting on a public sector final salary scheme were unlawfully age discriminatory. This was upheld in the Courts in December 2018 although the Government at that stage sought leave to appeal this judgement. The ruling has implications for all public service schemes including the LGPS funds. In June 2019, the Supreme Court have rejected the Government's request for a further appeal.
  - **Guaranteed minimum pension (GMP)** was accrued by members of the Local Government Pension Scheme (LGPS) between 6 April 1978 and 5 April 1997. The value of GMP is inherently unequal between males and females for a number of reasons, including a higher retirement age for men and GMP accruing at a faster rate for women. However overall equality of benefits was achieved for public service schemes through the interaction between scheme pensions and the Second State Pension. The introduction of the new Single State Pension in April 2016 disrupted this arrangement and brought uncertainty over the ongoing indexation of GMPs, which could lead to inequalities between men's and women's benefits. As an interim solution to avoid this problem, GMP rules were changed so that the responsibility for ensuring GMPs kept pace with inflation passed in full to pension schemes themselves for members reaching state pension age between 6 April 2016 and 5 April 2021. This



new responsibility leads to increased costs for schemes (including the LGPS) and hence scheme employers.

- 27. Management requested a revised actuarial report from its Actuaries. The financial effect of these pension issues has resulted in an increase of £3.221million in past service costs and an increase of £0.043million in interest costs, giving a total increase in liabilities in the current year of £3.264million.
- 28. As at 31st March 2019, the pension liability showed a deficit of £19.090million, compared to a deficit of £3.245million as at 31st March 2018. In addition to the increase in the deficit noted above, the in-year movement has arisen primarily due to changes in financial assumptions made by the actuary which resulted in a £17.284million increase to the pension liability. The fund performed strongly in the year with investment returns of 5.9% in comparison to 4.1% in the previous year, this has partial offset the increase in fund liabilities in the year.

### Our application of materiality

- 29. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the financial statements.
- 30. Our initial assessment of materiality for the financial statements was £1million. On receipt of the 2018/19 unaudited annual accounts, we reassessed materiality and reset it to £1.035million. We consider that our updated assessment has remained appropriate throughout our audit.
- 31. Our assessment of materiality is set with reference to gross expenditure and equates to approximately 1.4% of SPT’s 2018/19 gross expenditure. We consider this to be the principal consideration for the users of the financial statements when assessing the financial performance.

### Performance materiality

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

misstatement. Performance testing thresholds are set out in the table below:

	Area risk assessment		
	High	Medium	Low
Performance materiality	465	570	725

- 34. We agreed with the Audit and Standards Committee that we would report on all material corrected misstatements, uncorrected misstatements with a value in excess of 2% of the overall materiality figure, as well as other misstatements below that threshold which, in our view, warranted reporting on qualitative grounds.

### Audit differences

- 35. Two adjustments were made to the unaudited annual accounts in respect of the net pension liability (paragraph 26) and a technical accounting adjustment in respect of property plant and equipment (described below).
- 36. In accordance with the Code of Practice on Local Authority Accounting in the UK (the Code), for revalued assets, a transfer between the Revaluation Reserve and Capital Adjustment Account should be carried out which represents the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset’s historical cost.
- 37. SPT accounted for this transfer, in accordance with the Code, in the Revaluation Reserve and Capital Adjustment Account. However, this notional difference was also accounted for in the unaudited



accounts through the net cost of services within the Comprehensive Income and Expenditure Statement (CIES) and Other Comprehensive Income and Expenditure. The audited accounts were adjusted to remove this technical accounting entry from the CIES and Other Comprehensive Income and Expenditure (£1.279million). This adjustment did not impact on the overall net asset position for SPT.

38. We also identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual accounts.
39. There were no unadjusted differences to the unaudited annual accounts.

### An overview of the scope of our audit

40. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit and Standards Committee in February 2019. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to 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.
41. 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.
42. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

### Legality

43. 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.

44. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

### Follow up of prior year recommendations

45. In the prior year we concluded that all recommendations had been implemented. There were no recommendations to follow up in 2018/19.

### Other matters identified during our audit

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

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

47. 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

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

<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.



## Annual Governance Statement and Statement of Internal Financial Control

50. The Chief Executive and the Chair have confirmed that in SPT's view, the systems for internal control were effective during 2018/19 with no identified material weaknesses. The Annual Governance Statement and Statement of 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.
51. We are satisfied that the Annual Governance Statement and Statement of Internal Financial Control within the annual accounts is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016.

## Remuneration report

52. 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.

## Looking forward – IFRS 16 Leases

53. IFRS 16 Leases will be effective from 1 April 2020. IFRS 16 Leases will lead to a substantial change in accounting practice for lessees where the current distinction between operating and finance leases will be removed. Instead, it requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased property, and a lease liability representing the lessee's obligation to pay for that right.
54. There are new requirements for measurement of the lease liability where it will initially be measured at the present value of the lease payments payable over the lease term but may rise to reflect any reassessment or lease modifications, or revised lease payments.
55. As at 31 March 2019, SPT did not hold any leases categorised as finance leases and the total contractual value outstanding in relation to operating leases was £0.271million. Due to this it is not considered that the implementation of IFRS16 will

have a material impact in the preparation of SPT's accounts.

## Qualitative aspects of accounting practices and financial reporting

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



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



# 4. Financial sustainability

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



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.

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.

The passing of the Transport (Scotland) Bill which is estimated to occur in 2019/20 will allow SPT to generate reserves on the general fund. Upon the bill passing, SPT will develop a detailed long term financial strategy and present this to the Partnership.



## Significant audit risk

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

### Financial sustainability

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.

*Excerpt from the 2018/19 External Audit Plan*

58. SPT has developed a rolling two-year revenue budget and the rolling three year capital programme. As outlined below we have reviewed SPT's arrangements for managing its medium to long term financial position in this context.

### Revenue budget 2019/20

59. In February 2019, the Strategies and Programmes Committee scrutinised a net revenue budget (£36.123million) for 2019/20. This was developed on the assumption that SPT would receive local authority requisitions of £35.086million, down 2.27% on the prior year, and a contribution of £1.037million from the Scottish Government. Discussions with local authorities concluded in March 2019 and it was agreed that the final reduction in funding would be 1.22%. The revenue budget was revised upwards and a net revenue budget of £36.499million was approved by the Partnership in March 2019. This follows on from a 2% reduction in funding in 2017/18. As part of approving the 2019/20 budget, the Partnership also agreed to an increase in fares, fees and charges.
60. SPT have made a prudent assumption that the reduction in local authority funding will continue in the short term and have developed an indicative revenue budget for 2020/21 on the assumption that local authority funding will reduce by a further 3%. The trend that funding is reducing and will continue to reduce demonstrates the difficult environment in which SPT is currently operating. This in conjunction with SPT only receiving funding information in one year cycles makes it difficult for SPT to perform long term financial planning.
61. The significant funding reduction is creating financial challenges at SPT primarily in funding local services, including socially necessary bus services. SPT have performed continuous organisational reviews and have driven efficiencies which have negated the impact of funding reductions on the provision of services. This can be demonstrated by the reduction in employee costs as a percentage of gross expenditure, this has fallen from 45% in 2010/11 to 37% in 2019/20.
62. Despite the challenges in performing long term financial planning, SPT do produce 'future budget scenarios' which are refreshed on an annual basis and consider the revenue budget for the next five financial years. The most recent refresh was performed in June 2019 and extended through to the financial year 2024/25. It is our opinion that these projections have been produced on the basis of prudent assumptions in relation to; income, expenditure and funding.
63. The projections demonstrate that despite the challenges SPT are financially sustainable and are in a financial position which will allow them to continue to operate in the short, medium and long term. If funding does continue to reduce this may reduce SPT's ability to provide certain services which are currently provided such as subsidised bus services.
- Transport (Scotland) Bill**
64. As has been previously stated The Transport (Scotland) Act 2005 prohibits regional transport partnerships, including SPT, from generating a surplus or deficit on the general fund. However, the Act is to be superseded by the Transport (Scotland) Bill which is currently in the final consideration stage at the Scottish Parliament. It is estimated that this bill will be passed by December 2019. This is



significant for SPT as the implementation of this Act will allow SPT to hold reserves.

65. This change will have a significant impact on the way in which SPT perform financial and capital planning. This will allow SPT to build up reserves which can then be used for future capital projects. The ability to hold reserves is a crucial element in developing long term financial strategies.
66. Through discussions with management it is understood that upon the bill passing SPT plan to undertake a more detailed review of its long term financial strategy. SPT will also produce a detailed reserves strategy and both will be presented to the Partnership for consideration at a future date.
67. As part of our audit work for 2019/20, we will assess the long term financial direction and the reasonableness of the assumptions underpinning this strategy.

### Future capital plans

68. In February 2019, the Partnership approved, in principle, subject to funding, a capital plan for the financial years 2019/20 to 2020/21.
69. For 2019/20, SPT plans to incur capital expenditure of £72.157million, funded through capital grants (£23.131million) and transfers from Capital Grants Unapplied Account (£47.372million). 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 2018/19, there is a projected short fall of £1.654million. SPT anticipated movement in the project delivery from the previous financial year and factored this into capital planning; hence this will not have a significant impact on the 2019/20 capital budget.
70. As no funding information is available for years two and three of the capital plan, SPT only set indicative budgets for those two years. Scottish Government capital funding for 2019/20 includes a capital grant of £23.131million which represents a 22% increase on 2018/19 levels but still remains below 2015 funding levels.
71. Timing differences between funding and the payments being made to suppliers has results in SPT having a significant cash balance. Due to this it was agreed with Transport Scotland in December 2018 that SPT would not receive any funding for the subway modernisation programme in 2019/20.
72. The subway modernisation project comprises a significant proportion of the capital plan

(approximately £47.372million). 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 2021/22.

### Impact of EU withdrawal

73. EU Withdrawal presents risks to all public sector bodies across Scotland. The uncertainty over the terms and conditions of departure increase the severity of this risk. Through our audit work we considered if SPT have appropriate mechanisms in place to manage these risks, to the extent possible.
74. We confirmed that SPT is actively managing the risks presented by Brexit, this is a key risk on SPT's corporate risk register and we have confirmed that the issue has been discussed at numerous Audit & Standards Committee meetings.
75. EU withdrawal will also present the possibility of changes to current regulation or the introduction of new regulations. However, these remain unknown and difficult to predict at this stage. SPT expect that any implications would be applicable across the sector and have not identified any risks specific to it. SPT continue to monitor this situation.



# 5. Financial management

**Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.**



SPT has appropriate arrangements in place for managing its financial position.

SPT reported a breakeven position for 2018/19; this is after a transfer of £16.238million to its subway modernisation fund.

The capital outturn was £58.851million against a revised budget of £69.427million. The key contributor for this variance was due to slippages in relation to the Manufacturing and Supply Agreement. This expenditure is included with the 2019/20 capital plan, the capital programme remains within budget.



## Financial performance

### SPT's financial performance in 2018/19

76. The Comprehensive Income and Expenditure Statement for 2018/19 shows that SPT spent £73.594million on the provision of services, resulting in an accounting surplus of £12.273million (2017/18: £91.297million).
77. The large surplus recognised in 2017/18 was in part due to a significant reduction in the net cost of service; £41.820 in 2017/18 compared to £60.229 in 2016/17. In addition, SPT received higher levels of grant income from the Scottish Government in line with the subway modernisation funding profile. The sizeable reduction in the accounting surplus in 2018/19 occurred due to both a reduction in the levels of grant income and an increase in the net cost of service. The net cost of service increased by 14.74% in the year to £47.985million. The Scottish Government Capital Grant reduced by £73.599 million in comparison to 2017/18 funding levels, £21.242million was utilised from the Capital Grants Unapplied Account in the year.
78. 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 2018/19 Code), and which are subsequently adjusted to show their impact on reserves. Taking account of these adjustments, no surplus or deficit has been generated in 2018/19. This is in line with technical guidance (based on interpretation of the Transport (Scotland) Act 2005), where regional transport partnerships, including SPT, are not permitted to generate a surplus or deficit on the general fund.
79. A "subway fund" does however exist on the balance sheet which includes contributions/receipts in advance from the constituent local authorities. In 2018/19, £16.238million was contributed to this fund in against a budgeted contribution of £10.789million. The balance on this fund as at 31 March 2019 was £51.283million (2017/18: £35.045million). All capital activity in 2018/19 was funded from Scottish Government capital grants and none of the "subway modernisation fund" was utilised.
80. The recently published Transport (Scotland) Bill 2018 proposes that Regional Transport Partnerships, such as SPT, will be permitted to hold reserves. This will allow SPT to generate a surplus on the provision of services and add to reserves for future use, for example, on capital projects.
81. As at 31 March 2019, SPT's cash and cash equivalents and short term investments held had combined value of £170.003million (2017/18: £167.615million). These large balances have arisen due to timing issues between capital funding being received from Transport Scotland and payments being made to suppliers due to slippages in meeting pre-agreed milestones. In December 2018, it was agreed with Transport Scotland that SPT would not receive any capital funding for the subway modernisation programme in 2019/20 and would use funding previously received to meet capital payments as the fall due.
82. As part of our 2018/19 audit work, we have assessed the treasury management arrangements in place at SPT to manage the levels of cash and we are satisfied that SPT are compliant with CIPFA Treasury Management requirements. Internal Audit also performed an assessment of treasury management in 2018/19 and did not identify any control issues.
83. In addition, useable reserves decreased by £19.220million in 2018/19 with a balance of £108.140million as at 31 March 2019. This is a result of a transfer out of the Capital Grant Unapplied Accounts (£21.214million) to meet capital expenditure in the year. This reduction was partly offset by a transfer of non-current asset sale proceeds to the Capital Receipt Reserve (£1.994million).

### Revenue performance against budget

84. SPT achieved a breakeven position in 2018/19. The net revenue budget of £36.936million was met from local authority contributions (£35.900million) and a contribution of £1.036million direct from the Scottish Government (Exhibit 3).



### Exhibit 3: Revenue performance against budget

Directorate	Annual budget £million	Actual £million	Variance over/(under) £million
Subway operations	1.228	(0.856)	(2.084)
Bus operations	16.680	15.333	(1.347)
Operations – other	1.757	1.785	0.028
Business support	3.351	2.985	(0.366)
Corporate	13.920	17.689	3.769
<b>Total</b>	<b>36.936</b>	<b>36.936</b>	<b>0</b>

**Source:** Annual accounts 2018/19 and budget monitoring reports

85. Subway patronage continued to grow during 2018/19 and this has resulted in an increase in subway ticket income. For the first time in 10 years annual patronage exceeded 13 million passengers. The increase was due in part to major events held across the city including the European Championships which took place in August 2018. In line with market trends, SPT have increased the facilities available for passengers to pay for journeys using bank cards and the percentage of passengers using card to pay for journeys has increased 10% in the year. This demonstrates that SPT are actively promoting new strategies with the aim of making the subway more attractive to passengers.
86. The central finance team are responsible for monitoring actual overrun against budgets. Detailed revenue reports are updated after every period across all SPT divisions. This information is presented to the Strategies and Programmes committee on a quarterly. We are satisfied that budget management arrangements in place are appropriate and have operated in line with expectation in 2018/19.
87. 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 February 2019, 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 2019/20.
88. In 2018/19 the capital outturn was £58.851million against a revised capital budget of £69.427million (Exhibit 4). A number of budget adjustments were approved during the year which reduces the original capital budget.
89. The key contributor to the variance between capital budget and overrun was attributable to the MSA agreement with ANSTA JV. The 2018/19 approved budget was updated at the S&P Committee in February 2019 based on the latest revised version of the ANSTA JV programme. It was highlighted that milestones slipping from 2018/19 to 2019/20 had a combined value of £5.872million. This was offset by accelerated milestones settled in 2018/19 rather than 2019/20 of £1.450million.
90. SPT has been working closely with ANSTA JV to update MSA programme forecasts in light of delays and design challenges to date and a re-baselined programme has now been agreed. The new control system and rolling stock fleet is scheduled to be introduced 12 months later than the forecast at the contract award. It has been noted that significant progress has been made in delivering the complex MSA programme and that delays noted above were experienced at the outset of the programme.

### Capital position

87. 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 February 2019, SPT prepared a three year programme; highlighting that years' two



#### Exhibit 4: Extract from the 2018/19 Outturn Statement

Category	Budget 2018/19 as approved by SPT in February 2018 £million	Final approved budget £million	Actual £million	Variance over/(under) £million
Subway modernisation & infrastructure	57.680	55.129	47.598	(7.531)
Local Authorities and Others	12.590	12.088	9.467	(2.621)
Bus Operations	2.750	1.460	1.318	(0.142)
General capital	1.505	0.750	0.469	(0.281)
<b>Total</b>	<b>74.525</b>	<b>69.427</b>	<b>58.852</b>	<b>(10.575)</b>

Source: Capital monitoring report March 2019

### Systems of internal control

91. We have evaluated SPT's 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 documenting the key internal financial controls and performing walkthroughs to confirm that they are operating as intended.
92. We did not identify any significant weaknesses in SPT's accounting and internal control systems during our audit.

register which encompasses the dependency of suppliers in the delivery of the contract.

97. SPT have a number of suppliers who are based in Europe including Ansaldo-Stadler who are a key supplier in the delivery of the subway modernisation programme. Through work performed we are satisfied that SPT's supplier management processes are appropriate, all contracts with foreign based entities are agreed in Pounds Sterling so SPT do not have any exposure to currency fluctuations which may arise due to the falling value of the Pound.

### Internal audit

93. 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.
94. To avoid duplication of effort and to ensure an efficient audit process we have taken cognisance of the work of internal audit.

### Prevention and detection of fraud and irregularity

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

### Key supplier dependency

95. One of the sector risks identified by Audit Scotland for 2018/19 relates to public sector organisations' reliance on key suppliers. Following the collapse of Carillion, it became apparent that public sector bodies face significant risks where suppliers are experiencing difficult trading conditions.
96. SPT has two key suppliers for the delivery of the Rolling Stock Contract: Stadler and Ansaldo STS. Contract management is identified on SPT's risk

### National Fraud Initiative (NFI)

99. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.
100. Participating bodies were required to submit data in October 2018 and received matches for investigation in January 2019. Match investigation work should be largely completed by 30 September 2019 and the results recorded on the NFI system.
101. We have reviewed SPT's participation in the NFI exercise. Overall we have concluded that the SPT's arrangements with respect to NFI are satisfactory.



# 6. Governance and transparency

**Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.**



SPT's governance arrangements are adequate and appropriate. Arrangements for scrutiny and decision making are appropriate and we are satisfied that SPT has appropriate arrangements in place to ensure its activities are open to the public.



## Governance arrangements

### The Partnership

102. 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.
103. For the year 2018/19 through to the beginning of 2019/20 there have been a number of changes at the Partnership level, with six new elected members being appointed representing various constituencies.
104. Due to the high number of changes it is important that SPT have a clear induction process for Partnership members to ensure that it performs the role of stewardship effectively. We reviewed the induction programme which SPT has developed and are satisfied that this supports new members in understanding their role within SPT.
105. An ongoing programme of training is in place for all members to ensure they remain well versed in their role and the role of the committees.

### Openness & transparency

106. There is an increasing focus on how public money is utilised and the outcomes that it helps to achieve. Due to this it is important that public bodies operate in a transparent manner and consider potential actions which can continuously improve transparency.
107. We reviewed SPT's arrangements against Audit Scotland's openness and transparency guidance note to determine if it achieves best practice in relation to this area of governance.
108. In common with other Partnership Boards, we found that SPT's Board meetings are open to the public and advertised on the website. The agenda and papers are available at least three days in advance of the meeting. SPT also makes other committee papers available to the public.
109. The register of interests for each SPT Board member is easily accessible on the website. It was identified that for three partnership members there was not a register of interest published on line. One of these members only joined the Partnership in June 2019 but the other two members have been members since 2018. All other members had updated their register of interest within the previous 12 months in line with best practice.

*Arrangements for scrutiny and decision-making are appropriate*

110. We consider that arrangements for scrutiny and decision making at SPT are appropriate.
111. Our conclusion is informed by attendance at the Audit and Standards Committee and throughout our audit appointment we have attended and observed other committee meetings.
112. In addition, we review the published minutes of the Partnership and committees. It is our assessment that items on the agenda are in line with the most pertinent issues for SPT. As an example, updates are provided on the subway modernisation programme consistently throughout the year in line with the risk profile of SPT.
113. There is evidence of challenge and scrutiny by members on the reports presented to the relevant committee. The reports are of high quality and aid the user in scrutinising performance across the various business areas in which they operate. The information produced allows the end user to scrutinise SPT's performance in relation to strategic, operational and financial performance.

### Standards of conduct

114. 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.
115. 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.
116. 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 2017.



# 7. Value for money

**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 SPT's own reporting of its performance.**



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

SPT's operational performance is reported against the four key outcomes as detailed within the Regional Transport Strategy. 2018/19 posted encouraging including results, particularly in relation to the subway which saw a 3.7% increase in patronage and a 14.4% increase in park and ride usage.



## Value for money

### Regional Transport Strategy

117. The end of the 2018/19 financial year aligned with the completion of year 1 of the three year Regional Transport Strategy (RTS) Delivery plan. This plan has been produced in response to 'A Catalyst for Change' the statutory RTS for the west of Scotland 2008-21 and will be the final delivery plan prior to the statutory strategy being revised and updated in 2021.
118. The 2018-21 RTS Delivery Plan is structured around four key outcomes, in line with the Regional Transport Strategy. These are;
- Attractive, seamless reliable travel;
  - Improved Connectivity;
  - Access for All;
  - Reduced Emissions.
119. SPT have developed 8 strategic priorities which have been classified under one of the four key outcomes. The strategic priorities all have a number of corresponding key actions which SPT have identify as being key in delivering against the statutory RTS.
120. The above structure creates clarity in relation to SPT's objectives and supports the ability of both management and external stakeholders to hold SPT to account over their ability to deliver services in line with value for money principles. At the time of writing, SPT had not produced a report outlining progress made against the RTS Delivery plan in year one of the three year strategy.
121. It was noted that SPT have already commenced planning for the new RTS which will commence in 2021. A report was presented to the Partnership in June 2019. The focus of activity has primarily been on stakeholder engagement to identify key issues to be addressed through the new RTS. This early engagement supports the assessment that SPT are intent on delivering efficient services in line with the value for money principles.
122. SPT receive a significant proportion of its funding through requisitions from the 12 local authorities within SPT's geographical area. Reporting arrangements are in place to demonstrate how these resources have been utilised by the Partnership. SPT produces Transport Outcomes Reports (TORs) annually for each council area. These reports aim to demonstrate how SPT's activities contribute towards the achievement of Single Outcome Agreements with each local authority.
123. The TORs provides a summary of SPT services, projects and key areas for partnership working undertaken over the year and to be taken forward into future years. Key performance indicators are included within each TOR which link to the four key outcomes included within the RTS. Through our audit work we reviewed the TORs produced for all local authorities in January 2019 and compared these against prior year. We noted that the reports demonstrated a general trend that agreed upon outcomes are improving.
124. 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. As concluded in section 5 (Governance and Transparency), we are satisfied that appropriate arrangements are in place for scrutiny and decision making.
125. The performance indicators which are monitored and presented to the Operations Committee on a quarterly basis demonstrate that 2018/19 yielded strong operational results for SPT. The key examples which support this assessment have been noted below;

### Performance management framework

122. Regular performance information is presented to the Operations Committee in relation to these operational measures. In addition, financial performance information is presented to the Strategy and Programmes Committee via revenue and capital monitoring reports. Minutes of both these committees are reported to meetings of the Partnership.
- Subway patronage increased by 3.7% in comparison to 2017/18 and was in excess of 13million for the first time in a decade
  - Subway Park-and Ride car park entries increased from 295,000 in 2017/18 to 337,000 in 2018/19 which represents a 14.4% increase
  - Supported bus reliability was at least 99.5% for every period in 2018/19 which exceeded the target of 99%
  - Supported bus patronage continued the long standing trend and continues to increase throughout 2018/19.



127. The monitoring reports are published on SPT's website and can be accessed to provide more context to the metrics noted above. There are certain metrics which have displayed a slippage against prior years' results but the results on the whole are positive.
  
128. The ability for SPT to demonstrate positive trends in relation to the usage of services and the reliability in the delivery of these services supports our assessment that SPT utilise resources effectively to provide services in line with the value for money principle.



# 8. Strathclyde Concessionary Travel Scheme Joint Committee

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**In this section we summarise the findings from our audit of SCTS 2018/19 annual accounts and our annual audit work on the wider scope.**

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## Introduction

129. 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.
130. 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.
131. In this section of our report we set out our findings of our audit of SCTS for the year ended 31 March 2019 including:
- Our findings from our audit of the 2018/19 annual accounts; and
  - Our findings from our annual audit work in respect of our wider scope audit responsibilities. For 2018/19 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 Financial Control; and
    - Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.

## Annual accounts

### An unqualified audit opinion on the annual accounts

132. The annual accounts for the year ended 31 March 2019 were considered by SPT's Audit and Standards Committee on 30 August 2019 and approved by the Joint Committee on 20 September 2019. We report within our independent auditor's report:
- An unqualified opinion on the annual accounts; and
  - An unqualified opinion on other prescribed matters.
133. We are also satisfied that there are no matters which we are required to report by exception.

### Good administrative processes were in place

134. 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

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

*Excerpt from the 2018/19 External Audit Plan*

136. We have not identified any indication of management override in the year. We have reviewed SCTS' accounting records and obtained evidence to ensure that transactions were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

### 2. Revenue recognition

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

*Excerpt from the 2018/19 External Audit Plan*

137. At the planning stage of our audit cycle, we reported that we did not believe the risk of fraud in revenue recognition was material to the annual accounts and we therefore rebutted this risk. SCTS is funded by contributions received from the local authorities within the area served by the Scheme and 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 assessment of this risk has been reviewed throughout the audit and our conclusion to rebut this risk has remained appropriate.



### 3. Risk of fraud in the recognition of expenditure

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

*Excerpt from the 2018/19 External Audit Plan*

138. While we did not suspect incidences of material fraud and error, we evaluated each type of expenditure transaction and documented our conclusions. We have gained reasonable assurance on the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the annual accounts. To inform our conclusion, we carried out testing to confirm that SCTS’ policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

#### Our application of materiality

139. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the financial statements.
140. Our initial assessment of materiality for the financial statements was £80,000. On receipt of the 2018/19 unaudited annual accounts, we reassessed materiality and reset it to £88,000. We consider that our updated assessment has remained appropriate throughout the audit.
141. Our assessment of materiality equates to approximately 2% of SCTS’ 2018/19 gross expenditure. We consider this to be the principal consideration for the users of the accounts when assessing the performance of SCTS.

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

	Area risk assessment		
	High	Medium	Low
Performance materiality	44	53	66

144. 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.

#### Performance materiality

142. Performance materiality is the amount set by the auditor at less than overall materiality for the annual accounts as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed materiality for the annual accounts as a whole.
143. We set a performance (testing) 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

#### Audit differences

145. 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

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

#### An overview of the scope of our audit

147. 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 February 2019. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to SCTS. 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.

148. 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.
149. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work, we have applied the concept of materiality, which is explained earlier in this report.

## Legality

150. 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 as to the position in relation to litigation, claims and assessments; and
  - Performing detailed testing of transactions and balances.
151. 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

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

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

153. 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

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

### Remuneration report

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

### Annual governance statement and statement of financial control

156. We have concluded that 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 have provided further detail on our work and findings under 'wider scope conclusions', paragraphs 156 to 159.

<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 aspects of accounting practices and financial reporting

157. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability,

understandability and materiality of the information provided by the annual accounts. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the annual accounts, are considered appropriate to 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.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts.
The appropriateness of the going concern assumption	We have reviewed the financial forecasts for 2019/20. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that SCTS will continue to operate for at least 12 months from the signing date.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts.
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the management commentary or material inconsistencies with the accounts.	The management commentary contains no material misstatements or inconsistencies with the accounts.
Any significant annual accounts disclosures to bring to your attention.	There are no significant annual accounts disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or annual accounts disclosure.	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 conclusions

### Annual governance statement and statement of financial control



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

### Financial sustainability



SCTS continues to experience financial pressures as a result of reduced funding being received through requisitions and increased operator costs. In response, SCTS increased its concessionary fares in in 2017/18 and then again in 2018/19, these were the first increases since 2011/12. Despite these increases, SCTS has still posted a deficit in the current and prior year which has been covered by reserves held by SCTS. As at 31st March 2019, SCTS holds sufficient reserves to continue operating as in the short and medium term but changes will be required if SCTS is to remain financial sustainable in the long term. We confirmed with management that discussions are on-going to consider potential changes to the operation of the concessionary travel scheme.

### Our approach to the wider scope audit

158. Our approach to the wider scope audit (as set out in our 2018/19 External Audit Plan) builds upon our understanding of SCTS which we developed from previous years, along with discussions with management and review of committee minutes and key strategy documents.
159. During our audit we also considered the following risk areas as they relate to SCTS:

- EU withdrawal
- Changing landscape of public financial management
- Dependency on key suppliers
- Openness and transparency

Overall we concluded that, where applicable, SCTS has appropriate arrangements in place in respect of these areas as noted below:

#### Impact of EU withdrawal

Due to the nature and scope of SCTS, EU withdrawal has minimal impact.

#### Changing landscape of financial management

SCTS is funded through local authority requisitions. Our commentary on the financial sustainability of SCTS is detailed at paragraphs 162 to 163 of this report.

#### Dependency on key suppliers

SCTS's key supplier is Abellio Scotrail which received the majority of the £4million which was paid to operators in 2018/19. We have not identified any concerns in regards to Abellio Scotrail's ability to operate in the short and medium term.



### Openness and transparency

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

- Publication of minutes on SPT's website;
- Key publications are available on its website; and
- Registers of interests are available on the website.



## Annual governance statement and statement of financial control

**Our audit opinion considers whether the Annual governance statement and statement of financial control has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).**

160. We are satisfied that the Annual Governance Statement and Statement of Financial Control for the year to 31 March 2019 is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).
161. 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"*. The Annual Governance Statement and Statement of Financial Control is consistent with the governance statement presented in SPT's annual accounts.
162. The Joint Committee met twice during 2018/19. We had previously commented that attendance levels at committee meetings were consistently low.
163. Our review of committee minutes identified that attendance levels remained low at committee minutes. Of 13 councillors, 6 were absent from both meetings held during 2018/19.



## Financial sustainability

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

### Significant audit risk

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

#### 1. Financial sustainability

In 2018, the Joint Committee approved its 2018/19 budget. A budget of £4.233million has been approved for 2018/19, to be funded by local authority requisitions (£4.089million) and reserves (£0.144million). This does represent a reduction in local authority requisitions in comparison with 2017/18 (2% reduction).

SCTS continues to experience financial pressures from the impact of funding and from increased operator costs. In response, SCTS increased its concessionary fares in 2017/18; the first increase since 2011/12, despite increases in standard operator fares and subsequent cost to SCTS. SCTS approved further increases in concessionary fares for 2018/19. 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, has prepared indicative budgets up to 2022/23.

*Excerpt from the 2018/19 External Audit Plan*

165. As detailed below, we considered SCTS' financial standing and the arrangements in place for short, medium and long term financial planning. We are satisfied that arrangements are appropriate.

### Looking forward

166. In 2019, the Joint Committee approved its 2019/20 budget. A budget of £4.573million has been approved for 2019/20, to be funded by local authority requisitions (£4.039million) and reserves (£0.533million). Requisitions levels from local authorities have reduced by 1.22% in comparison to 2018/19 levels.
167. SCTS continues to experience financial pressures from the impact of reducing and from increased operator costs. In response, SCTS increased its concessionary fares in 2017/18 and then again in 2018/19, these were the first increases since 2011/12. The impact of this will be monitored by the Joint Committee throughout the year. Management are actively identified potential changes to the operation of the scheme to ensure it remains financial sustainable in the long term.

### 2018/19 financial performance

168. The 2018/19 Comprehensive Income and Expenditure Statement shows that SCTS spent £4.403million on delivery of services. Taking into account interest received (£24,000) and the local authority requisitions (£4.089million), SCTS reported an in-year deficit of £290,000, which was funded from reserves.
169. At the start of the year, SCTS approved a budget of £4.223million. Funding contributions from the constituent local authorities were agreed at £4.089million with no funding required from reserves.
170. The deficit reflects a continuing increase in payments to operators. Operator fares in 2018/19 were higher than initially anticipated. Patronage in 2018/19 was also higher than originally budgeted which, combined with the higher payments to operators, resulted in an overspend.



171. Reserves were utilised to fund this deficit, leaving a reserves balance of £1.269million as at 31 March 2019. The Joint Committee has previously approved a resource utilisation policy, which will see the overall level of reserves reduced even further in future years.
  
172. The Joint Committee met twice in 2018/19 and budget monitoring reports were considered at both meetings.



# 9. Appendices

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# Appendix 1: Respective responsibilities of the Partnership and the Auditor

## Responsibility for the preparation of the annual accounts

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

The Assistant Chief Executive 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 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 is also responsible for:

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

## Auditor responsibilities

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

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

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

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



## Wider scope of audit

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

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

## Best value

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

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

## Independence

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

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



## Appendix 2: Accounts Commission Strategic Priorities

The Accounts Commission, within its Strategy and Annual Action Plan sets out its plans and priorities to fulfil its oversight and scrutiny role, with the overriding aim to hold councils to account for the pace, depth and continuity of improvement facilitated by effective governance. We aim to support the Accounts Commission's work by using our annual audit work to assess how SPT is progressing against the Commission's priorities. The Strategic Plan for 2018-23 ([https://www.audit-scotland.gov.uk/uploads/docs/report/2018/ac\\_strategy\\_plan\\_18-23.pdf](https://www.audit-scotland.gov.uk/uploads/docs/report/2018/ac_strategy_plan_18-23.pdf)) contains five strategic priorities.

Our assessment against the priorities is outlined below.

2018/19 Strategic Priority	Our assessment
<p>Having clear priorities with a focus on outcomes, supported by effective long term planning</p>	<p>SPT has a well-developed strategic planning and performance framework.</p> <p>SPT plays a key role in strategic planning for the region's future transport system. In 2008, SPT published A Catalyst for Change, the Regional Transport Strategy (RTS), which provides the long-term vision for transport in the west of Scotland. This is supported by a three year RTS Delivery plan, structured around four key outcomes, in line with the RTS.</p> <p>SPT prepares Transport Outcomes Reports (TORs) annually for each council area across the Partnership demonstrating its commitment as a Community Planning Partner, showing how activities contribute to the Single Outcome Agreements and as a means of demonstrating and documenting its key services and priorities for each council area.</p>
<p>Demonstrating the effective appraisal of options for changing how services are delivered in line with their priorities.</p>	<p>The scope of our audit work in 2018/19 did not identify the use of options appraisal. The scope of services provided by SPT offer limited opportunity to utilise options appraisal.</p>
<p>Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future.</p>	<p>An induction programme is in place for new members to ensure they understand their role and the roles of the committees. An ongoing programme of training is in place for all members to ensure they remain well versed in their role and the role of the committees.</p> <p>Throughout our appointment we have noted that Partnership members are well-engaged and perform their scrutiny role well.</p>
<p>Empowering local communities and involving them in the design and delivery of local services and planning for their local area.</p>	<p>SPT is also a Community Planning partner and works with others to support the activities of Community Planning partnerships at a local level. As noted above, the TORs demonstrate its commitment as a Community Planning Partner.</p>
<p>Reporting the organisation's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.</p>	<p>We reviewed the Performance Management Framework and performance in 2018/19 as part of our work on SPT's arrangements to secure Value for Money. We found that the monitoring reports, available on the website, provide contextual information on the performance reported.</p>

