



2019/20 Annual Audit Report

Committee Audit and Standards

Date of meeting 28 August 2020

Date of report 10 August 2020

Report by Assistant Chief Executive

1. Object of report

To advise the committee of the results of Scott Moncrieff's external audit of SPT and SCTS in 2019/20.

2. Background

The scope of the work to be undertaken by Scott Moncrieff was outlined in their Audit Plan, which was presented to the committee on 14 February 2020. The core elements of the audit work included: -

- an audit of the 2019/20 annual accounts of both SPT and SCTS;
- a review of SPT's arrangements for governance and transparency, financial management, financial sustainability and value for money;
- monitoring SPT's participation in the National Fraud Initiative (NFI); and
- any other work requested by Audit Scotland.

3. Outline of proposals

The 2019/20 Annual Audit Report to members of Strathclyde Partnership for Transport, the Strathclyde Concessionary Travel Scheme Joint Committee and the Controller of Audit is attached for noting at Appendix 1.

4. Committee action

The committee is asked to note the details of the 2019/20 Annual Audit Report.

5. Consequences

Policy consequences	<i>None.</i>
Legal consequences	<i>It is a legal requirement to have externally audited financial statements.</i>
Financial consequences	<i>As detailed in the report</i>
Personnel consequences	<i>None.</i>
Equalities consequences	<i>None.</i>
Risk consequences	<i>None.</i>

Name Valerie Davidson

Title **Assistant Chief Executive**

Name Gordon MacLennan

Title **Chief Executive**

For further information, please contact *Neil Wylie, Director of Finance*, on 0141 333 3380.

Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee

2019/20 Annual Audit Report to members of Strathclyde Partnership for Transport, the Strathclyde Concessionary Travel Scheme Joint Committee and the Controller of Audit

September 2020





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1. Key messages



Annual accounts audit

Strathclyde Partnership for Transport (SPT) and Strathclyde Concessionary Travel Scheme Joint Committee (SCTS) annual accounts for the year ended 31 March 2020 are due to be approved by the Partnership on 18 September 2020.

We intend to report an unqualified opinion within our independent auditor’s report.

We have drawn attention in our independent auditor’s report to the Accounting policies, note 22. ‘Critical judgements made in applying accounting policies’ of the financial statements, which describes the effects of a material uncertainty, caused by Covid-19, on the property valuations. Our opinion is not modified in respect of this matter.

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

We received the unaudited annual accounts and supporting papers of a high standard. Our thanks go to staff at SPT for their assistance with our work.

Wider scope audit and best value- SPT

Financial sustainability

Each year, the Partnership is presented with a rolling two-year revenue budget and three year rolling capital programme. In addition, the Partnership is presented with a Long Term Financial Strategy covering a ten year period.

The COVID-19 pandemic has had, and is having an impact, in terms of the financial plans of SPT. SPT forecast a deficit at the end of 2020/21 of £12.5million. However, should the social distancing measures limit the number of passengers able to travel, SPT has forecast that this could result in the deficit being between £12.5million and £20million for the current financial year.

Financial management

SPT has appropriate arrangements in place for managing its financial position

SPT reported a breakeven position for 2019/20; this is after a transfer of £14.915million to its subway modernisation fund (now held as an earmarked portion of the general fund reserve).

The capital outturn was £36.358million against a revised budget of £65.903million. The key contributor to the variance is the subway modernisation programme and in particular, the delay on ANSTA JV delivery of the Manufacturing & Supply Agreement (MSA) contract. The current programme update is being used as the ‘working programme’ for monitoring and reporting and agreement around any new, forward looking, contract dates remain to be agreed. The Partnership report that the overall subway modernisation capital programme remains within approved budget.

Governance and transparency

SPT’s governance arrangements are adequate and appropriate.

In response to the Covid-19 pandemic, SPT activated provisions in its existing governance structures and standing orders to convene a series of meetings of the Chairs Committee on an emergency basis. This committee is delegated the authority to consider matters on behalf of the Partnership, subject to the limitations and exclusions from delegation in the Standing Orders, unless considered a matter of urgency. Though the Chairs committee was convened to consider urgent matters, SPT’s Governance Committees have nevertheless continued to meet and conduct business as normal, with appropriate amendments to attendance arrangements to reflect the fact that the committees could not meet physically.

Value for money

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

SPT published an annual report in June 2020 which summarised its key achievements during 2019/20, aligned to the four key outcomes of the transport strategy.

Subway patronage remained steady relative to 2018/19, despite ongoing refurbishment works, with gate entries increasing at 9 of 15 stations for the year as a whole. In comparison to 2018/19 subway patronage decreased by 3.6% on the previous year, however this decrease was a direct result of the COVID-19 pandemic. Figures at the end of February were up by approximately 0.3% on 2018/19.



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 2019/20 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 2020 is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

The Joint Committee has recognised that the current format of the Scheme is not sustainable in the long-term without an increase in funding from local authority partners or significant operations amendments to the scheme structure or fares applicable. A root and branch review of the Scheme is due to take place in 2020/21 to ensure the schemes affordability for the future. The terms of the review have been updated to include consideration of the impact on the Scheme of COVID-19.

For the financial year 2020/21, public transport usage has been and continues to be severely constrained by the impact of COVID-19. The direct financial impact on the Scheme is as yet unknown. The immediate impact is a reduction in reimbursement to operators reflecting the change in public transport usage across all modes.

Conclusion

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

Scott-Moncrieff
September 2020



2. Introduction

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 2019/20.

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”.



Introduction

1. This report summarises the findings from our 2019/20 audit of Strathclyde Partnership for Transport (SPT) and Strathclyde Concessionary Travel Scheme Joint Committee (SCTS).
 - an audit of the 2019/20 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) Ethical Standards. 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 governance, better management and decision making and more effective use of resources.

Confirmation of independence

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



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 any member of your audit team.

Openness and transparency

9. This report will be published on Audit Scotland's website 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 2019/20 annual accounts.



Annual Accounts

An unqualified audit opinion on the annual accounts

The annual accounts for the year ended 31 March 2020 are due to be considered by the Audit and Standards Committee on 28 August 2020 and approved by the Partnership on 18 September 2020. We intend to report an unqualified audit opinion within our independent auditor's report.

We have drawn attention in our independent auditor's report to the Accounting policies, note 22. 'Critical judgements made in applying accounting policies' of the financial statements, which describes the effects of a material uncertainty, caused by Covid-19, on the property valuations. Our opinion is not modified in respect of this matter.

Audit conclusion

10. The annual accounts for the year ended 31 March 2020 are due to be considered by the Audit and Standards Committee on 28 August 2020 and approved by the Partnership on 18 September 2020. We intend to report within our independent auditor's report:

- An unqualified opinion on the annual accounts; and
- An unqualified opinion on other prescribed matters.

11. We have drawn attention in our independent auditor's report to the Accounting policies, note 22. 'Critical judgements made in applying accounting policies' of the financial statements, which describes the effects of a material uncertainty, caused by

Covid-19, on the property valuations. Our opinion is not modified in respect of this matter

Our assessment of risks of material misstatement

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

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

Management override

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

Excerpt from the 2019/20 External Audit Plan

13. 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 outside the normal course of business were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.



Revenue recognition

Under ISA (UK) 240- *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that 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 2019/20 External Audit Plan

14. 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.
15. Based on audit work performed 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.

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 2019/20 External Audit Plan

16. 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.



Asset valuation and additions

SPT has a significant capital investment programme. The revised capital programme 2019/20 (November 2019) planned for capital expenditure of £68.143million of which £44.039million is in respect of subway modernisation.

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. Additional valuations may be carried out on an adhoc basis out with the rolling programme arrangements, for example, when an asset has been significantly modernised/upgraded. 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 2019/20 External Audit Plan

Additions

17. SPT reported total capital investment in 2019/20 of £36.358million. 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.
18. 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

19. During 2019/20 all SPT land and building assets were revalued, resulting in an overall net increase of £10.379million 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.
20. Investment properties are valued annually at fair value, in line with the Code, in 2019/20; the value of investment properties held by SPT reduced by £0.235million as a result of disposals made in the year, fair value adjustments and transfers from property, plant and equipment. 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.
21. 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.
22. 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.
23. During the pandemic, the Royal Institution of Chartered Surveyors (RICS) published guidance which outlines the challenges with regard to the valuation of assets during this



period, including the potential for valuations to be “qualified” with a “material valuation uncertainty”.

24. The valuation report received from the external valuers stated the following:

Material Valuation Uncertainty



The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuations are therefore reported on the basis of ‘material valuation uncertainty’ as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case.

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25. SPT is required to revalue its properties with sufficient regularity to ensure that the carrying amount does not differ materially from the current value as at 31 March. A material uncertainty in a valuer’s report does not mean that the valuation cannot be relied upon or that there is a misstatement. However, it indicates that less certainty can be attached to the valuation than would otherwise be the case.
26. SPT has disclosed this uncertainty within its Accounting Policies (Critical judgements made in applying accounting policies).
27. IAS 1 ‘Presentation of Finance Statements’, requires entities to disclose information about assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year. The standard notes that the nature and extent of the information provided may vary according to the nature of the circumstances but includes as an example of the type of disclosures to be made, the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity.
28. SPT has disclosed in its annual accounts a sensitivity analysis to help users of the annual accounts understand the judgements management have made about the sources of estimation uncertainty (Accounting Policies note 23 “Assumptions about the future and other sources of estimation uncertainty”).
29. We concluded that the material uncertainty over the property valuations is of such importance that it is fundamental to users’ understanding of the annual accounts. Based on our audit work performed and conclusions, we have included an emphasis of matter paragraph in our independent auditor’s report which draws attention to the disclosures made in the annual accounts. Our audit opinion is not modified in respect of this matter.
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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 2019/20 External Audit Plan

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

Update to our initial risk assessment

32. Planning is a continuous process and our audit plans are updated during the course of our audit to take account of developments as they arise. We have specifically updated our risk assessment and audit plan in light of COVID-19. We recognised this as a key audit risk¹.

COVID-19

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

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

33. In response to this risk we identified a number of potential areas where there was the risk of material misstatement to the financial statements and/or our audit opinion. These areas included:
- Property valuations
 - Content of the annual accounts
 - Access to audit evidence
 - Timescales/administrative processes.

Property valuations

34. As noted at paragraphs 23-29 of this report, the valuer included a 'material uncertainty' disclaimer over the asset valuations for the year ended 31 March 2020.
35. We concluded that the material uncertainty over the property valuations is of such importance that it is fundamental to users' understanding of the financial statements. Based on our audit work performed and conclusions, we have included an

¹ A key audit risk is one which may result in a material misstatement to the financial statements or significantly impact on our audit judgements and conclusions on the four wider scope

dimensions; financial sustainability, financial management, governance and transparency and value for money.



emphasis of matter paragraph in our independent auditor's report which draws attention to the disclosures made in the annual accounts. Our audit opinion is not modified in respect of this matter.

Content of the annual report and accounts

36. In response to the impact of the COVID-19 pandemic, the Scottish Government issued Finance Circular 10/2020 which allows bodies to disapply specified requirements for Finance Circular 5/2015 (which provides statutory guidance on the preparation of a Management Commentary).
37. The statutory guidance permits but does not require a local government to disapply the following content requirements for the Management Commentary:
- The requirement for the review of the body's business to be comprehensive
 - An analysis using key performance indicators (KPIs). However a hyperlink to KPIs published elsewhere is required or a statement that it is not possible
 - A description of the body's strategy and business model. However a hyperlink to a document published elsewhere is required or a statement that is not possible
 - Political donations and expenditure, financial instruments, indication of future likely developments, disclosure concerning the employment of disable persons, employee involvement and disclosures concerning green house gas emissions
 - The requirement to direct the reader to the annual report on treasury management to the extent that the report is not yet published. However a statement to that effect should be included.
38. SPT took the decision to include where applicable to the organisation, the full disclosures in the Management Commentary.

Access to audit evidence

39. Our audit this year has been carried out remotely. As a consequence, we identified a risk that access to and provision of sufficient, appropriate audit evidence in support of our audit opinion may be impacted by the inherent nature of carrying out our audit remotely.
40. We have employed a greater use of technology to examine evidence, but only where we have assessed

both the sufficiency and appropriateness of the audit evidence produced.

41. We are pleased to report we received all audit evidence requested to allow us to form our audit opinion.
42. We received the unaudited annual accounts and supporting papers of a high standard. Our thanks go to staff at SPT for their assistance with our work.

Timescales/Administrative processes

43. Schedule 6 of the Coronavirus (Scotland) Act 2020 allows a local government body to postpone submitting the unaudited accounts to auditors and publishing the audited accounts until it is reasonably practicable. The Scottish Government has provided guidance on this in Finance Circular 10/2020. The guidance advises that 30 November should be considered a reasonably practicable date for publishing the audited accounts.
44. Audit Scotland has revised the deadline for auditors to submit the audited annual accounts from 30 September to 30 November 2020. However, it is for local auditors to agree a timetable with each local government body with a view to completing the process as early possible while still delivering a high quality audit.
45. SPT committed to continue with its original timetable. The annual accounts are due to be considered by the Partnership on 18 September 2020.
46. We have been working closely with SPT throughout the audit to ensure that this timetable is adhered to. From an audit perspective we would however highlight that we will require consideration of subsequent events up to the date of approval of the annual accounts and any changes reflected in both our annual report and the annual accounts. We also note that our annual report is based at a point in time and any further information relevant to our report will be reflected in our annual report up to the time the annual accounts are authorised for issue.

An overview of the scope of our audit

47. The scope of our audit was detailed in our External Audit Plan, which was considered by the Audit and Standards Committee in February 2020. 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.

- 48. 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.
- 49. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit management team. In performing our work we have applied the concept of materiality, which is explained below.

Our application of materiality

- 50. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor’s report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We review our assessment of materiality throughout the audit.
- 51. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.
- 52. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
- 53. Our initial assessment of materiality for the financial statements was £1.035million. On receipt of the 2019/20 unaudited annual accounts, we reassessed materiality and set it at £1.130million. We consider that our updated assessment has remained appropriate throughout our audit.

Materiality £’000

Overall materiality: Our assessment is made with reference to SPT’s gross expenditure. We consider this to be principal consideration for the users of the annual accounts when assessing financial performance.	1,130
Performance materiality: using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.	845

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

Audit differences

- 55. We are pleased to report that there were no adjusted or unadjusted differences to the unaudited annual accounts.
- 56. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual accounts.

Legality

- 57. 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.
- 58. 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

- 59. There were no recommendations to follow up in 2019/20.



Other matters identified during our audit

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

The Local Authority Accounts (Scotland) Regulations 2014

61. 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 10² as they relate to the annual accounts.
62. The Scottish Government included in its Finance Circular 10/2020 provided guidance on the publication and inspection of the unaudited annual accounts as a result of the COVID-19 pandemic.
63. Overall we concluded that appropriate arrangements are in place to comply with these Regulations and the guidance as set out in the Finance Circular 10/2020.

Management commentary

64. 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.
65. 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 (refer to paragraphs 36-38 of this report).

Annual Governance Statement and Statement of Internal Financial Control

66. The Chief Executive and the Chair have confirmed that in SPT's view, the systems for internal control were effective during 2019/20 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.

67. 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

68. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Reserves

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

Qualitative aspects of accounting practices and financial reporting

70. 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:

² Regulations 8 to 10 relate to the preparation and publication of unaudited accounts, notice of public right to inspect and object

to the accounts and consideration and signing of the audited accounts.



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 financial statements.</p> <p>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 have included an emphasis of matter in our independent auditor's report drawing attention to the material uncertainty disclosure on property valuations.</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 experts was appropriate.</p>
The appropriateness of the going concern assumption	We have reviewed the financial forecasts for 2020/21. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that 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.



Each year, the Partnership is presented with a rolling two-year revenue budget and three year rolling capital programme. In addition, the Partnership is presented with a Long Term Financial Strategy covering a ten year period.

The COVID-19 pandemic has had, and is having an impact, in terms of the financial plans of SPT. SPT forecast a deficit at the end of 2020/21 of £12.5million. However, should the social distancing measures limit the number of passengers able to travel, SPT has forecast that this could result in the deficit being between £12.5million and £20million for the current financial year.

In July 2020, Transport Scotland announced that the Scottish Government is to provide up to £9million of emergency funding for SPT and Edinburgh Trams in response to the financial impacts of the COVID-19 pandemic.



Significant audit risk

71. 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 and three year rolling capital programme. In addition, management prepare 'future budget scenarios' which are refreshed on an annual basis and consider the revenue budget for the next ten financial years. The most recent refresh was performed by management in January 2020 and extends through to the financial year 2028/29. The 'future budget scenarios' demonstrate that despite funding challenges, SPT is financially sustainable and are in a financial position which will allow it to continue to operate in the short, medium and long term. The long term financial strategy does however highlight that unless there is a planned reduction in organisational costs over the long term or a change in the government austerity programme there will be a requirement for further efficiency exercises in the long term.

Due to the UK General Election taking place in December 2019 and the cancellation of the UK Government Budget, the 2020/21 Scottish Budget has also been delayed. Draft budget plans are due to be set out on 6 February 2020, in advance of the UK government's budget which is planned for 11 March 2020. This delay has had an impact on local authorities progressing with setting 2020/21 budgets and the setting of council tax and as a consequence this has also impacted on SPT who receive requisitions from the 12 constituent local authorities in the west of Scotland.

SPT has made a prudent assumption that local authority requisitions will be the same as for 2019/20 and has developed a draft revenue budget for 2020/21 and indicative revenue budget for 2021/22 on this basis. Arrangements are in place to update the 2020/21 budget following the announcement of the Scottish budget.

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

The Act will have a significant impact on the way in which SPT develops its revenue and capital financial plans. SPT is currently undertaking a detailed review of its medium to long term financial strategy and preparing a reserves policy. Both will be presented to the Partnership for consideration in 2020.

Excerpt from the 2019/20 External Audit Plan

72. 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 2020/21

73. In March 2020, the Partnership approved a net revenue budget of £36.177million for 2020/21. This was developed on the basis that local authority requisitions would be £35.463million, the same level as 2019/20, a revenue grant of £0.714million would be received from the Scottish Government and an increase/revision to fares and charges. The Scottish Government revenue grant is a reduction from prior

year due to the transfer of the Gourock/Kilcreggan ferry service to Transport Scotland.

74. Draft revenue budget plans were initially considered and scrutinised by the Strategy and Programmes Committee ahead of confirmation of the Local Authority Funding settlement for 2020/21 and the SPT capital allocation. The revised net revenue budget was presented to the Partnership for approval following confirmation of these allocations.



Longer term financial planning

75. SPT prepares two year rolling revenue budgets. At the same time as approving the 2020/21 revenue budget, the Partnership considered an indicative 2021/22 revenue budget along with the Long Term Financial Strategy.
76. SPT have agreed with its partner local authorities that requisitions will be flat in the short term and have developed an indicative revenue budget for 2021/22 on this basis. The funding environment remains difficult, in conjunction with the fact that SPT receives funding information based on the Scottish Government one-year budgets and local government settlements making long term financial planning challenging.
77. The funding reductions over multiple years which SPT has experienced has created financial challenges, primarily in funding local services, including socially necessary bus services. SPT has performed continuous organisational reviews and has driven efficiencies which have negated the impact of funding reductions on the provision of services. This can be demonstrated by a long term reduction in budgeted establishment, from 711 FTE in 2010/11 to 507 FTE for the period 2019/20.
78. Despite the challenges in performing long term financial planning, SPT produces medium and long term financial forecasts as a component of its Long Term Financial Strategy. The strategy considers the period to 2028/29, and is informed by a number of supporting strategies, in particular the Capital Strategy, and the Treasury Strategy.
79. Scenario planning is carried out by applying a set of defined assumptions across a range from the pessimistic to the optimistic. We have reviewed the assumptions underpinning the long term financial strategy, and found them to be reasonable. A prudent approach has been taken by SPT based on the key drivers of the costs and income and suitable indexes.
80. Prior to the impact of Covid-19, the projections demonstrated that despite its challenges SPT is financially sustainable, and in a financial position which will allow it to continue to operate in the short to medium term. However, scenario planning indicates that action will be required in the medium to long term, particularly if funding continues to reduce.

Reserves policy

81. The Transport (Scotland) Act 2005 prohibited regional transport partnerships from generating a surplus or deficit on a general fund and hence adding to reserves. The enactment of the Transport

(Scotland) Act 2019 allows RTP's to manage year-end finances by enabling them to hold a balance of funds.

82. SPT has prepared a Reserves Policy. The Reserves Policy establishes a General Fund, Renewal and Repair Fund, Capital Fund and Insurance Fund to be operated by the Partnership, in line with the Local Government (Scotland) Act 1975.

Future capital plans

83. 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 March 2020, the Partnership approved 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 2020/21.
84. For 2020/21, SPT plans to incur capital expenditure of £60.822million, funded through Capital Grants, specific Grant funding in relation to the Subway Modernisation Funding, Revenue Contributions, and contributions from reserves. 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.
85. Capital funding is subject to the agreement of an annual settlement, and as such SPT sets Capital budgets for one year only, with indicative budgets for future years of the programme. For 2019/20 the General Capital was £23.1million, and SPT planned for 2020/21 onwards on the basis of a flat settlement. The Capital Grant awarded for 2020/21 was confirmed in February 2020 as £15.3million, a 33% reduction in funding. SPT has balanced this through a reduction in planned expenditure (£3.511million) and a contribution from SPT revenue and reserves (£5million).
86. As no funding information is available for years two and three of the capital plan, SPT only set indicative budgets for those two years. It is unclear if funding will continue to decrease, and as such SPT have planned on the basis of a flat funding settlement.
87. The subway modernisation project comprises a significant proportion of the capital plan (£37.917million in 2020/21). Ministers previously committed to fund up to £246million of the total project cost with SPT directly contributing the remaining £42million. The profile for funding the subway modernisation project is currently under discussion with Transport Scotland for future years, having previously been amended to counterbalance



a cash balance accumulated as a consequence of project slippage.

Impact of COVID-19 pandemic on SPT's finances

Revenue implications

88. Management accounts for the first two months of 2020/21 show that Partnership income is £3.3million below budget. This is partially offset by a reduction in expenditure of £1.3million, however it is clear that this creates a material uncertainty as to the ability of SPT to deliver its 2020/21 budget.
89. During the pandemic, SPT maintained essential services. Subway services were maintained albeit with a reduced frequency and operating hours. Bus stations remained in operation but with reduced staffing hours on premise at Buchanan Bus station. These services are now operating a 'normal' levels. SPT has experienced a significant reduction in income generated via the farebox, bus station departure charges, advertising income, rental income and ancillary fees. In addition to this, additional costs have been incurred to support the increased cleaning regimes, levels of PPE and additional contract costs arising from the supported bus network.
90. The financial stability of the organisation was highlighted to Transport Scotland at the end of March 2020. Over the lockdown period to the end of March 2020, patronage levels in both the subway and bus fell by approximately 97%. SPT sought financial assistance from Transport Scotland to cover or contribute the lost income.
91. SPT has made assumptions based on the Government's roadmap out of current restrictions, the current social distancing measures and the continued message of only use public transport where necessary. SPT has assumed the following:
- Virtually no income for the initial 12 week period in 2020/21
 - 20% capacity for quarter 2
 - 30% capacity for quarter 3
 - 40% capacity for quarter 4
92. Based on these assumptions, SPT forecast a deficit at the end of 2020/21 of £12.5million. However, should the social distancing measures limit the number of passengers able to travel, SPT has forecast that this could result in the deficit being between £12.5million and £20million for the current financial year.

93. In July 2020, Transport Scotland announced that the Scottish Government is to provide up to £9million of emergency funding for SPT and Edinburgh Trams in response to the financial impacts of the COVID-19 pandemic. The emergency measures will be in place from July to the end of September and will support services throughout this period.

Capital programme

94. The restrictions put in place in March 2020 in response to the COVID-19 pandemic resulted in work being paused on various capital projects; particularly the grant funded projects being delivered by local authority partners. These programmes have slipped into 2020/21. This will result in decisions having to be made to other plans for 2020/21.
95. As at period 2, the actual expenditure incurred on the SPT capital investment programme was £612,000 compared to planned expenditure of £1.390million. It is anticipated that the ongoing restrictions put in place in response to the COVID-19 pandemic will continue to affect the delivery of projects in 2020/21 and further budget amendments will be necessary.

Subway modernisation programme

96. The COVID-19 pandemic has had a significant impact on the modernisation progress as all site activity was put on hold in March 2020. The supply chain experienced impacts as early as January 2020, a lockdown measures were implemented across the globe. Home working has allowed design and preparation activity to continue.
97. The impact the COVID-19 pandemic has had on project delivery will also have an impact on milestone payments in 2020/21. The potential financial impact is under review and it is anticipated that a budget amendment will be brought to a future meeting of the Partnership.

Impact of EU withdrawal

98. 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.
99. SPT completed an assessment of its risk exposure as a consequence of EU withdrawal, the results of which were presented to the Partnership in December of 2018.



100. Since then, we have confirmed that SPT has continued to actively manage these risks, through its Strategy Group and corporate risk register, and we have confirmed that EU withdrawal has been discussed at meetings of the Audit & Standards Committee.

101. EU withdrawal will also present the possibility of changes to current regulation or the introduction of new regulations. However, these remain largely 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 2019/20; this is after a transfer of £14.915million to its subway modernisation fund (now held as an earmarked portion of the general fund reserve).

The capital outturn was £36.358million against a revised budget of £65.903million. The key contributor is the subway modernisation programme and in particular, the delay on ANSTA JV delivery of the Manufacturing & Supply Agreement (MSA) contract. The current programme update is being used as the 'working programme' for monitoring and reporting and agreement around any new, forward looking, contract dates remain to be agreed. The Partnership report that the overall subway modernisation capital programme remains within approved budget, including programme contingency and available funding.



Financial performance

SPT's financial performance in 2019/20

102. The Comprehensive Income and Expenditure Statement (CIES) for 2019/20 shows that SPT spent £75.483million on the provision of services, resulting in an accounting surplus of £62.854million (2018/19: £12.273million).
103. The increase in reported surplus in 2019/20 in comparison to the prior year, relates to the release of Receipts in Advance of Grant Funding, which in 2018/19 was held as a creditor balance and has now been released to the CIES and the newly created general fund reserve.
104. The accounting surplus includes certain elements of income and expenditure that need to be accounted for to comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the 2019/20 Code), and which are subsequently adjusted to show their impact on reserves.
105. In previous years, a "subway modernisation fund" was held on the balance sheet which included contributions/receipts in advance from the constituent local authorities. In accordance with SPT's new Reserves Policy and applying the provisions Transport (Scotland) Act 2019, the 2018/19 receipts in advance balance has been released to an earmarked reserve within the General Fund (£51.283million). In 2019/20 a contribution of £14.915million (2018/19: £16.238million) was made to the subway modernisation fund.
106. As at 31 March 2020, SPT's cash and cash equivalents and short term investments held had combined value of £168.521million (2018/19: £170.003million). 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. This is also the position for 2020/21, no Scottish Government specific grant funding is due to be received for the subway modernisation programme.

Reserves

107. The Transport (Scotland) Act 2019 enables Regional Transport Partnership to hold and contribute to reserves. As noted in the previous section of this report, SPT has developed a reserves policy which establishes a general fund reserve, insurance fund, renewal and repair fund and capital fund.
108. The policy notes that the general fund reserve is split between earmarked and non-earmarked balances, with earmarked reserves being held for specific purposes. Non earmarked reserves are targeted to be held at approximately three months of operational income. As at 31 March 2020, SPT reported earmarked reserves of £67.000million and non-earmarked reserves of £7.867million which is consistent with the targeted level.

SPT's usable reserves in 2019/20

	2019/20 £million
General Fund	74.867
Insurance Fund: used to fund expenditure directly relating to insurance, including the costs of insurance excesses, premiums and risk management.	1.000
Renewal and Repair Fund: use to fund expenditure which relates directly to the repairing, maintaining and replacing works of plant, building and equipment.	1.500
Capital Fund: use to fund approved capital expenditure.	26.047
Capital Grants Unapplied Account	57.731
Total useable reserves	161.145

Revenue performance against budget

109. SPT achieved a breakeven position in 2019/20. The net revenue budget of £36.499million was met from local authority contributions (£35.462million) and a contribution of £1.037million direct from the Scottish Government (see table below).



Revenue performance against budget

Directorate	Annual budget £million	Actual £million	Variance over/(under) £million
Subway operations	0.724	(0.035)	(0.759)
Bus operations	16.562	15.465	(1.097)
Operations – other	1.667	1.604	(0.063)
Business support	4.460	3.489	(0.971)
Corporate	1.038	1.062	0.024
Contribution to Subway Fund	12.049	14.915	2.866
Total	36.500	36.500	0

Source: Annual accounts 2019/20 and budget monitoring reports

110. The reported underspends have been primarily driven by Subway patronage, which continued to grow during 2019/20 (prior to the COVID-19 pandemic), fare increases, and underspends in some areas due to vacancies in the present establishment.

Capital position

111. In 2019/20 the capital outturn was £36.358million against a revised capital budget of £65.903million. A number of budget adjustments were approved during the year which reduces the original capital budget.

112. As noted at paragraph 94, restrictions put in place in March 2020 in response to the COVID-19 pandemic resulted in work being paused on various capital projects; particularly the grant funded projects being delivered by local authority partners.

113. The key contributor to the variance between capital budget and outturn however, is on the subway modernisation programme and in particular the delay on ANSTA JV delivery of the Manufacturing & Supply Agreement (MSA) contract. The projected expenditure on the subway modernisation programme was £43.639million. Actual expenditure on the programme in 2019/20 was £19.086million.

114. SPT has been working closely with ANSTA JV to update M&SA programme forecasts in light of delays and design challenges to date. As reported to the Partnership in December 2019, ANSTA JV has replaced a number of key staff in response to a recognition that their current programme was no longer achievable. ANSTA JV issued a re-baseline proposal of the programme to SPT in February 2020. SPT identified quality and local issues over the

proposal. The current programme update is being used as the ‘working programme’ for monitoring and reporting and agreement around any new, forward looking, contract dates remain to be agreed.

115. ANSTA JV has also been pursuing a number of claims that are linked to their views on the overall programme delay. SPT has undertaken to review and challenge these claims, in line with the contract, and has rejected the claims on the basis that they are either invalid or unjustified. These issues have been and continue to be subject to focussed and regular discussion at board level between the organisations. The contractual delay position has also been further impacted and complicated by the COVID-19 pandemic.

116. To the end of 2019/20, £168.7million has been incurred against the total budget of £288.7million on the programme. The remaining programme budget, including contingency, will be required and utilised for the delivery of the MSA contract and associated support costs only. The Partnership report that the overall subway modernisation capital programme remains within approved budget, including programme contingency and available funding.

Treasury Management

117. The enactment of the Transport (Scotland) Act 2019 has, in addition to other changes, conferred new powers in relation to the holding of reserves which necessitated updates to the SPT’s Treasury Management arrangements.

118. SPT has adopted in full the Chartered Institute of Public Finance “Treasury Management in the Public



Services: Code of Practice and Cross-Sectoral Guidance Notes” and has developed policies and practices designed to meet this Code of Practice. We have reviewed the relevant arrangements including the Treasury Management Strategy, approved by the Partnership in March 2020, and its supporting Treasury Management Practices, and confirmed that they are in line with the requirements of applicable guidance.

119. Treasury Management was the subject of Internal Audit review in November of 2018, which was followed up in November 2019. We have reviewed the conclusions of the original report, and confirmed that all recommendations raised have been agreed as implemented and closed.

Budget Monitoring

120. We have evaluated SPT’s approach to the monitoring and reporting of performance against its budgets throughout the year. Following approval of the Revenue and Capital budgets by the Partnership before the start of the financial year, budget monitoring reports are prepared monthly for budget holders, and reported quarterly to the Strategy and Programmes Committee and Partnership.
121. We have reviewed the form and content of the budget reporting produced, and found it to be of high quality and prepared on a timely basis.

Financial Skills and Capacity

122. We reviewed the structure and level of qualification of SPT’s Finance Team and found it unchanged from the prior year. Staffing establishment is reviewed periodically through the budget setting process to ensure that this remains adequate to properly support management and governance groups.
123. We did not identify any issues with the capacity of the SPT Finance function throughout the process of documenting controls, or the performance of our audit testing. This is reflected in the high standard of working papers made available in the course of our audit.

Internal audit

124. 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.

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

Systems of internal control

126. 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.
127. We did not identify any significant weaknesses in SPT’s accounting and internal control systems during our audit.

Prevention and detection of fraud and irregularity

128. 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.
129. In line with Audit Scotland Guidance, we have focussed additional attention upon the risk of fraud in Procurement functions. SPT has a dedicated procurement function with oversight of all procurement and purchasing activity within the organisation. Well designed and clearly documented procurement processes are reflected in SPT’s standing financial instructions and operational processes, including detailed procedures to ensure segregation of duties.
130. We have not identified any deficiency in procurement controls which suggests that they are not sufficient and appropriate to address the risk of fraud within procurement.

National Fraud Initiative (NFI)

131. 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.
132. Participating bodies were required to submit data in October 2018 and received matches for investigation in January 2019. We have confirmed that match investigation work has been completed and the results recorded on the NFI system, with no instances of fraud identified. These results were reported to the Partnership in June of 2019.
133. We reviewed SPT’s participation in the NFI exercise in February 2020. 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.



In response to the Covid-19 pandemic, SPT activated provisions in its existing governance structures and standing orders to convene a series of meetings of the Chairs Committee on an emergency basis. This committee is delegated the authority to consider matters on behalf of the Partnership, subject to the limitations and exclusions from delegation in the Standing Orders, unless considered a matter of urgency. Though the Chairs committee was convened to consider urgent matters, SPT's Governance Committees have nevertheless continued to meet and conduct business as normal, with appropriate amendments to attendance arrangements to reflect the fact that the committees could not meet physically.



Governance arrangements

The Partnership

134. 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.

Response to the Covid-19 pandemic

135. In response to the Covid-19 pandemic, SPT activated provisions in its existing governance structures and standing orders to convene a series of meetings of the Chairs Committee on an emergency basis. This committee is delegated the authority to consider matters on behalf of the Partnership, subject to the limitations and exclusions from delegation in the Standing Orders, unless considered a matter of urgency.

136. The Chairs Committee met via teleconference on 2 April 2020, and on two further occasions in May 2020 to activate business continuity arrangements, monitor their implementation, and take urgent decisions. The basis upon which this authority was exercised is documented in the minutes, which are published on the SPT website. The Committee agreed that any decisions taken as a matter of urgency as permitted within the Terms of Reference would be subsequently referred to the Partnership for confirmation.

137. Though the Chairs committee was convened to consider urgent matters, SPT's Governance Committees have nevertheless continued to meet and conduct business as normal, with appropriate amendments to attendance arrangements to reflect the fact that the committees could not meet physically.

Openness & Transparency

138. 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.

139. 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.

140. 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.

141. We consider that arrangements for scrutiny and decision making at SPT are appropriate.

142. 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.

143. 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.

144. 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

145. 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.

146. 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.

147. 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 June 2017, and April 2018, respectively.



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 published an annual report in June 2020 which summarised its key achievements during 2019/20, aligned to the four key outcomes of the transport strategy.

Subway patronage remained steady relative to 2018/19, despite ongoing refurbishment works, with gate entries increasing at 9 of 15 stations for the year as a whole. In comparison to 2018/19 subway patronage decreased by 3.6% on the previous year, however this decrease was a direct result of the COVID-19 pandemic. Figures at the end of February were up by approximately 0.3% on 2018/19.



Value for money

Regional Transport Strategy

148. The end of the 2019/20 financial year aligned with the completion of the second year 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.
149. 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.
150. SPT have developed eight 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.
151. 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. SPT published an annual report in June 2020 which summarised its key achievements during 2019/20, aligned to the four key outcomes of the transport strategy.
152. The development of a new RTS for the period from 2021 has already commenced. This revised strategy will need to reflect and align with the National Transport Strategy, which now has statutory status conferred by the Transport (Scotland) Act 2019.
153. Work to date has primarily focused on engagement with stakeholders and Transport Scotland. The Partnership received a report in March 2020 summarising the outcomes of this work, and the implications of the NTS for the development of the RTS. Full public consultation is due to begin shortly. The work conducted so far supports the assessment that SPT is in a position to deliver its updated RTS in 2021, and that this will appropriately align with the NTS.

Performance management framework

154. Regular performance information is presented to the Operations Committee in relation to a number

operational measures. 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, and proceedings and papers of all committees are published on the SPT website.

155. 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.

Performance in 2019/20

156. The performance indicators which are monitored and presented to the Operations Committee on a quarterly basis demonstrate that 2019/20 yielded strong operational results for SPT. The key examples which support this assessment have been noted below;
- Subway patronage remained steady relative to 2018/19, despite ongoing refurbishment works, with gate entries increasing at 9 of 15 stations for the year as a whole. In comparison to 2018/19 subway patronage decreased by 3.6% on the previous year, however this decrease was a direct result of the COVID-19 pandemic. Figures at the end of February were up by approximately 0.3% on 2018/19;
 - Subway Park-and Ride car park entries continued to increase;
 - Supported bus reliability exceeded the target reliability of 99% throughout the period.
157. 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, particularly patronage of supported and on-demand bus services which reflect a long term trend, but the results on the whole are positive.
158. 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

In this section we summarise the findings from our audit of SCTS 2019/20 annual accounts and our annual audit work on the wider scope.



Introduction

159. 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.
160. 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.
161. In this section of our report we set out our findings of our audit of SCTS for the year ended 31 March 2020 including:
- Our findings from our audit of the 2019/20 annual accounts; and
 - Our findings from our annual audit work in respect of our wider scope audit responsibilities. For 2019/20 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

162. The annual accounts for the year ended 31 March 2020 are due to be considered by SPT's Audit and Standards Committee on 28 August 2020 and approved by SPT on 18 September 2020. We intend to report within our independent auditor's report:
- An unqualified opinion on the annual accounts; and
 - An unqualified opinion on other prescribed matters.
163. We are also satisfied that there are no matters which we are required to report by exception.

Good administrative processes were in place

164. We received unaudited annual accounts and supporting papers of high 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

165. 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 the table below.



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

Management override

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

Excerpt from the 2019/20 External Audit Plan

166. 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 outside the normal course of business were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

Revenue recognition

Under ISA (UK) 240- *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that 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 2019/20 External Audit Plan

167. 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.



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 2019/20 External Audit Plan

168. 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.

Update to our initial risk assessment

169. Planning is a continuous process and our audit plans are updated during the course of our audit to take account of developments as they arise. We

have specifically updated our risk assessment and audit plan in light of COVID-19. We recognised this as a key audit risk³.

COVID-19

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

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

170. In response to this risk we identified a number of potential areas where there was the risk of material misstatement to the financial statements and/or our audit opinion. These areas included:

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

Circular 10/2020 which allows bodies to disapply specified requirements for Finance Circular 5/2015 (which provides statutory guidance on the preparation of a Management Commentary).

172. SPT took the decision to include where applicable to SCTS, the full disclosures in the Management Commentary.

Content of the annual report and accounts

171. In response to the impact of the COVID-19 pandemic, the Scottish Government issued Finance

Access to audit evidence

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

³ A key audit risk is one which may result in a material misstatement to the financial statements or significantly impact on our audit judgements and conclusions on the four wider scope

dimensions; financial sustainability, financial management, governance and transparency and value for money.



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

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

Timescales/Administrative processes

177. Schedule 6 of the Coronavirus (Scotland) Act 2020 allows a local government body to postpone submitting the unaudited accounts to auditors and publishing the audited accounts until it is reasonably practicable. The Scottish Government has provided guidance on this in Finance Circular 10/2020. The guidance advises that 30 November should be considered a reasonably practicable date for publishing the audited accounts.
178. Audit Scotland has revised the deadline for auditors to submit the audited annual accounts from 30 September to 30 November 2020. However, it is for local auditors to agree a timetable with each local government body with a view to completing the process as early possible while still delivering a high quality audit.
179. SPT committed to continue with its original timetable. The annual accounts are due to be considered by the Partnership on 18 September 2020.
180. We have been working closely with SPT throughout the audit to ensure that this timetable is adhered to. From an audit perspective we would however highlight that we will require consideration of subsequent events up to the date of approval of the annual accounts and any changes reflected in both our annual report and the annual accounts. We also note that our annual report is based at a point in time and any further information relevant to our report will be reflected in our annual report up to the time the annual accounts are authorised for issue.

An overview of the scope of our audit

181. The scope of our audit was detailed in our External Audit Plan, which was considered by the Audit and Standards Committee in February 2020. 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.

182. 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.
183. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit management team. In performing our work we have applied the concept of materiality, which is explained below.

Our application of materiality

184. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We review our assessment of materiality throughout the audit.
185. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.
186. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
187. Our initial assessment of materiality for the financial statements was £88,000. On receipt of the 2019/20 unaudited annual accounts, we reassessed materiality and kept it as £88,000. We consider that



our updated assessment has remained appropriate throughout our audit.

Materiality £'000

Overall materiality: Our assessment is made with reference to SCTS' gross expenditure. We consider this to be principal consideration for the users of the annual accounts when assessing financial performance.

88

Performance materiality: using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.

66

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

Audit differences

189. We are pleased to report that there were no adjusted or unadjusted differences to the unaudited annual accounts.

Joint Committee representations

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

Legality

191. 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.

192. 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

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

The Local Authority Accounts (Scotland) Regulations 2014

194. 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 10⁴ as they relate to the annual accounts.
195. The Scottish Government included in its Finance Circular 10/2020 provided guidance on the publication and inspection of the unaudited annual accounts as a result of the COVID-19 pandemic.
196. Overall we concluded that appropriate arrangements are in place to comply with these Regulations and the guidance as set out in the Finance Circular 10/2020.

Management commentary

197. 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

198. 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

199. 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

⁴ 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.



further detail on our work and findings under 'wider scope conclusions', paragraphs 201 to 211.

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 aspects of accounting practices and financial reporting

200. During the course of our audit, we consider the qualitative aspects of the financial reporting

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 2020/21. 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 2020 is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Financial sustainability



The Joint Committee has recognised that the current format of the Scheme is not sustainable in the long-term without an increase in funding from local authority partners or significant operations amendments to the scheme structure or fares applicable. A root and branch review of the Scheme is due to take place in 2020/21 to ensure the schemes affordability for the future. The terms of the review have been updated to include consideration of the impact on the Scheme of COVID-19.

For the financial year 2020/21, public transport usage has been and continues to be severely constrained by the impact of COVID-19. The direct financial impact on the Scheme is as yet unknown. The immediate impact is a reduction in reimbursement to operators reflecting the change in public transport usage across all modes.

Our approach to the wider scope audit

201. Our approach to the wider scope audit (as set out in our 2019/20 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.

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.



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).

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

203. 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*



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

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



Financial sustainability

In March 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 (£0.534million). This represents a reduction in local authority requisitions in comparison with 2018/19 (1.2% 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. Concessionary fares were further increased in 2018/19, however, no increase has been approved for 2019/20.

In 2019 it was highlighted to the Joint Committee, that the Scheme, in its present format, is not financially sustainable in the long term without an increase in funding from local authority partners or significant amendments to the Scheme's structure or the fares applicable. An internal review of the Scheme has been carried out, the findings of which were presented to the Joint Committee in September 2019. The review highlighted that the Scheme, in its current form, has only 1-2 years worth of reserves remaining. A further report is expected in 2020 on the next steps to be taken.

Excerpt from the 2019/20 External Audit Plan

205. 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 and actions being taken are appropriate.

2019/20 financial performance

206. The 2019/20 Comprehensive Income and Expenditure Statement shows that SCTS spent £4.600million on delivery of services. Taking into account interest received (£18,000) and the local authority requisitions (£4.040million), SCTS reported an in-year deficit of £542,000, which was funded from reserves.
207. At the start of the year, SCTS approved a budget of £4.573million. Funding contributions from the constituent local authorities were agreed at £4.040million with £0.533million funding required from reserves.
208. The deficit reflects a continuing increase in payments to operators. Reserves were utilised to fund this deficit, leaving a reserves balance of £727,000 as at 31 March 2020. The Joint Committee has approved a resource utilisation policy, which will see the overall level of reserves reduced even further in future years. However the scope and sustainability of this policy will be considered as part of the review of the Scheme in 2020/21 (paragraph 210).
209. In March 2020, the Joint Committee approved its 2020/21 budget. A budget of £4.176million has been approved for 2020/21, to be funded by local authority requisitions (£4.022million) and reserves (£0.154million). The approved budget was set on the basis that concessionary fares increased.
210. The Joint Committee has recognised that the current format of the Scheme is not sustainable in the long-term without an increase in funding from local authority partners or significant operations amendments to the scheme structure or fares applicable. A root and branch review of the Scheme is due to take place in 2020/21 to ensure the schemes affordability for the future. The terms of the review have been updated to include consideration of the impact on the Scheme of COVID-19.
211. For the financial year 2020/21, public transport usage has been and continues to be severely constrained by the impact of COVID-19. The direct financial impact on the Scheme is as yet unknown. The immediate impact is a reduction in reimbursement to operators reflecting the change in public transport usage across all modes.

Looking forward

209. In March 2020, the Joint Committee approved its 2020/21 budget. A budget of £4.176million has been



9. Appendices



Appendix 1: Respective responsibilities of the Partnership and the Auditor

Responsibility for the preparation of the annual accounts

The Partnership is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. The 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 2019/20 Code of the state of the affairs of the body as at 31 March 2020 and of its income and expenditure for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code;
- they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003;
- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate or the Assistant Chief Executive has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue;
- the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014;
- the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government Scotland Act 2003; and
- the information given in the Annual Governance Statement and Statement of Financial Control is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

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

- adequate accounting records have not been kept; or



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

- 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 Ethical Standards. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between 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 2019-24 https://www.audit-scotland.gov.uk/uploads/docs/report/2019/ac_strategy_plan_19-24.pdf contains five strategic priorities.

Our assessment against the priorities is outlined below.

2019/20 Strategic Priority	Our assessment
Having clear priorities with a focus on outcomes, supported by effective leadership and long term planning (governance and transparency).	<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>
The strategic appraisal of options to reshape services in line with priorities. This should consider good practice, innovation and collaborative working with partners (financial sustainability).	The scope of our audit work in 2019/20 did not identify the use of options appraisal. The scope of services provided by SPT offer limited opportunity to utilise options appraisal.
Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future (financial sustainability).	<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>
Empowering local communities and involving them in the design and delivery of local services and planning for their local area (governance and transparency).	SPT is a Community Planning partner and works with its partners to support the activities of Community Planning partnerships at a local level.
Reporting the body's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.	We reviewed the Performance Management Framework and performance in 2019/20 as part of our work on SPT's arrangements to secure Value for Money. We found that the monitoring reports and annual reports, available on the website, provide contextual information on the performance reported.

