

# Strathclyde Concessionary Travel Scheme Joint Committee



## **2017/18 Annual Audit Report**

**Committee**            Strathclyde Concessionary Travel Scheme Joint Committee

**Date of meeting**    9 November 2018

**Date of report**    23 October 2018

### **Report by Treasurer/Secretary**

#### **1. Object of report**

The object of this report is to provide the Committee with the finalised 2017/18 Annual Audit Report by Scott-Moncrieff for the Strathclyde Concessionary Travel Scheme.

#### **2. Background**

The annual audit report was noted by the Audit & Standards committee on the 14<sup>th</sup> of September 2018.

#### **3. Outline of Proposals**

Attached to this report as Appendix 1 is the finalised Audit Report by Scott-Moncrieff for the Strathclyde Concessionary Travel Scheme. There are no issues within the report that need to be specifically raised with the committee.

#### **4. Conclusions**

There are no issues that need to be brought to the committee's attention in relation to the finalised Audit Report by Scott-Moncrieff for the Strathclyde Concessionary Travel Scheme.

#### **5. Committee action**

The Committee is asked to note the finalised 2017/18 Annual Audit Report by Scott-Moncrieff for the Strathclyde Concessionary Travel Scheme.

## 6. Consequences

Policy consequences	<i>None</i>
Legal consequences	<i>Complies with the legal framework in relation to the financial year end closedown.</i>
Financial consequences	<i>None directly.</i>
Personnel consequences	<i>None</i>
Equalities consequences	<i>None</i>
Risk consequences	<i>None</i>

**Name** Valerie Davidson

**Title** **Treasury/Secretary**

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



**Scott-Moncrieff**  
business advisers and accountants

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

2017/18 Annual Audit Report to members of  
Strathclyde Partnership for Transport, the  
Strathclyde Concessionary Travel Scheme Joint  
Committee and the Controller of Audit

**September 2018**

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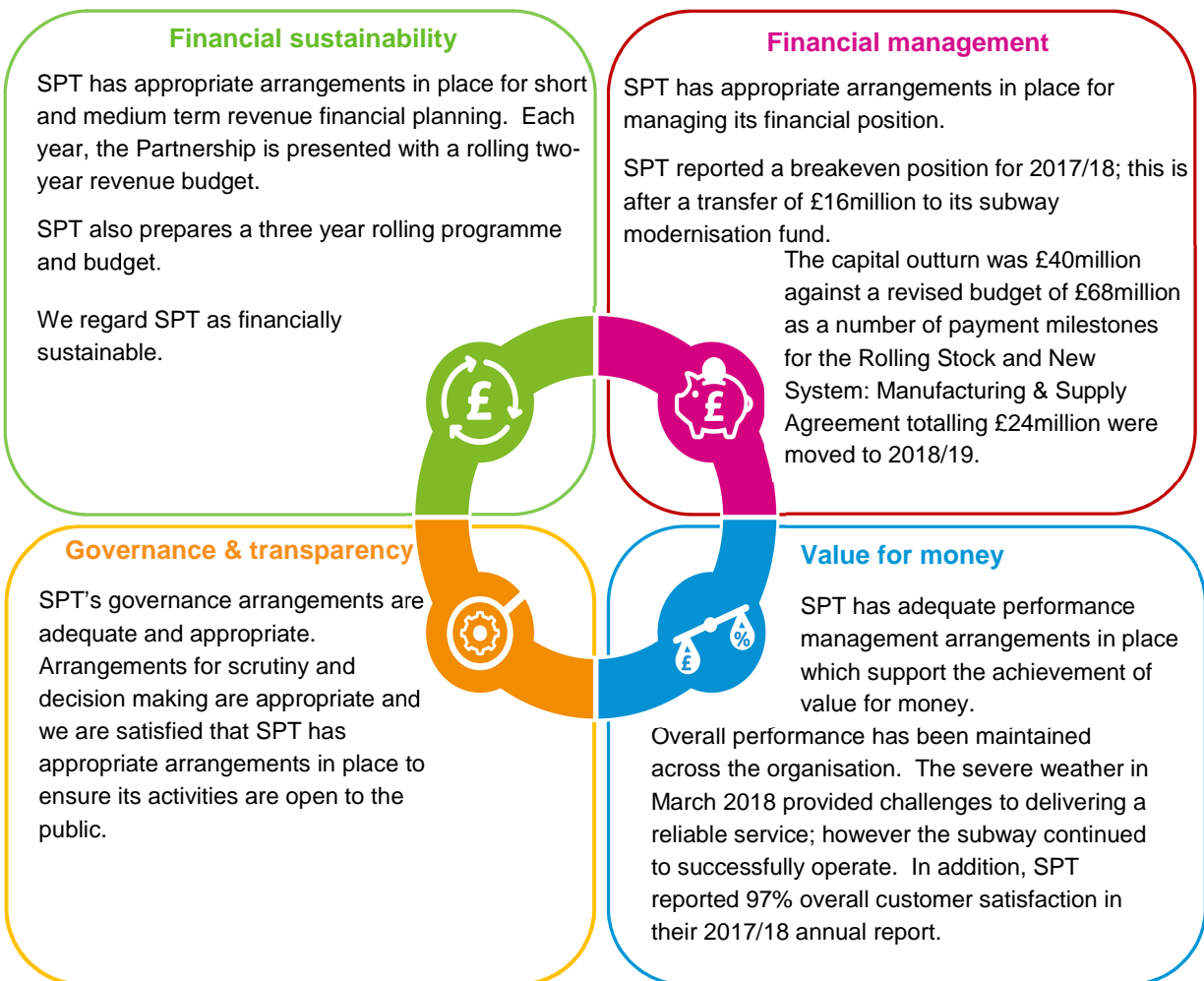
# Key messages

## Annual accounts audit

Strathclyde Partnership for Transport (SPT) and Strathclyde Concessionary Travel Scheme Joint Committee (SCTS) annual accounts for the year ended 31 March 2018 were approved by the Partnership on 28 September 2018.

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

## SPT - Wider scope audit



## Key facts

### Strathclyde Partnership for Transport

- SPT spent £66.652million on the provision of services in 2017/18.
- SPT achieved a breakeven position in 2017/18.
- A contribution of £16.054million was made to the subway modernisation fund in the year.
- Capital expenditure of £39.960million was reported, against a revised capital budget of £67.653million.
- The most recent trend information (February 2018) shows that of the 34 indicators monitored against the Regional Transport Strategy (RTS), 14 were in step with the desired RTS direction of travel, 13 indicators were maintained and 7 were not in step with the desired RTS direction of travel.

### Strathclyde Concessionary Travel Scheme Joint Committee

- SCTS spent £4.319million on the delivery of services.
- Taking into account interest received and local authority requisitions, SCTS reported a deficit of £131,000 in 2017/18. This was funded by reserves.

## Conclusion

This report concludes our audit for 2017/18. 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 2018**

# 1

## 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 2017/18.

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 2017/18 audit of Strathclyde Partnership for Transport (SPT) and Strathclyde Concessionary Travel Scheme Joint Committee (SCTS).
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:
  - an audit of the 2017/18 annual accounts;
  - consideration of the wider dimensions of public audit work, as set out in Exhibit 1; and
  - any other work requested by Audit Scotland, for example, input into performance audit work.
3. The following sections of this report; annual accounts, financial management, financial sustainability, governance and transparency and value for money relate solely to SPT. The findings from our audit of SCTS are included in a separate section of this report.

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



Source: Audit Scotland Code of Audit Practice, May 2016

4. SPT and SCTS are responsible for preparing annual accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
5. The report contains an action plan with specific recommendations, responsible officers and dates for implementation. We give each recommendation a grading to help SPT and SCTS assess the significance and prioritise the actions required. We reported one recommendation in our 2017/18 interim report and can confirm that appropriate action has been taken. In addition, the action plan contains four recommendations raised in the 2016/17 audit. We can confirm that all necessary action has been taken to clear these.
6. 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.



## Confirmation of independence

7. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
8. We confirm that we have complied with the 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

9. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to SPT through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help SPT promote improved standards of governance, better management and decision making and more effective use of resources.

## Feedback

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

# 2

## 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 2017/18 annual accounts.

# Annual accounts

The annual accounts for the year ended 31 March 2018 were approved by the Partnership on 28 September 2018. We report unqualified opinions within our independent auditor’s report.

SPT has appropriate administrative processes in place to prepare the annual accounts and the required supporting working papers.

Our audit identified no material adjustments to the annual accounts.

## Overall conclusion

### An unqualified audit opinion on the annual accounts

- 12. The annual accounts for the year ended 31 March 2018 were approved by the Partnership on 28 September 2018. We report, within our independent auditor’s report:
  - an unqualified opinion on the annual accounts;
  - an unqualified audit opinion on other prescribed matters.
- 13. We are also satisfied that there were no matters which we are required to report by exception.

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

## Our assessment of risks of material misstatement

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

### Good administrative processes were in place

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

**1. Management override**

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

**Excerpt from the 2017/18 External Audit Plan**



- 16. We have not identified any indications of management override in the year. We have reviewed SPT’s accounting records and obtained evidence to ensure that 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.

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

### 2. Revenue recognition

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

*Excerpt from the 2017/18 External Audit Plan*

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

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

In 2016, the Public Audit Forum issues 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 2017/18 External Audit Plan*

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

### 4. Property, plant and equipment

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

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

*Excerpt from the 2017/18 External Audit Plan*

19. SPT reported total capital investment in 2017/18 of £39.960million. We carried out testing on material additions, disposals and depreciation. Overall we concluded that property, plant and equipment as reported on SPT's balance sheet is free from material misstatement.
20. During 2017/18, two subway stations were revalued following the completion of modernisation works, resulting in an overall net decrease of £0.401million 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. We reviewed the professional valuations provided and are satisfied that the valuer has appropriate experience and competence to complete this exercise. A full valuation exercise was last undertaken in

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

2017/18 on land and buildings.

21. Investment properties are valued annually at fair value, in line with the Code, and in 2017/18, there was a net gain of £2.464million from fair value adjustments. We compared the fair value movements in year against industry averages to ensure that the valuer's assumptions and methodology were appropriate. Based on the audit work performed, we are satisfied that valuation movements are in line with industry average and that the results from the valuation exercise have been correctly accounted for in the annual accounts.
22. In our 2016/17 Annual Report on the Audit, we reported an issue regarding the capitalisation of staff costs. In response to our recommendation, SPT undertook a review of their fixed asset register, capital spend in 2017/18 and planned capital activity in 2018/19. We discussed a range of activity and confirmed whether the spend should be treated as capital or revenue. This included for example, staff costs, feasibility studies, time spent on the Regional Transport Strategy, and the cost of collecting data for the Transport Planning Model. We agreed the correct treatment of this expenditure going forward.

### 5. Pension liability assumptions

An actuarial estimate of the pension fund 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 2017/18 External Audit Plan*

23. We obtained the information provided to the actuary and agreed to source documentation to confirm accuracy. We reviewed the assumptions used by the actuary and compared these to benchmarks across the sector.
24. We reviewed the validity of the information provided to the actuary and compared this with the actual information reported by SPT and the Strathclyde Pension Fund. We considered the results of the actuary alongside our work across the sector and have concluded there is a risk of material misstatement arising from difference between the figures relating to asset values. We therefore requested that management instruct the actuary to update its calculations based on year end results. The annual accounts were updated to reflect these figures. As a result, the pension liability changed from a deficit of £7.331million to a deficit of £3.245million, with the movement recognised as an actuarial gain.
25. As at 31 March 2018, the pension liability showed a deficit of £3.245million, compared to a deficit of £49.657million as at 31 March 2017. The movement is primarily due to a reduced estimate of SPT's share of fund liabilities. The fund went through a full actuarial revaluation in 2017/18 which resulted in decreasing the overall liability of the fund as a whole. In addition, the overall funding level of the pension has increased in 2017/18 due to investment returns that were higher than anticipated.

## Our application of materiality

26. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual accounts.
27. Our initial assessment of materiality for the annual accounts was £1.2million. We revised our assessment, following receipt of the unaudited annual accounts, to £1million and it remained at this level throughout our audit. Our assessment of materiality is set with reference to gross expenditure. We consider this to be the principal consideration for the users of the accounts when assessing the performance of SPT.

### Performance materiality

28. Performance materiality is the amount set by the auditor at less than overall materiality for the annual accounts as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed materiality for the annual accounts as a whole.
29. We set a performance (testing) materiality for each area of work which is based on a risk assessment for the area. We perform audit procedures on all transactions and balances that exceed our performance materiality. This means we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

Area risk assessment	Performance materiality
High	£450,000
Medium	£550,000
Low	£700,000

30. We agreed with the Audit and Standards Committee that we would report all audit differences in excess of 2% of the overall materiality figure, as well as differences below that threshold which, in our view, warranted

reporting on qualitative grounds. We also report to the Audit and Standards Committee on disclosure matters that we identified when assessing the overall presentation of the annual accounts.

## Audit differences

31. As referred to in paragraph 24, an adjustment was made to the unaudited annual account in relation to the pension liability. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts.

## An overview of the scope of our audit

32. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit and Standards Committee in February 2018. 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.
33. 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.
34. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work, we have applied the concept of materiality, which is explained earlier in this report.

## Legality

35. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual accounts. Our audit procedures included the following:

- Reviewing minutes of relevant meetings;

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

36. 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

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

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

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

### Management commentary

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

40. As part of our audit, we also reviewed SPT's management commentary against non-statutory guidance issues by the Scottish Government. Whilst we are satisfied that the management commentary is compliant with guidance, we identified some areas which could be further expanded on in future years. We have discussed these with management and plan to consider this further in our 2018/19 audit.

### Remuneration report

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

## Annual Governance Statement and Statement of Financial Control

42. The Chief Executive and the Chair have confirmed that in SPT's view, the systems for internal control were effective during 2017/18 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.

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

## Qualitative aspects of accounting practices and financial reporting

44. We have considered the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided in the annual accounts. Our findings are summarised in the following table:

<sup>1</sup> Regulations 8 to 10 relate to the preparation and publication of unaudited accounts, notice of public right to inspect and object to the accounts and consideration and signing of the audited accounts.



Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the annual accounts, are considered appropriate to SPT.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	<p>We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts. Significant estimates have been made in relation to property, plant and equipment and pension liabilities. We consider the estimates made, and the related disclosures, to be appropriate to SPT.</p> <p>We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the expert is appropriate.</p>
The appropriateness of the going concern assumption	We have reviewed the detailed financial forecasts for 2018/19. 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.



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# Financial management

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

# Financial management



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

**SPT reported a breakeven position for 2017/18; this is after a transfer of £16.054million to its subway modernisation fund.**

**The capital outturn was £39.960million against a revised budget of £67.653million. A number of payment milestones totalling £24.071million had to be moved to 2018/19. However, the 2018/19 capital plan included this anticipated level of slippage, and so the capital programme remains within budget.**

## SPT's financial performance in 2017/18

45. The Comprehensive Income and Expenditure Statement for 2017/18 shows that SPT spent £66.652million on the provision of services, resulting in an accounting surplus of £91.297million (2016/17: £21.061million).
46. The large surplus in 2017/18 is in part due to a reduction in the net cost of service; £41.820million in 2017/18 compared to £60.229million in 2016/17. In addition, SPT received a higher level of grant income from Scottish Government. Not all of the Capital Grant was applied in 2017/18 however, and so £69.588million was transferred to the Capital Grants Unapplied Account.
47. 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 2017/18 Code), and which are subsequently adjusted to show their impact on reserves. Taking account of these adjustments, no surplus or deficit has been generated in 2017/18. This is in line with technical guidance (based on interpretation of the Transport (Scotland) Act 2005), where regional transport partnerships, including SPT, are not permitted to generate a surplus or deficit on the general fund.
48. A "subway modernisation fund" does however exist on the balance sheet which includes contributions/receipts in advance from the constituent local authorities. In 2017/18, £16.054million was contributed to this fund. The balance on this fund as at 31 March 2018 was £35.045million (2016/17: £18.991million). All capital activity in 2017/18 was funded from Scottish Government capital grants and none of the "subway modernisation fund" was utilised.
49. The recently published Transport (Scotland) Bill 2018 proposes that Regional Transport Partnerships, such as SPT, will be permitted to hold reserves. This will allow SPT to generate a surplus on the provision of services and add to reserves for future use, for example, on capital projects.
50. As at 31 March 2018, SPT held cash and cash equivalents of £64.099million (2016/17: £21.616million). SPT received a Scottish Government grant payment in advance of £53.8million, resulting in the increased bank balance at the year end. Holding this level of cash balance is compliant with the CIPFA Treasury Management Policy as it is being held for future investments in the subway modernisation programme.
51. In addition, useable reserves increased by £70.068million in 2017/18 with a balance of £127.360million as at 31 March 2018. This is a result of a transfer to the Capital Grant Unapplied Accounts (net: £69.051million) and the transfer of non-current asset sale proceeds to the Capital Receipt Reserve (net: £1.017million)

## Revenue performance against budget

52. SPT achieved a breakeven position in 2017/18. The net revenue budget of £37.670million was met from local authority contributions (£36.633million) and a contribution of £1.037million direct from the Scottish Government.

### Exhibit 3: Revenue performance against budget

Directorate	Annual budget £million	Actual £million	Variance over/(under) £million
Subway operations	2.162	(0.800)	(2.962)
Bus operations	17.413	15.218	(2.195)
Operations – other	1.902	1.604	(0.298)
Business support	2.961	2.798	(0.163)
Corporate	13.232	18.849	5.617
<b>Total</b>	<b>37.670</b>	<b>37.670</b>	<b>0</b>

Source: Annual accounts 2017/18 and budget monitoring reports

53. SPT reported strong patronage growth during 2017/18, which has resulted in an increase in subway ticket income. In addition SPT has achieved savings in the delivery of subway operations.
54. The underspends generated across the directorates resulted in an increase in the contribution to the subway modernisation fund. A contribution of £16.054million was made in 2017/18. This was budgeted at £11.006million.

year budget. In addition, the 2018/19 indicative figures were re-forecasted for the 2017/18 capital plan. We are satisfied that capital planning arrangements are appropriate and reviewed on a regular basis.

### Capital position

55. 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 2017, SPT prepared a three year programme; highlighting that years' two and three were indicative as no funding information was available at the time. As such approval was given only to the capital programme, budget and funding plan for 2017/18.
56. A similar three year capital programme and budget was prepared in 2016/17, covering the three years to 2018/19. We confirmed that the 2017/18 budget has not changed drastically from the indicative 2017/18 figures per the prior

## Exhibit 4: Capital programme - performance against budget

Category	Budget 2017/18 as approved by SPT in February 2017 £million	Final approved budget £million	Actual £million	Variance over/(under) £million
Subway modernisation	61.646	47.743	22.782	(24.961)
Subway infrastructure	3.845	4.800	5.126	0.326
Fastlink	1.000	1.000	0.537	(0.463)
General capital	18.864	14.110	11.515	(2.595)
<b>Total</b>	<b>85.355</b>	<b>67.653</b>	<b>39.960</b>	<b>(27.693)</b>

Source: Capital monitoring report March 2018

57. In 2017/18 the capital outturn was £39.960million against a revised capital budget of £67.653million. A number of budget adjustments were approved during the year. As reported to the Partnership in December 2017, payment milestones totalling £13.90million were moved to early 2018/19. A number of subway modernisation rolling stock milestones were programmed for February and March 2018.

58. As reported to the Partnership in June 2018, the 2018/19 capital budget included an anticipated level of slippage from 2017/18. The final level of 2017/18 slippage was lower than forecasted however, and so the capital programme remains within budget.

### Systems of internal control

59. We have evaluated the key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach has included documenting the processes and key internal financial controls within the key financial systems and performing walkthrough testing to confirm our understanding of those systems. We also considered the security and robustness of key IT systems.

60. As reported in our External Audit Interim Audit Report, we did not identify any significant deficiencies in the adequacy or design of internal financial controls over SPT's key financial systems. We did however identify a

number of areas with scope for improvement, which, if addressed, would further strengthen the internal financial control regime. An action plan has been developed and agreed with management.

### Internal audit

61. 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.

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

### Fraud and irregularity

63. 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.

### National Fraud Initiative (NFI)

64. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error.

65. The NFI exercise produces data matches by

comparing a range of information held on various public bodies' systems to identify potential fraud or error. Bodies investigate these matches and record appropriate outcomes based on their investigations.

66. The most recent NFI exercise commenced in October 2016 and as part of our 2016/17 audit we monitored SPT's participation in NFI. We submitted an assessment of SPT's participation in the exercise to Audit Scotland in February 2018. Overall we concluded that SPT has actively participated in the NFI exercise.



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# 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.

# Financial sustainability



SPT has appropriate arrangements in place for short and medium term revenue financial planning. Each year, the Partnership is presented with a rolling two-year revenue budget.

SPT also prepares a three year rolling capital programme and budget which seeks to balance the transport project delivery aspirations and the funding available to it.

## Exhibit 5: Significant audit risk

67. As outlined in our audit plan, we considered there to be a significant risk to the wider scope of our audit in relation to financial sustainability:

### Financial sustainability

Each year, the Partnership is presented with a rolling two-year revenue budget. In addition, management consider differing budget scenarios for a further four year period.

SPT also prepares a three year rolling capital programme and budget which seeks to balance the transport project delivery aspirations and the funding available to it.

*Excerpt from the 2017/18 External Audit Plan*

68. As outlined below, we have reviewed the rolling two-year revenue budget and the rolling three year capital programme. We have considered SPT's arrangements for managing its financial position and use of resource and deem this to be appropriate. We plan to continue to monitor SPT's financial planning in detail during our 2018/19 audit as the capital programme continues.

## Revenue budget 2018/19

69. In February 2018 the Partnership approved a net revenue budget for 2018/19 of £36.938million; funded by local authority requisitions of £35.901million and a contribution of £1.037million from the Scottish Government. This represents an overall reduction of 2% in support from the constituent local authorities in comparison with 2017/18. As part of approving the 2018/19 budget, the Partnership also agreed to an increase in fares, fees and charges.
70. A key priority for SPT is to support region wide capital investment and modernise the Subway without seeking additional requisitions from local authority partners. To date, this has been achieved through the ongoing critical review of all SPT activities and the method of delivery. There have been a number of organisational structure reviews, which have subsequently
- resulted in improved and streamlined processes. This has freed up resources to redirect to areas of priority.
71. The Scottish Government announced in the 2018/19 draft public sector budget, its intention to lift the public sector pay cap. While the Scottish Government does not have any power over local government pay; in response to this announcement, recent Union submissions indicate that they will lobby for similar increases. As a result, SPT has prepared its 2018/19 budget on the assumption of a 3% pay increase; 2% to the departments and 1% held corporately. They will continue to monitor the situation for any further developments.
72. A service line review was undertaken in preparation of the 2018/19 budget, as reported to the Partnership in February 2018. The main significant changes as a result of this review were the reduction in revenue support to capital



expenditure (£1.0million) and a decrease to the level of contribution to the subway modernisation fund (£0.2million).

73. Given the on-going financial pressures and review of the Regional Transport Strategy (paragraph 105), SPT have identified the need to undertake a more detailed review of the long term financial strategy and supporting priorities. This will be undertaken in 2018/19 and presented to the Partnership for approval.

## Future capital plans

74. In February 2018, the Partnership approved, in principle, subject to funding, a capital plan for the financial years 2018/19 to 2020/21.
75. For 2018/19 the capital budget is £74.525million, funded through capital grants (£19million), revenue contributions (£1million) and subway modernisation fund (£52.9million). SPT sets a capital plan which is greater than the funding available to ensure that the plan delivery is maximised within the funding available and project delivery movements. As a consequence, for 2018/19, there is a projected short fall of £1.590million. SPT anticipated movement in the project delivery from the previous financial year and factored this into capital planning; hence this will not have a significant impact on the 2018/19 capital budget.
76. As no funding information is available for years two and three of the capital plan, SPT only set indicative budgets for those two years. Scottish Government capital funding for 2018/19 includes a capital grant of £19million and funding of £53.8million for the subway modernisation project.
77. The subway modernisation project comprises a significant proportion of the capital plan (approximately £52.935million). Ministers previously committed to fund up to £246million of the total project cost with SPT directly contributing the remaining £42million. The Partnership have been advised that the profile for funding the subway modernisation project has been agreed covering the period to 2020/21.
78. There was significant slippage in the 2017/18 subway modernisation plan, due to delays in achieving key milestones in the manufacturing and supply agreement contract. The 2018/19 budget of £52.9million included an anticipated

level of slippage from 2017/18; however the final outturn of slippage was lower than originally forecasted. As reported to the Partnership in June 2018, the 2018/19 budget will be reviewed once a revised capital programme has been approved; however, there are not expected to be any funding issues in relation to this.

## EU withdrawal

79. Audit Scotland identified EU withdrawal as an emerging significant risk facing public bodies across Scotland. Three streams of potential impact were identified;
- Workforce
  - Funding
  - Regulation.
80. SPT has considered the impact across all three areas. From an initial assessment of the workforce and funding streams, no significant implications have been identified. Implications from changes and introduction of Regulations are currently 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 will continue to monitor this situation.



5

# 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.

# Governance and transparency



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

**In September 2017, the Audit & Standards Committee was deemed to be inquorate and as a result, no Audit & Standards Committee was held between March 2017 and December 2017. Through attendance at subsequent meetings, we are satisfied this issue has been addressed.**

## Governance arrangements

### The Partnership

81. 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.
82. Following the local government elections in May 2017, there were 13 changes in elected members. The newly appointed Chair and two Vice Chairs were previously on the Partnership (albeit in different roles).
83. An induction programme was developed for new members to ensure they understood their role and the roles of the committees.
84. The Partnership reviewed, updated and approved their Local Code of Corporate Governance in June 2017, following the introduction of the new members. In preparing the 2017/18 Annual Governance Statement and Statement of Financial Control, the Partnership reviewed its current arrangements and deemed these to be robust.

### Senior management changes

85. In April 2018, the Assistant Chief Executive (Operations) retired. As a result, the management team has been restructured.

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

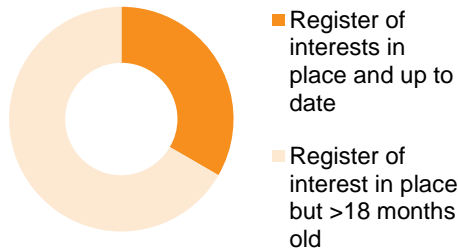
86. We consider that arrangements for scrutiny and decision-making at SPT are appropriate.
87. An ongoing programme of training is in place for all members to ensure they remain well versed in their role and the role of the committees.

88. To inform our assessment of the scrutiny arrangements, we attended a number of committee meetings during 2017/18. We did not identify any issues with attendance or participation and are satisfied that these committees are operating effectively.

### Openness and transparency

89. One of the sector risks identified by Audit Scotland for 2017-18 relates to public sector organisations keeping pace with public expectations on openness and transparency.
90. We reviewed SPT's arrangements, and used benchmarking with other Regional Transport Partnership Boards to assess current performance.
91. 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. Only two Regional Transport Partnerships have Audit Committees in place, but both ensure that agendas and papers are available on the Partnership website. The SPT also makes other committee papers available to the public.
92. The register of interests for each SPT Board member is easily accessible on the website, and was last updated in March 2018. As Exhibit 6 highlights, SPT was one of only 3 Transport Partnerships with an up to date register of interests for each voting member. We also note that members are asked to disclose any interests at the start of each Partnership Board and Committee meeting.

**Exhibit 6: SPT was one of only three partnerships with an up to date register of interests publically available**



**Source: Review of Regional Transport Partnership Websites, August 2018**

93. Overall, we are satisfied that SPT has satisfactory arrangements in place to ensure its activities are open to the public.

**Audit and Standards Committee**

94. In September 2017, the Audit and Standards Committee meeting was deemed to be inquorate in line with its Standing Orders as three constituent councils were not represented. As a result, no Audit & Standards Committee meeting was held between March 2017 and December 2017. Alternative arrangements had to be put in place so that the 2016/17 annual accounts were considered by the Partnership instead.
95. Through attendance at subsequent Audit and Standard Committee meetings, we are satisfied that this issue has been addressed.

**Standards of conduct**

96. 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.
97. 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.
98. SPT's governance framework and governance arrangements are set out in a governance manual (incorporates the scheme of delegated functions, financial regulations and standing orders), local code of corporate governance and various other codes of conduct, policies

and guidance. The standing orders and scheme of delegated functions were reviewed in 2017.

**Information Governance**

**Cyber Security**

99. In May 2017, a number of public sector organisations were affected by the Wannacry global ransomware attack. In response to this the Scottish Government launched 'A Cyber Resilience Strategy for Scotland: Public Section Action Plan 2017/18'.
100. The action plan outlines a number of requirements that public bodies should be taking forward. This includes an action for public bodies to achieve a Cyber Essentials Plus certification by the end of October 2018.
101. Internal audit undertook a review of cyber resilience arrangements in 2017/18. As reported to the Audit and Standards Committee in February 2018, SPT has made good progress in implementing the actions outlined by the Scottish Government. They seek to achieve Cyber Essential Plus certification by the October 2018 deadline. SPT has included further detail on the action taken in their Annual Governance Statement and Statement of Financial Control.

**General Data Protection Regulations**

102. The General Data Protection Regulations (GDPR) came into force in the UK on 25 May 2018. The regulations replace the Data Protection Act 1998 and, as well as strengthening existing Regulations, the Act has brought in new legislative duties for SPT. The Regulations bring significant potential penalties for non-compliance.
103. Internal audit undertook a review of GDPR implementation arrangements and reported their findings to the Audit and Standards Committee in February 2018. During 2017/18, SPT has completed a GDPR gap analysis, a data mapping exercise and established a working group to plan and monitor key actions required to ensure compliance with legislation. Whilst internal audit concluded that reasonable assurance can be taken from the arrangements in place, they identified six recommendations, which if implemented, would further strengthen controls.

**104.** Compliance with the Regulations is an on-going process, which we will continue to monitor as part of our annual audit procedures in the future. We have not identified any significant risks to compliance with the Regulations at this time.

# 6

## 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.

# Value for money



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

Overall performance has been maintained across the organisation. The severe weather in March 2018 provided challenges to delivering a reliable service; however the subway continued to successfully operate. In addition, SPT reported 97% overall customer satisfaction in their 2017/18 annual report.

## Regional Transport Strategy

- 105.** 'A Catalyst for Change', the statutory Regional Transport Strategy (RTS) for the west of Scotland 2008-21 was approved by Scottish Ministers in 2008. In response, SPT has developed a RTS Delivery Plan. This links the RTS to SPT's business planning processes through the strategic priorities and sets out the services, projects and initiatives that will enable the delivery of the RTS.
- 106.** A new RTS Delivery Plan covering the three year period 2018-2021 was approved by the Partnership in June 2018. The previous RTS Delivery Plan, covering 2014-2017, was extended for one year to allow for the review of the new Delivery Plan to be completed.
- 107.** The 2018-2021 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.
- 108.** Aligned to these four outcomes, SPT has identified eight strategic priorities, and a number of high level key actions required to support its delivery. There are nine workstreams, each supported by operational action plans. The workstreams include for example, freight, bus service, access to rural areas and integrated ticketing.

## Performance management framework

- 109.** Key performance indicators have been developed for each RTS outcome and performance is reported on an annual basis. Each year, SPT produces a Transport

Outcomes Reports which demonstrates how its activities contribute to single outcome agreements and provide a summary of what it is doing in each council area. Trend information is also available on SPT's website.

- 110.** As part of their performance management framework, SPT have classified eight of these key measures as SPT operational indicators. Regular performance information is presented to the Operational Committee in relation to these operational measures. In addition, financial performance information is presented to the Strategy and Programmes Committee via revenue and capital monitoring reports. Minutes of both these committees are reported to meetings of the Partnership.
- 111.** 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 2017/18

- 112.** At the date of our report, SPT had not yet published performance against the 35 key RTS indicators for 2017/18. Once collated, this information will be published on their website.
- 113.** Performance against operational indicators is monitored on a regular basis and as reported to the Operations Committee in May 2018;
- Subway patronage is consistent with the level reported in 2015/16. Due to the Subway suspension in 2016/17, this period

cannot be used as a meaningful comparison;

- Subway park and ride usage has increase by 8.93% compare to 2015/16;
- Subway reliability was 98.35% for 2017/18, which is below the target of 99%. The decline is in part due to the severe weather experienced in March 2018; however it should be noted that the subway continued to operate during this period;
- Patronage on supported bus services has decreased by 3.6%. Scheduled mileage remained constant however and reliability level of 99.37% was achieved.

**114.** In 2017/18, SPT took part in a passenger survey for subway services, conducted by the Government watchdog, Transport Focus. The results were very positive for SPT, reporting 97% overall satisfaction, 95% satisfied with punctuality and 93% satisfied with journey times.



7

# Strathclyde Concessionary Travel Scheme Joint Committee



# Strathclyde Concessionary Travel Scheme Joint Committee

## Introduction

- 115.** 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.
- 116.** 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.
- 117.** In this section of our report we set out our findings of our audit of SCTS for the year ended 31 March 2018 including:
- Our findings from our audit of the 2017/18 annual accounts; and
  - Our findings from our annual audit work in respect of our wider scope audit responsibilities. For 2017/18 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

- 118.** The annual accounts for the year ended 31 March 2018 were approved by SPT on 28 September 2018. We report within our independent auditor's report:
- An unqualified opinion on the annual accounts; and
  - An unqualified opinion on other prescribed matters.

### Good administrative processes were in place

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

### Our assessment of risks of material misstatement

- 120.** The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual accounts is not modified with respect to any of the risks described in Exhibit 6 below.

## Exhibit 6: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

### 1. Management override

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

*Excerpt from the 2017/18 External Audit Plan*

121. We have reviewed the accounting records, including journals, and did not identify any significant transactions outside the normal financial control processes. We did not identify any evidence of management override. We reviewed SCTS accounting policies and did not identify any areas that required key judgements or estimates to be made by management.

### 2. Revenue recognition

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

*Excerpt from the 2017/18 External Audit Plan*

122. As reported in our 2017/18 External Audit Plan, we did not believe the risk of fraud in revenue recognition is material to the annual accounts and therefore rebutted this risk. This view was based on the fact that SCTS is funded by contributions received from the local authorities within the area served by the Scheme and, where required, from a draw on reserves. The funding is set as part of the budget process. These income streams are agreed in advance of the year and any changes require approval.

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

In 2016, the Public Audit Forum issues 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 2017/18 External Audit Plan*

123. 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. We reviewed SCTS’ policy for recognising expenditure and are satisfied that this is appropriate and consistently applied.

## Our application of materiality

- 124.** Our initial assessment of materiality for the financial statements was £80,000 and it remained at this level throughout our audit. Our assessment of materiality equates to approximately 1.8% of SCTS' 2017/18 gross expenditure. Our assessment of materiality is set with reference to gross expenditure. We consider this to be the principal consideration for the users of the accounts when assessing the performance of SCTS.
- 125.** Performance materiality is the amount set by the auditor at less than overall materiality for the annual accounts as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed materiality for the annual accounts as a whole.
- 126.** We set a performance materiality for each area of work based on a risk assessment for the area and percentage application of overall materiality. We then perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

Area risk assessment	Performance materiality
High	£36,000
Medium	£44,000
Low	£56,000

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

## Audit differences

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

## Joint Committee representations

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

## An overview of the scope of our audit

- 130.** The scope of our audit was detailed in our External Audit Plan (covering both SPT and SCTS), which was presented to the Audit and Standards Committee in February 2018. 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.
- 131.** 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.
- 132.** Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work, we have applied the concept of materiality, which is explained earlier in this report.

## Legality

- 133.** 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 a the position in relation to litigation, claims and assessments; and
- Performing detailed testing of transactions and balances.

134. 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

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

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

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

### Management commentary

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

### Remuneration report

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

## Qualitative aspects of accounting practices and financial reporting

139. 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:

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<sup>2</sup> Regulations 8 to 10 relate to the preparation and publication of unaudited accounts, notice of public right to inspect and object to the accounts and consideration and signing of the audited accounts.

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the annual accounts, are considered appropriate to SCTS.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	The accounting estimates and judgements used by management in preparing the annual accounts are considered appropriate.
The appropriateness of the going concern assumption	We have reviewed the detailed financial forecasts for 2018/19. 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

### Annual governance statement and statement of financial control

140. We are satisfied that the Annual Governance Statement and Statement of Financial Control for the year to 31 March 2018 is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).
141. The Joint Committee's governance statement notes that *"although the Joint Committee is a separate legal entity, due to the administrative relationship between SCTS and SPT, there are a number of shared systems between the two bodies. The corporate governance and internal financial control arrangements that govern SCTS are also that of SPT"*. The Annual Governance Statement and Statement of Financial Control is consistent with the governance statement presented in SPT's annual accounts.
142. The Joint Committee met twice during 2017/18 and it was noted through our review of committee minutes that attendance levels are low at committee meetings. Out of the 13 Councillors, only three attended both meetings in 2017/18 and five did not attend any.

### Financial sustainability

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

## Exhibit 7: Key audit risks in the wider scope audit

### 1. Financial Sustainability

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

*Excerpt from the 2017/18 External Audit Plan*

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

### 2017/18 financial performance

145. The 2017/18 Comprehensive Income and Expenditure Statement shows that SCTS spent £4.319million on delivery of services. Taking into account interest received (£15,000) and the local authority requisitions (£4.173million), SCTS reported an in-year deficit of £131,000, which was funded by through reserves.
146. At the start of the year, SCTS approved a budget of £4.173million. Funding contributions from the constituent local authorities were agreed at £4.173million with no funding required from reserves.
147. The deficit reflects a continuing increase in payments to operators. Operator fares in 2017/18 were higher than initially anticipated. Patronage in 2017/18 was also higher than originally budgeted which, combined with the higher payments to operators, resulted in an overspend.
148. Reserves were utilised to fund this deficit, leaving a reserves balance of £1.559million as at 31 March 2018. The Joint Committee has previously approved a resource utilisation policy, which will see the overall level of reserves reduced even further in future years.
149. The Joint Committee met twice in 2017/18 and budget monitoring reports were considered at both meetings.

### Looking forward

150. In 2018, the Joint Committee approved its 2018/19 budget. A budget of £4.233million has been approved for 2018/19, to be funded by local authority requisitions (£4.089million) and reserves (£0.144million). This does represent a reduction in local authority requisitions in comparison with 2017/18 (2% reduction).
151. SCTS continues to experience financial pressures from the impact of funding and from increased operator costs. In response, SCTS increased its concessionary fares in 2017/18; the first increase since 2011/12, despite increases in standard operator fares and subsequent cost to SCTS. SCTS have approved further increases in concessionary fares for 2018/19. The impact of this will be monitored by the Joint Committee throughout the year. In preparing the budgets, we note that SPT, on behalf of the Joint Committee, has prepared indicative budgets up to 2022/23.. From our initial review, we are satisfied that this look reasonable.

# 8

# Appendices



# Appendix 1: Action plan

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

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work, and may not be all that exist. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements. Communication in this report of matters arising from the audit of the annual accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

## Action plan grading structure

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

The grading structure for our recommendations is as follows;

Grade	Explanation
Grade 5	Very high risk exposure - Major concerns requiring immediate attention.
Grade 4	High risk exposure - Material observations requiring management attention.
Grade 3	Moderate risk exposure - Significant observations requiring management attention.
Grade 2	Limited risk exposure - Minor observations requiring management attention
Grade 1	Efficiency / housekeeping point.

## Update on recommendations from our 2017/18 interim report

Action plan point	Issue & Recommendation	Management Comments	2017/18 update
<b>Register of interest</b>	<p><b>Issue identified</b></p> <p>Although these have been requested, registers are not in place for three Partnership members and two Joint Committee members, including the Chair of the Audit Committee. Hence those members are not complying with SPT's Code of Conduct.</p> <p>SPT and SCTS disclose within their annual accounts material transactions with related parties. These can be defined as bodies or individuals that have the potential to control or influence SPT or SCTS or to be controlled or influenced by SPT or SCTS.</p> <p>The register of interests is one way that SPT can identify its related parties.</p> <p>There is a risk, should the registers not be kept up to date, that SPT and SCTS do not identify and report all related party transactions in their annual accounts.</p> <p><b>Recommendation</b></p> <p>Members should be reminded of the importance of ensuring the register of interests is updated regularly and completely</p> <p>Outstanding registers of interest should be requested in a timely manner to inform the preparation of the annual governance statement and the related parties disclosure within the annual accounts.</p>	<p>Register of interest reminders are sent annually. In addition, upon the formation of the new Partnership in June 2017, all members were issued with the required form to be completed and returned. Reminders were also issued to members where a return was outstanding.</p> <p>Two further returns have been received since the matter was identified and the outstanding Partnership member has also been reminded</p> <p><b>Responsible officer:</b> Assistant Chief Executive (Business Support)</p> <p><b>Implementation date:</b> Immediate</p>	<p><b>External audit update</b></p> <p>We confirmed that SPT issued a reminder to all members to ensure that registers of interest are up to date.</p> <p>We confirmed through our testing that registers are in place for all Joint Committee members.</p> <p><b>Action closed.</b></p>
<b>Rating</b>			
<b>Grade 3</b>			

## Update on recommendations from our 2016/17 interim report

Action plan point	Issue & Recommendation	Management Comments	2017/18 update
<b>Finance policies and procedures</b>	<p><b>Issue identified</b></p> <p>Finance policies and procedures are in place and made available to officers. Our audit work identified that these are not subject to periodic regular review.</p> <p>Clear policies and procedures are key to supporting business continuity and ensuring controls are implemented and processes are completed efficiently.</p> <p><b>Recommendation</b></p> <p>Finance policies and procedures should cover all SPT and SCTS activity and processes and highlight key controls to be implemented, in particular manual key controls. Procedures should also clearly allocate secondary responsibility of key tasks to additional officers to ensure business continuity.</p> <p>The policies and procedures should be subject to regular review to ensure completeness and remain relevant. The documents should be accessible to all officers and clearly state:</p> <ul style="list-style-type: none"> <li>• who has responsibility for the documents;</li> <li>• when they were last updated;</li> <li>• when they are next due to for review; and</li> <li>• what version the procedures are.</li> </ul>	<p>Finance policies and procedures will now be subject to an annual review and the core documentation will be updated to include the information detailed within the recommendation. With regard to secondary responsibility of tasks, SPT takes a risk based approach and therefore it is not always appropriate to identify a specific person to cover tasks. Due to the size of the department if someone is absent for a prolonged period of time it may result in the reallocation of many tasks to ensure the tasks of the absentee are covered.</p> <p><b>Responsible Officer:</b> Chief Accountant.</p> <p><b>Completion date:</b> 30/06/2017.</p>	<p><b>External audit update</b></p> <p>We reviewed the finance policies and procedures covering income and expenditure processes, and confirmed that these have all been subject to review during 2017/18. A cover sheet has been added to clearly record the document owner and the date of last review. The Chief Accountant confirmed that these will now be reviewed annually as part of the year-end tasks.</p> <p>Policies and procedures now summarise the level of available cover within the team.</p> <p><b>Action closed</b></p>
<b>Rating</b>			
<b>Grade 2</b>			

Action plan point	Issue & Recommendation	Management Comments	2017/18 update
<p><b>Approval of sales invoices &gt;£10,000</b></p>	<p><b>Issue identified</b></p> <p>Sales invoices which exceed £10,000 should be approved by an Accountant prior to the invoice being sent to the customer and posted to the nominal ledger. However, the TechnologyOne system does not enforce this control.</p> <p>Our walkthrough identified a sales invoice (value £13,636) which had not been approved by an Accountant, indicating that this control is not operating effectively. Subsequently, there is a risk that higher value invoices are being raised and issued incorrectly.</p> <p><b>Recommendation</b></p> <p>The TechnologyOne system should be updated to enforce the approval of all sales invoices over £10,000 by an Accountant, before the invoice can be posted to the nominal ledger and subsequently issued to customers.</p> <p>Since the interim audit has ended, we understand that this recommendation has been actioned by management.</p>	<p>Workflow rules have been amended in the TechnologyOne system to enforce the approval of sales invoices over £10,000 by an Accountant.</p> <p><b>Responsible Officer:</b> Chief Accountant.</p> <p><b>Completion date:</b> Complete.</p>	<p><b>External audit update</b></p> <p>Evidence was provided to confirm that workflow rules have been amended within TechnologyOne to enforce this control. Further testing performed during final audit confirmed this control was operating as expected.</p> <p><b>Action closed</b></p>
<p><b>Rating</b></p>			
<p><b>Grade 3</b></p>			

Action plan point	Issue & Recommendation	Management Comments	2017/18 update
<b>Access rights to Technology One</b>	<p><b>Issue identified</b></p> <p>There is no regular review of current user access rights to TechnologyOne to confirm these are appropriate and up-to-date. In addition, where changes have been requested, there is no secondary review to ensure these have been processed by the system administrator correctly and in a timely manner.</p> <p>A review of current Technology One user accounts identified the following;</p> <ul style="list-style-type: none"> <li>• 22 user accounts had not logged in to TechnologyOne since July 2016; 17 of these had not logged in since August 2015;</li> <li>• User accounts were still active for three employees who left the organisation over two years ago; and</li> <li>• Two user accounts that had never logged into the system.</li> </ul> <p>Our audit work also identified that all members of the finance team have access to view and amend the fixed asset register on TechnologyOne; however, only certain officers have responsibility for its maintenance.</p> <p>There is a risk of unauthorised, inappropriate or fraudulent activity through TechnologyOne with users acting outwith their current role.</p> <p><b>Recommendation</b></p> <p>Management should review user access rights to TechnologyOne at least annually to ensure access rights remain appropriate for their current role; evidence of the review should be retained and all inactive or inappropriate accounts should be disabled or modified.</p> <p>To prevent unauthorised or</p>	<p>The user amendments process in TechnologyOne will be reviewed, documented and specific user amendment forms created. All additions / amendments to users within the system will be verified by an Accountant or above. An annual review of user access will be incorporated into SPT's year-end tasks. With regard to the fixed asset module access will be restricted to appropriate members of Finance staff only.</p> <p><b>Responsible Officer:</b> Chief Accountant.</p> <p><b>Completion date:</b> 30/06/2017.</p>	<p><b>External audit update</b></p> <p>SPT performed a review of TechnologyOne users in November 2017 and approximately six users were removed as their access rights are no longer appropriate. An annual review of users will be performed as part of the year-end process.</p> <p>We confirmed that the user amendment process has been updated to include forms and secondary review of all changes within the system by an Accountant or above.</p> <p>SPT have confirmed with TechnologyOne that access right to the FAR have been restricted to read-only for the majority of Finance staff.</p> <p>We confirmed during final audit that access to the fixed asset register has been appropriately restricted.</p> <p><b>Action closed</b></p>
<b>Rating</b>			
<b>Grade 3</b>			

Action plan point	Issue & Recommendation	Management Comments	2017/18 update
	<p>inappropriate requests to change a user's access level, formal amendment forms should be implemented and retained.</p> <p>Secondary checks should be performed to confirm accounts have been amended or disabled appropriately and in a timely manner.</p>		

## Update on recommendations from our 2016/17 annual audit report

Action plan point	Issue & Recommendation	Management Comments	2017/18 update
<b>Property, plant and equipment</b>	<p><b>Issue identified</b></p> <p>It is SPT's policy to fully depreciate capitalised internal staff costs in the year incurred (or whenever transferred out of assets under construction). In 2016/17, approximately £4.75 million was capitalised and fully depreciated in the same year. While we concluded that the capitalisation of these costs was in accordance with accounting standards, we would expect these to be aligned to the appropriate asset and depreciated over the life of the asset or component of the asset.</p> <p><b>Recommendation</b></p> <p>We understand management are reviewing this policy for 2017/18.</p>	<p>A review of capitalisation and associated balance sheet treatment of capitalised salaries and related costs is already underway with Scott-Moncrieff.</p> <p>Further discussion will take place prior to amending our practice if required.</p> <p><b>Responsible Officer:</b></p> <p>Chief Accountant.</p> <p><b>Completion date:</b></p> <p>30/11/2017.</p>	<p>We can confirm that SPT undertook a review of their fixed asset register and the treatment of capitalised staff costs. Where possible, these costs were aligned to the appropriate asset; capitalised staff costs were fully written off in all other cases.</p> <p>We are satisfied that SPT have updated their accounting policies and are appropriately accounting for capitalised staff costs.</p> <p><b>Action closed</b></p>
<b>Rating</b>			
<b>Grade 3</b>			

# Appendix 2: Respective responsibilities of the Partnership and the Auditor

## Responsibility for the preparation of the annual accounts

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

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

### In preparing the annual accounts, the Assistant Chief Executive 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 2017/18 Code of the state of the affairs of the body as at 31 March 2018 and of the its surplus for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code;
- they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003;
- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014;
- the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government Scotland Act 2003; and
- the information given in the Annual Governance Statement and Statement of Financial Control is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).



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

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

### Wider scope of audit

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

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

### Independence

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



**Scott-Moncrieff**  
business advisers and accountants

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