Audited Annual Accounts 2014/15 and Report to Those Charged with Governance on the 2014/15 Audit

1 Introduction

1.1 The purpose of this report is to present to the Partnership Board the audited annual accounts for the year ended 31st March, 2015 and to recommend they are approved for signature. A copy of the audited annual accounts is appended to this report (Appendix 1), together with Audit Scotland's Report to Those Charged with Governance on the 2014/15 Audit (Appendix 2).

2 Main Report

2.1 Audit Scotland, the Partnership's auditor, has concluded the audit of the annual accounts for the year ended 31st March 2015. There are no qualifications to the audit certificate which appears on pages 45 and 46 of the annual accounts. The Auditor's opinion states that the annual accounts present a true and fair view of the financial position of the Partnership as at 31st March 2015 and its income and expenditure for the year then ended.

2.2. The Management Commentary on pages 2 to 4 of the annual accounts highlights key aspects of financial performance during the year.

2.3. The audited annual accounts were considered at the Performance and Audit Committee meeting of 11th September 2015, together with the Audit Scotland report to Those Charged with Governance on the 2014/15 Audit. The Chair of the Performance and Audit Committee will have an opportunity to report to the Board on any issue arising from the Performance and Audit Committee's consideration of these items.

3 Recommendations

It is recommended that the Partnership Board:

3.1 note the audited annual accounts and the Auditor's opinion in the audit certificate to the accounts;

3.2 authorises the annual accounts for signature;

3.2 notes the Audit Scotland report to Those Charged with Governance on the 2014/15 Audit.

HUGH DUNN
Treasurer
23rd September 2015

Appendices	1 - Audited Annual Accounts 2014/2015
	2 - Report to Those Charged with Governance on the 2014/15 Audit
Contact/tel	Iain Shaw, Tel: 0131 469 3117 (iain.shaw@edinburgh.gov.uk)

The South East of Scotland Transport Partnership (SESTRAN)

Audited Annual Accounts

2014/2015

The South East of Scotland Transport Partnership (SESTRAN)

CONTENTS

The South East of Scotland Transport Partnership (SESTRAN)

Management Commentary

1. Basis of Accounts

The Partnership prepares its Annual Accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom. The Code of Practice is based on International Financial Reporting Standards (IFRS).

2. Statutory Background

The South East of Scotland Transport Partnership (SESTRAN) was established under the Regional Transport Partnerships (Establishment, Constitution and Membership) (Scotland) Order 2005. The Partnership came into force on 1st December 2005. Under Section 3 of the Transport (Scotland) Act 2005, the net expenses of SESTRAN, after allowing for government grant and any other income, are met by its constituent councils.

3. Corporate Strategy

The following is an introductory extract from the Transport (Scotland) Act 2005, which established the Partnership; one of seven Scottish Regional Transport Partnerships (RTPs):

"An Act of the Scottish Parliament to provide for the setting up and functions of the new transport bodies and to enable the Scottish Ministers to discharge certain transport functions; to provide further for the control and co-ordination of road works and for the enforcement of the duties placed on those who carry them out; to set up national concessionary fares schemes; and to make other, miscellaneous modifications of the law relating to transport."

The Partnership aims to develop a sustainable transportation system for South East Scotland that will enable business to function effectively, and provide everyone living in the region with improved access to healthcare, education, public services and employment opportunities. These aims are embodied in the Regional Transport Strategy (RTS).

The constituent councils of the Partnership are the City of Edinburgh, Clackmannanshire, East Lothian, Falkirk, Fife, Midlothian, Scottish Borders and West Lothian.

SEStran's Vision Statement is as follows:

"South East Scotland is a dynamic and growing area which aspires to become one of northern Europe's leading economic regions. Essential to this is the development of a transport system which enables businesses to function effectively, allows all groups in society to share in the region's success through high quality access to services and opportunities, respects the environment, and contributes to better health."

4. Risks and Uncertainties

The principal risks and uncertainties faced by the Partnership fall into two categories.

Firstly, there is the funding uncertainty faced by all local authorities and RTPs. The Partnership has a range of statutory duties to enact. While every attempt is made to do this within the budget provided, budget reductions may make this less achievable resulting in a reduction in the quality of service provided.

The second category relates to changes in legislation leading to changes in the services to be delivered. This can create pressures from both a financial and organisational perspective.

5. Results for the Year

The Partnership is required to present its financial performance as a Comprehensive Income and Expenditure Statement. This can be seen on page 12. However, to show the net position of the Partnership and to allow comparison with the approved revenue budget, it is necessary to adjust the expenditure shown in the Comprehensive Income and Expenditure Statement to take account of a number of items where the statutory accounting requirements differ from the management accounting practice of the Partnership. These adjustments are detailed in Note 18.

The South East of Scotland Transport Partnership (SESTRAN)

Management Commentary (Contd.)

5. Results for the Year (Contd.)

The approved Revenue budget of the Partnership in 2014/15 was £1.827m. A comparison of the outturn position with the revised budget is summarised below:

	Revised Budget £'000	Outturn £'000	Variance £'000
Core Service	465	453	(12)
Revenue Projects	730	662	(68)
Capital Project	628	902	274
Interest	4	1	(3)
Total Expenditure 2014/15	**1,827**	**2,018**	**191**
Government Grant	(782)	(782)	0
Constituent Council Requisitions	(200)	(171)	29
Other Income - Revenue Projects	(346)	(327)	19
Other Income - Capital Project	(487)	(690)	(203)
Other Income - SESplan	(12)	(48)	(36)
Total Income 2014/15	**(1,827)**	**(2,018)**	**(191)**

The Partnership incurred core service expenditure of £0.453m which was £12,000 below the revised Core Service revenue budget. Interest paid by the Partnership was £3,000 below budget.

The Partnership incurred net expenditure of £0.335m on the revenue projects which was £49,000 under budget. This underspend reflected reduced expenditure as four EU Projects ceased ahead of 31st March 2015.

The Partnership received unbudgeted income from SESplan of £36,000.

The Partnership also incurred expenditure of £0.902m on the RTPI capital project, funded principally by income from the bus operators, the Bus Investment Fund and by the Partnership's underspend on the 2013/14 Revenue budget (see below).
Overall the Partnership realised a break even position against the budget in 2014/15.

The Partnership had carried forward a balance of £14,000 from an underspend on the 2013/14 Revenue budget for the RTPI project. During 2014/15, the Partnership claimed £578,000 from the Scottish Government's Bus Investment Fund in respect of expenditure on the RTPI capital project. The Partnership used both these funding contributions towards the project during 2014/15. The Partnership's underspend on the 2014/15 Revenue budget was £29,000 which the Partnership intend to use as a commitment towards developing the regional real-time bus passenger information

The Partnership spent £508,000 on 'vehicles, plant and equipment' in 2014/15 towards operational equipment for the regional real-time bus passenger travel information system.

The Partnership also spent £130,000 on 'assets under construction' in 2014/15 towards developing the regional real-time bus passenger travel information system.

Non Financial Results

SEStran's Real Time Passenger Information (RTPI) programme, part-funded by the European Regional Development Fund (ERDF) and by Transport Scotland's Bus Investment Fund (BIF) was further expanded during 2014/15.
By the end of the 2014/15 financial year, over 300 buses in the SEStran region covering East Lothian, Scottish Borders, Fife and West Lothian with cross border connections to the SWESTRANS area were operating with RTPI facilities; the Bustracker App was available on smart phones and was handling 730,000 queries a month.

Other projects, under the headings of Sustainable and Active Travel Grants and Urban Cycle network for 2014/15, included improved cycle facilities in The City of Edinburgh Council offices; Further and Higher Education Transport Group increased use of electric bikes; Edinburgh College expansion of their electric vehicle fleet; a study into cross boundary cycling facilities; East Lothian Council Footway / Cycleways from Tranent to Ormiston and North Berwick to Dirleton, respectively; and Clackmannanshire pedestrian and cycle counters.

At North Berwick Harbour, Galloway's Pier was raised by a metre and its pedestrian access improved to allow it to be used at low tide when the harbour is dried out. The result of this is that a new passenger ferry service between North Berwick and Anstruther has been launched.

The South East of Scotland Transport Partnership (SESTRAN)

Management Commentary (Contd.)

6. Future Developments

On 20th March 2015, the Partnership's Board agreed a revenue budget for 2015/16, which made provision for £0.552m of core service costs and £2.614m of project expenditure in support of Regional Transport Strategy projects. The budget estimates £2.169m of external funding will be available for projects, of which £1.138m is for capital funded projects.

In recognition of the current financial constraints faced by public sector organisations, the 2015-16 budget makes provision for no increase in constituent council requisitions. Council and Scottish Government funding is confirmed for a period of one year. The Partnership is working towards identifying further cashable efficiency savings for 2016-17.

Where adequate funding is not forthcoming to be able to deliver the full RTS, the desired achievements will not be possible or, at best, be delayed.

However, the Partnership has proved to be resourceful in 2014/15 and in previous years in attracting additional funding. The Partnership intends, in future, to continue that trend and will take every opportunity to pursue avenues of potentially available sources of funding.

It is considered appropriate to adopt a going concern basis for the preparation of the financial statements.

Chair of Partnership Board:	RUSSELL IMRIE	____________________	Date signed: ____________
Partnership Director:	ALEX MACAULAY	____________________	Date signed: ____________
Treasurer:	HUGH DUNN, CPFA	____________________	Date signed: ____________

The South East of Scotland Transport Partnership (SESTRAN)

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Partnership's Responsibilities

The Partnership is required:

- to make arrangements for the proper administration of its financial affairs and to secure that the proper officer has the responsibility for the administration of those affairs. In this Partnership, that officer is the Treasurer;
- to manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets;
- to ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003);
- to approve the Annual Accounts.

Chair of Partnership Board: RUSSELL IMRIE ____________________ Date signed: ____________

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Partnership's Annual Accounts in accordance with proper practices as required by legislation and 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 Treasurer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with legislation
- complied with the Local Authority Accounting Code (in so far it is compatible with legislation)

The Treasurer has also:

- kept adequate accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the financial statements give a true and fair view of the financial position of the Partnership at the reporting date and the transactions of the Partnership for the year ended 31st March 2015.

I confirm that these Annual Accounts were approved for signature by the Partnership Board at its meeting on 23 September 2015.

Treasurer: HUGH DUNN, CPFA ____________________ Date signed: ____________

The South East of Scotland Transport Partnership (SESTRAN)

ANNUAL GOVERNANCE STATEMENT 2014/15

1. Scope of Responsibility

The South East of Scotland Transport Partnership's aim is to develop a transportation system for South East Scotland, as outlined in the Partnership's Regional Transport Strategy 2008 - 2023.

The Partnership is responsible for ensuring that its business is conducted in accordance with the law and appropriate standards, that public money is safeguarded and properly accounted for and used economically, efficiently, effectively and ethically. The Partnership also has a duty to make arrangements to secure continuous improvement in the way its functions are carried out.

In discharging these overall responsibilities, Elected Members and Senior Officers are responsible for implementing proper arrangements for the governance of the Partnership's affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Partnership has approved and adopted a Local Code of Corporate Governance which is consistent with appropriate corporate governance principles and is supported by detailed evidence of compliance, which is regularly reviewed.

This statement explains how the Partnership delivers good governance and reviews the effectiveness of these arrangements. It also includes a statement on internal financial control in accordance with proper practice.

The Partnership's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

2. The Partnership's Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Partnership is directed and controlled, and its activities through which it accounts to, engages with and influences the community. It enables the Partnership to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The framework reflects the arrangements in place to meet the six supporting principles of effective corporate governance:

- Focusing on the purpose of the Partnership and on outcomes for the community, and creating and implementing a vision for the local area;
- Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- Promoting values for the Partnership and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- Developing the capacity and capability of members and officers to be effective;
- Engaging with local people and other stakeholders to ensure robust public accountability.

A significant part of the governance framework is the system of internal control which is based on an ongoing process designed to identify and manage the risks to the achievement of the Partnership's policies, aims and objectives. These are defined in the Partnership's Business Plan, which is updated annually. This will enable the Partnership to manage its key risks efficiently, effectively, economically and ethically.

Within the overall control arrangements the system of internal financial control is intended to ensure that assets are safeguarded, transactions are authorised and properly recorded, and material errors or irregularities are either prevented or would be detected within a timely period. It is based on a framework of regular management information, financial regulations, administrative procedures and management supervision.

While the system of internal control is designed to manage risk at a reasonable level it cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable, and not absolute, assurance of effectiveness.

3. Determining the Partnership's purpose, its vision for the local area and intended outcomes for the Community

The Partnership aims to develop a transportation system for South East Scotland which will enable business to function effectively and provide everyone living in the Region with improved access to health care, education, public services and employment opportunities. The vision for achieving this is outlined in the Regional Transport Strategy.

The Business Plan defines how to implement the aims of this strategy and the Annual Report provides a report of performance against objectives, targets and performance indicators as outlined in the Regional Transport Strategy.

4. Review of Effectiveness

The Partnership has put in place arrangements, detailed in the Local Code, for monitoring each element of the framework and providing evidence of compliance. A Principal Officer within the Partnership has been nominated to review the effectiveness of the Local Code and will report annually to the Partnership Board.

The review of the effectiveness of its governance framework including the system of internal financial control is informed by:

- the work of the Internal Auditors and the Head of Internal Audit's Annual Statement on the adequacy and effectiveness of the Partnership's system of internal financial control;
- the Partnership Director's Certificate of Assurance on internal control;
- the operation and monitoring of controls by Partnership managers;
- the External Auditors in their Annual Audit Report and other reports; and
- other inspection agencies comments and reports.

Through the year Elected Members and Officers have responsibility for the development and maintenance of the governance environment. These review mechanisms include:

- **The Partnership Board** provides strategic leadership, determines policy aims and objectives and takes executive decisions not delegated to officers. It provides political accountability for the Partnership's performance.
- **The Performance and Audit Committee** demonstrates the Partnership's commitment to the principles of good governance. It scrutinises the running of the Partnership and suggests improvements.

4. Review of Effectiveness (continued)

- **Internal Audit** provides an independent and objective assurance service to the Partnership by completing a programme of reviews throughout the year, to provide an opinion on the internal control, risk management and governance arrangements of South East of Scotland Transport Partnership.

- **Audit Scotland's Annual Audit Report** is considered by the Partnership Board and the Performance and Audit Committee along with the output from other external audits and inspections.

- **The Risk Management System** requires that risks are regularly reviewed by the Performance and Audit Committee and the Board. This ensures that actions are taken to effectively manage the Partnership's highest risks.

- **The Legal Officer** is responsible to the Partnership for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with.

5. Certification

In compliance with accounting practice, the Treasurer has provided the Partnership Director with a statement on the adequacy and effectiveness of the Partnership's internal financial control system for the year ended 31st March 2015. It is the Treasurer's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Partnership's internal control system.

During the year the Head of Internal Audit reviewed the robustness of the current corporate governance arrangements and systems of internal control and his findings are included in the Head of Internal Audit's Annual Report.

From this year's review there is evidence that the Code is operating effectively with overall compliance by the Partnership in all significant areas of its corporate governance arrangements.

Chair of Partnership Board:	RUSSELL IMRIE	____________	Date signed:	____________
Partnership Director:	ALEX MACAULAY	____________	Date signed:	____________

The South East of Scotland Transport Partnership (SESTRAN)

REMUNERATION REPORT

1. Remuneration Policy for Senior Employees

The Partnership's Board determines initial remuneration for the senior employees with reference to the level of responsibility of the post.
The Partnership does not operate a Remuneration Committee.
Annual inflationary increases are based on those agreed by the Scottish Joint Negotiating Committee for Chief Officials of Local Authorities (Scotland).

2. Remuneration for Senior Councillors

The Partnership does not provide any remuneration to senior councillors.
Expenses paid to Board members are detailed in note 17 to the annual accounts.

3. Management of Remuneration Arrangements

The remuneration of the Partnership's employees is managed by the City of Edinburgh Council, as part of a service level agreement with the Partnership.

4. Officers Remuneration

The numbers of employees whose remuneration during the year exceeded £50,000 were as follows:

Remuneration Bands	2014/15	2013/14
£50,000 - £54,999	1	1
£80,000 - £84,999	0	0
£85,000 - £89,999	1	1

5. Senior Employees Remuneration

The remuneration paid to the Partnership's senior employee is as follows:

Name and Post Title	Salary, Fees and Allowances £'000	Total Remuneration 2014/15 £'000	Total Remuneration 2013/14 £'000
Alex Macaulay - Partnership Director	88	88	88
	88	88	88

The senior employee in the above table has responsibility for management of the Partnership to the extent that he has power to direct or control the major activities of the Partnership (including activities involving the expenditure of money), during the year to which the Report relates, whether solely or collectively with other persons.

6. Senior Employees Pension Entitlement

The pension entitlement of the Partnership's senior employee is as follows:

	In-year pension contributions			Accrued pension benefits	
Name and Post Title	2014/15 £'000	2013/14 £'000		As at 31 March 2015 £'000	Difference from 31 March 2014 £'000
Alex Macaulay - Partnership Director	20	20	Pension	12	2
			Lump Sum	9	0
	20	20			

The senior employee shown in table above is a member of the Local Government Pension Scheme (LGPS).

REMUNERATION REPORT (contd.)

6. Senior Employees Pension Entitlement (contd.)

THE LGPS is a final salary pension scheme.
This means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme.

The scheme's normal retirement age for employees is 65.

From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contribution rates were set at 6% for all non manual employees.

The tiers and members contributions rates for 2014-15 are as follows:

On earnings up to and including £20,335 (5.5%), on earnings above £20,335 and up to £24,853 (7.25%), on earnings above £24,853 and up to £34,096 (8.5%), on earnings above £34,096 and up to £45,393 (9.5%) and on earnings above £45,393 (12%).

If a person works part-time their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on 1/60th of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

The pension figures shown relate to the benefits that the person has accrued as consequence of their total Regional Transport Partnership service.

All information disclosed in the tables at paragraphs 4, 5 and 6 in this Remuneration Report will be audited by Audit Scotland. The other sections of the Remuneration Report will be reviewed by Audit Scotland to ensure that they are consistent with the annual accounts.

Chair of Partnership Board:	RUSSELL IMRIE	____________________	Date signed:	__________
Partnership Director:	ALEX MACAULAY	____________________	Date signed:	__________

The South East of Scotland Transport Partnership (SESTRAN)

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on different reserves held by the Partnership, analysed into "Usable Reserves" (that is, those that can be applied to fund expenditure) and "Unusable Reserves". The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Partnership's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Partnership.

2013/14 - Previous Year Year Comparative	Usable Reserves			
	General Fund Balance	Total Usable Reserves	Unusable Reserves	Total Partnership Reserves
	£'000	£'000	£'000	£'000
❶ Opening Balances at 1 April 2013	0	0	2,034	2,034
❷ Movement in reserves during 2013/14				
Surplus or (Deficit) on Provision of Services	1,696	1,696	0	1,696
Other Comprehensive Expenditure and Income	0	0	(43)	(43)
Total Comprehensive Expenditure and Income	1,696	1,696	(43)	1,653
❸ Adjustments between accounting basis & funding basis under regulations (Note 6)	(1,696)	(1,696)	1,696	0
Net increase/decrease before transfers to Earmarked Reserves	0	0	1,653	1,653
❹ Transfers to/from Earmarked Reserves	0	0	0	0
Increase/Decrease in 2013/14	0	0	1,653	1,653
Balance at 31 March 2014 carried forward	0	0	3,687	3,687

2014/15 - Current Financial Year	Usable Reserves			
	General Fund Balance	Total Usable Reserves	Unusable Reserves	Total Partnership Reserves
	£'000	£'000	£'000	£'000
❶ Opening Balances at 1 April 2014	0	0	3,687	3,687
❷ Movement in reserves during 2014/15				
Surplus or (Deficit) on Provision of Services	(57)	(57)	0	(57)
Other Comprehensive Expenditure and Income	0	0	(19)	(19)
Total Comprehensive Expenditure and Income	(57)	(57)	(19)	(76)
❸ Adjustments between accounting basis & funding basis under regulations (Note 6)	57	57	(57)	0
Net increase/decrease before transfers to Earmarked Reserves	0	0	(76)	(76)
❹ Transfers to/from Earmarked Reserves	0	0	0	0
Increase/Decrease in 2014/15	0	0	(76)	(76)
Balance at 31 March 2015 carried forward	0	0	3,611	3,611

The South East of Scotland Transport Partnership (SESTRAN)

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT 2014/15

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded by government grant, council requisitions and other income.

2013/14 (RE-STATED)				2014/15		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Services	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
1,028	(1,795)	(767)	Highways and Transport Services	2,036	(1,066)	970
25	0	25	Corporate and Democratic Core	25	0	25
0	0	0	Non Distributed (Gains) / Costs		0	0
1,053	**(1,795)**	**(742)**	**Cost Of Services**	**2,061**	**(1,066)**	**995**
0	0	0	Other Operating Expenditure	0	0	0
73	(59)	14	Financing & Investment Income (Note 8)	73	(58)	15
0	(968)	(968)	Taxation and Non-Specific Grant Income (Note 9)	0	(953)	(953)
1,126	**(2,822)**	**(1,696)**	**(Surplus) or Deficit on Provision of Services**	**2,134**	**(2,077)**	**57**
			Other Comprehensive Income and Expenditure			
0	0	0	Change in Demographic Assumptions	66	0	66
65	0	65	Change in Financial Assumptions	185	0	185
0	(1)	(1)	Other Experience	0	(234)	(234)
0	(21)	(21)	Expected Return on Assets	2	0	2
65	**(22)**	**43**	**Total Other Comprehensive Income and Expenditure**	**253**	**(234)**	**19**
1,191	**(2,844)**	**(1,653)**	**Total Comprehensive Income and Expenditure**	**2,387**	**(2,311)**	**76**

The South East of Scotland Transport Partnership (SESTRAN)

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Partnership. The net assets of the Partnership (assets less liabilities) are matched by the reserves held by the Partnership. Reserves are reported in two categories. The first category of reserves are usable reserves, that is, those reserves that the Partnership may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The Partnership does not have powers to maintain a usable reserve. The second category of reserves are those that the Partnership is not able to use to provide services. This category of reserves include reserves that hold unrealised gains and losses (for example, the Capital Adjustment Account Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adustments between accounting basis and funding basis under regulations".

31 March 2014 £'000		Notes	31 March 2015 £'000
4,027	Property, plant and equipment	10.1	3,990
4,027	**Long term assets**		**3,990**
1,193	Short-term debtors	12	1,294
10	Cash and cash equivalents	13	84
1,203	**Current assets**		**1,378**
(1,211)	Short-term creditors	14	(1,384)
(1,211)	**Current liabilities**		**(1,384)**
(332)	Other long-term liabilities (Pensions)	16.2	(373)
(332)	**Long-term liabilities**		**(373)**
3,687	**Net assets/ (liabilities)**		**3,611**
	Financed by:		
0	Usable reserves	15	0
3,687	Unusable reserves	16	3,611
3,687	**Total reserves**		**3,611**

The unaudited annual accounts were authorised for issue on the 19th June 2015 by the Treasurer to the Board, Hugh Dunn.
The audited annual accounts were authorised for issue by the Treasurer to the Board, Hugh Dunn on 23rd September 2015.

Treasurer: HUGH DUNN, CPFA ______________________ Date signed: ______________

The South East of Scotland Transport Partnership (SESTRAN)

CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Partnership during the reporting period. The statement shows how the Partnership generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flow arising from operating activities is a key indicator of the extent to which the operations of the Partnership are funded by way of government grant income, council requisitions and recipients of services provided by the Partnership. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Partnership's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (that is, borrowing) to the Partnership.

31 March 2014 £'000	31 March 2014 £'000		31 March 2015 £'000	31 March 2015 £'000
		OPERATING ACTIVITIES		
(782)		Government Grants	(307)	
(200)		Constituent Council Requisitions	(200)	
1		Interest paid/ (received)	1	
(1,656)		Other receipts from operating activities	(1,003)	
	(2,637)	**Cash inflows generated from operating activities**		(1,509)
380		Cash paid to and on behalf of employees	410	
939		Cash paid to suppliers of goods and services	387	
	1,319	**Cash outflows generated from operating activities**		797
	(1,318)	**Net cash flows from operating activities**		(712)
		INVESTING ACTIVITIES		
1,716		Purchase of property, plant and equipment	638	
	1,716	**Net cash flows from investing activities**		638
		FINANCING ACTIVITIES		
0		Other receipts from financing activities	0	
	0	**Net cash flows from financing activities**		0
	398	**Net(increase)/ decrease in cash and cash equivalents (Note 13)**		(74)
	408	**Cash and cash equivalents at the beginning of the reporting period**		10
	10	**Cash and cash equivalents at the end of the reporting period**		84

1. STATEMENT OF ACCOUNTING POLICIES

1.1 Accounting Policies

The Annual Accounts summarises the Partnership's transactions for the 2014/15 financial year and its position at the year-end of 31 March 2015. The Partnership is required to prepare Annual Accounts by the Local Authority Accounts (Scotland) Regulations 2014 in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and CIPFA's Service Reporting Code of Practice 2014/15 (SERCOP), supported by International Financial Reporting Standards (IFRS).

The Annual Accounts have been prepared on an historic cost basis.

1.2 Accruals of Expenditure and Income

The revenue account has been prepared on an accruals basis in accordance with the Code of Practice. Amounts estimated to be due to or from the Partnership, which are still outstanding at the year end, are included in the accounts. Government Grants have been accounted for on an accruals basis.

1.3 Operating Leases

a) Leased-in assets
Rental payments under operating leases are charged to the Comprehensive Income and Expenditure Statement on a straight line basis over the life of the lease.

b) Leased-out assets
The Partnership has not identified any leased-out assets that fall under the definition of operating leases.

1.4 Overheads

The cost of service in the Comprehensive Income and Expenditure Statement includes the Partnership's overheads.

1.5 Charges to the Comprehensive Income and Expenditure Statement for use of non-current assets

Charges are made to the Comprehensive Income and Expenditure Statement for the use of non-current assets, through depreciation charges. The aggregate charge to individual services is determined on the basis of the assets used in each service.

1. STATEMENT OF ACCOUNTING POLICIES (Contd.)

1.6 Employee Benefits

Pensions

The Partnership is an admitted body to the Local Government Pension Scheme (LGPS) which is administered by the Lothian Pension Fund. The LGPS is a defined benefit statutory scheme, administered in accordance with the Local Government Pension Scheme (Scotland) Regulations 1998, as amended.

The Annual Accounts have been prepared including pension costs, as determined under International Accounting Standard 19 – Employee Benefits (IAS 19). The cost of service in the Comprehensive Income and Expenditure Statement includes expenditure equivalent to the amount of retirement benefits the Partnership has committed to during the year. Pensions interest cost and the expected return on pension assets have been included in the "Surplus or Deficit on the Provision of Services" within the Comprehensive Income and Expenditure Statement.

The pension costs charged to the Comprehensive Income and Expenditure Statement in respect of employees are not equal to contributions paid to the funded scheme for employees. The amount by which pension costs under IAS19 are different from the contributions due under the pension scheme regulations are disclosed in the Movement in Reserves Statement for the General Fund.

Pension assets have been valued at bid value (purchase price), as required under IAS19.
Under pension regulations, contribution rates are set to meet 100% of the overall liabilities of the Fund.

Accruals of Holiday Leave

Cost of service includes a charge for annual leave to which employees are entitled, but have not taken as at the Balance Sheet date. The Partnership is not required to raise requisitions on constituent councils to cover the cost of accrued annual leave. These costs are therefore replaced by revenue provision in the Movement in Reserves Statement for the General Fund balance by way of an adjusting transaction with the Accumulated Absence Account.

1.7 Non Current Assets

a) Intangible Assets

Expenditure on assets that have no physical substance but are identifiable and controlled by the Partnership have been capitalised where a benefit of more than one financial year can be established. The balance is depreciated over the economic life of the asset to reflect the pattern of consumption of benefits. Intangible assets have been valued on an historic cost basis.

b) Property, Plant and Equipment

Property, Plant and Equipment is categorised into the following classes:

- Vehicles, plant and equipment;
- Assets under construction;

Recognition:

- Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment has been capitalised on an accruals basis;

1. STATEMENT OF ACCOUNTING POLICIES (Contd.)

1.7 Non Current Assets (contd)

b) Property, Plant and Equipment

Depreciation:

- Depreciation is provided on all Property, Plant and Equipment;
- The Partnership does not depreciate its Property, Plant and Equipment in the year of acquisition. Thereafter depreciation is provided on a straight line basis over the expected life of the asset. No depreciation is provided on Assets Under Construction.

Measurement:

Property, Plant and Equipment are included in the Balance Sheet at the lower of net current replacement cost or net realisable value in existing use, net of depreciation.

1.8 Government Grants and Other Contributions

Grants and other contributions relating to non-current assets are credited to a Capital Adjustment Account and written off to the Comprehensive Income and Expenditure Statement in line with the depreciation policy of the related assets.

Where there are conditions attached to capital grants and contributions that have not been met at the Balance Sheet date, the grant or contribution will be recognised as part of the Capital Grants Unapplied Account. Once the condition has been met, the grant or contribution will be transferred from the Capital Grants Unapplied Account and recognised as income in the Comprehensive Income and Expenditure Statement.

1.9 Provisions

Provisions are made for liabilities of uncertain timing or amount that have been incurred.

The value of provisions is based upon the Partnership's obligations arising from past events, the probability that a transfer of economic benefit will take place, and a reasonable estimate of the obligation.

1.10 Reserves

Reserves held on the Balance Sheet are classified as either usable or unusable. Unusable reserves cannot be applied to fund expenditure. Under the Transport (Scotland) Act 2005, the Partnership does not have the power to operate a General Fund reserve.

The Partnership operates the following unusable reserves:

a) Pension Reserve

The Partnership operates a Pensions Reserve Fund under the terms of the Local Government Pension Reserve Fund (Scotland) Regulations 2003. The Pension Reserve represents the net monies which the Partnership requires to meet its net pension liability as calculated under IAS 19, Employee Benefits.

1. STATEMENT OF ACCOUNTING POLICIES (Contd.)

1.10 Reserves (contd)

b) ***Capital Adjustment Account***
The Capital Adjustment Account represents movement in the funding of assets arising either from capital resources such as capital receipts, or capital funded directly from revenue contributions.

c) **Accumulated Absences Account**
This represents the net monies which the Partnership requires to meet its short-term compensated absences for employees under IAS19.

1.11 Financial Instruments

Financial Assets
Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

Surplus funds held on behalf of the Partnership are managed by the City of Edinburgh Council under a formal management agreement in a pooled investment arrangement.

1.12 Cash and Cash Equivalents

Cash and cash equivalents include:

- Credit and debit funds held in banks

1.13 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Partnership a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Partnership.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

1.14 Value Added Tax

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs.

1. STATEMENT OF ACCOUNTING POLICIES (Contd.)

1.15 Events After the Reporting Period

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Annual Accounts are authorised for issue.

Two types of events can be identified:

i) those that provide evidence of conditions that existed at the end of the reporting period - the Annual Accounts are adjusted to reflect such events;

ii) those that are indicative of conditions that arose after the reporting period - the Annual Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Annual Accounts.

1.16 Short term Debtors and short term Creditors

The revenue transactions of the Partnership are recorded on an accruals basis which means that amounts due to or from the Partnership, but still outstanding at the year end, are included in the accounts. Where there was insufficient information available to provide actual figures, estimates have been included.

1.17 Changes in Accounting Policies and Estimates and Errors

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Partnership's financial position or performance.

Changes in accounting estimates are accounted for prospectively; i.e. in the current and future years affected by the change.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT NOT YET ADOPTED

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

This applies to the adoption of the following new or amended standards within the 2015/16 Code:

IFRS 13 Fair Value Measurement, Annual Improvements to IFRSs 2011 – 2014 Cycle

The Code requires implementation from 1 April 2015 and there is therefore no impact on the 2014/15 Annual Accounts.

IFRS 13 relates to Fair Value Measurement with changes to increase consistency and comparability in fair value measurements and related disclosures.
The issues included in the Annual Improvements to the 2011-2014 cycle are:

- IFRS 1: Meaning of effective IFRSs;
- IFRS 3: Scope exceptions for joint ventures;
- IFRS 13: Scope of paragraph 52 (portfolio exception); and
- IAS 40: Clarifying the interrelationship of IFRS 3 Business Combinations and IAS 40 Investment Property.

Overall, these new or amended standards are not expected to have a significant impact on the Annual Accounts.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Partnership has had to make certain judgements about complex transactions or those involving uncertainty about future events.
The critical judgements made in the Annual Accounts are:

- There is high degree of uncertainty about future levels of funding for local government. The Partnership has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Partnership might be impaired as a result of a need to reduce levels of service provision.

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Annual Accounts contains estimated figures that are based on assumptions made by the Partnership about the future or events that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Partnership's Balance Sheet at 31 March 2015 for which there is a significant risk of material adjustment in the forth coming financial year are:

4.1 Pension Liabilities

Uncertainties
Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Partnership with expert advice about the assumptions to be applied.

Effect if Actual Result Differs from Assumptions
The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £170,000.
However, the assumptions interact in complex ways. During 2014/15, the Partnership's actuaries advised that the net pensions liability had increased by £41,000 as a result of a reduction in the net discount rate over this period, the negative impact of which outweighed the positive asset return achieved over this period.

5. EVENTS AFTER THE BALANCE SHEET DATE

The figures in the Annual Accounts and notes will have been adjusted in all material respects to reflect the impact of events taking place after the Balance Sheet date.

There were no events which took place after 31st March 2015 which would materially affect the 2014/15 Annual Accounts.

6. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement recognised by the Partnership in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Partnership to meet future capital and revenue expenditure.

	Usable Reserves	Unusable Reserves			
2014/15	**General Fund Balance**	**Capital Adjustment Account**	**Accumulated Absence Account**	**Pension Reserve**	**Movement in Unusable Reserve**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Adjustments primarily involving the Capital Adjustment Account					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)					
Charges for depreciation and impairment of non-current assets	675	(675)			(675)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement (CIES)					
Contributions credited to the CIES that have been applied to capital financing	(638)	638			638
Adjustments primarily involving the Pensions Reserve					
Reversal of items relating to retirement benefits debited or credited to the CIES	78			(78)	(78)
Employer's pension contributions and direct payments to pensioners payable in the year	(56)			56	56
Adjustments primarily involving the Accumulated Absence Account					
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(2)		2		2
Total Adjustments	57	(37)	2	(22)	(57)

6. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS (Contd.)

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement recognised by the Partnership in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Partnership to meet future capital and revenue expenditure.

	Usable Reserves	Unusable Reserves			
2013/14	General Fund Balance	Capital Adjustment Account	Accumulated Absence Account	Pension Reserve	Movement in Unusable Reserve
	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the <u>Capital Adjustment Account</u>					
Reversal of items debited or credited to the Comprehensive Income and <u>Expenditure Statement (CIES)</u>					
Insertion of items not debited or credited to the Comprehensive Income and <u>Expenditure Statement (CIES)</u>					
Contributions credited to the CIES that have been applied to capital financing	(1,716)	1,716			1,716
Adjustments primarily involving the <u>Pensions Reserve</u>					
Reversal of items relating to retirement benefits debited or credited to the CIES	67			(67)	(67)
Employer's pension contributions and direct payments to pensioners payable in the year	(53)			53	53
Adjustments primarily involving the <u>Accumulated Absence Account</u>					
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	6		(6)		(6)
Total Adjustments	(1,696)	1,716	(6)	(14)	1,696

7. TRANSFERS TO/FROM EARMARKED RESERVES

The Partnership does not have powers for an earmarked reserve to be set aside from the General Fund to provide financing for future expenditure plans.

8. FINANCING AND INVESTMENT INCOME

	2014/15 £'000	2013/14 £'000
Interest income on plan assets	(58)	(59)
Pensions interest cost	72	72
Other Interest	1	1
	15	14

9. TAXATION AND NON SPECIFIC GRANT INCOMES

	2014/15 £'000	RE-STATED 2013/14 £'000
Government Grant	(782)	(782)
Constituent Council Requisitions	(171)	(186)
	(953)	(968)

10. PROPERTY, PLANT AND EQUIPMENT

10.1 Movements on balances:

Movements in 2014/15

	Vehicles Plant and Equipment £'000	Assets Under Construction £'000	Property Plant and Equipment £'000
Cost or Valuation			
At 1st April 2014	3,578	648	4,226
Additions	508	130	638
Revaluation increases/(decreases) recognised in Revaluation Reserve	0	0	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	0	0
Assets reclassified (to)/from Held for Sale	0	0	0
Other movements	648	(648)	0
At 31st March 2015	4,734	130	4,864
Accumulated Depreciation			
At 1st April 2014	(199)	0	(199)
Depreciation charge	(675)	0	(675)
Depreciation written out to Revaluation Reserve	0	0	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	0
Derecognition - disposals	0	0	0
Other movements in depreciation	0	0	0
At 31st March 2015	(874)	0	(874)
Net Book Value			
· at 31st March 2015	3,860	130	3,990
· at 31st March 2014	3,379	648	4,027

10. PROPERTY, PLANT AND EQUIPMENT (Contd.)

10.2 Movements on balances:

Comparative Movements in 2013/14

Cost or Valuation	Vehicles Plant and Equipment £'000	Assets Under Construction £'000	Total Property Plant and Equipment £'000
At 1st April 2013	199	2,311	2,510
Additions	1,068	648	1,716
Revaluation increases/(decreases) recognised in Revaluation Reserve	0	0	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	0	0
Assets reclassified (to)/from Held for Sale	0	0	0
Other movements	2,311	(2,311)	0
At 31st March 2014	3,578	648	4,226
Accumulated Depreciation			
At 1st April 2013	(199)	0	(199)
Depreciation charge	0	0	0
Other movements in depreciation	0	0	0
At 31st March 2014	(199)	0	(199)

10.3 Depreciation

The following useful lives have been used in the calculation of depreciation:

- Vehicles, plant and equipment: 4 - 5 years

The Partnership does not depreciate its Property, Plant and Equipment in the year of acquisition.

10.4 Capital Commitments

A bid for £0.5m to the Scottish Government's Bus Investment Fund was successful to fit out more vehicles with equipment for real time bus passenger information systems across the South East of Scotland region. Of this bid, there remains a capital commitment of £0.370m in 2015/16.

A further bid for £0.5m was also successful to enhance the same system by equipping public premises with TV screens to display live bus time information along with promotional material particular to the public premises accommodating the screens.
Of this bid, there remains a capital commitment of £0.400m in 2015/16.

10.5 Heritage Assets

The Partnership does not have any heritage assets.

11. FINANCIAL INSTRUMENTS

11.1 The following categories of financial instrument are carried in the Balance Sheet:

	Long-term 31st March 2015 £'000	Long-term 31st March 2014 £'000	Current 31st March 2015 £'000	Current 31st March 2014 £'000
Investments				
Loans and receivables	0	0	1,196	862
Borrowings				
Financial liabilities at amortised cost	0	0	1,223	1,148

11.2 The gains and losses recognised in the Comprehensive Income and Expenditure Account in 2014/15 in relation to financial instruments are made up as follows:

Income, Expenses, Gains and Losses	Financial Liabilities measured at amortised cost 31st March 2015 £'000	Financial Assets Loans and receivables 31st March 2015 £'000	Total 31st March 2015 £'000	Financial Liabilities measured at amortised cost 31st March 2014 £'000	Financial Assets Loans and receivables 31st March 2014 £'000	Total 31st March 2014 £'000
Interest expense	1	0	1	1	0	1
Interest income	0	0	0	0	0	0
Net gain/(loss) for the year	1	0	1	1	0	1

11.3 Fair Values of Assets and Liabilities

The financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Since all of the Partnership's loans and receivables mature within the next 12 months, the carrying amount has been assumed to approximate to fair value. The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

Financial Liabilities	31 March 2015 Carrying Amount £'000	31 March 2015 Fair Value £'000	31 March 2014 Carrying Amount £'000	31 March 2014 Fair Value £'000
Trade creditors	1,223	1,223	1,148	1,148

Financial Assets	31 March 2015 Carrying Amount £'000	31 March 2015 Fair Value £'000	31 March 2014 Carrying Amount £'000	31 March 2014 Fair Value £'000
Loans and receivables	1,196	1,196	845	845
Trade debtors	0	0	17	17
	1,196	1,196	862	862

12. DEBTORS

	31st March 2015 £'000	31st March 2014 £'000
Debtors:		
Other local authorities	0	7
HM Customs and Excise - VAT	55	71
Other entities and individuals	1,239	1,115
	1,294	1,193

13. CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents is made up of the following elements:

	31st March 2015 £'000	31st March 2014 £'000
Cash held by the Partnership	0	0
Bank accounts	84	10
	84	10

14. CREDITORS

	31st March 2015 £'000	31st March 2014 £'000
Central government bodies	0	0
Other local authorities	(164)	(63)
Other entities and individuals	(1,214)	(1,140)
Employee costs	(6)	(8)
	(1,384)	(1,211)

15. USABLE RESERVES

The Partnership does not have statutory powers to operate a usable reserve.

16. UNUSABLE RESERVES

		31st March 2015 £'000	31st March 2014 £'000
16.1	Capital Adjustment Account	3,990	4,027
16.2	Pension Reserve	(373)	(332)
16.3	Accumulated Absence Account	(6)	(8)
		3,611	3,687

16.1 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.
The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Partnership as finance for the costs of acquisition, construction and enhancement.

	2014/15 £'000	2013/14 £'000
Balance at 1st April	4,027	2,311
Reversal of items related to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
· Charges for depreciation and impairment of non-current assets	(675)	0
· Amortisation of intangible assets	0	0
Net written out amount of the cost of non-current assets consumed in year	3,352	2,311
Capital financing applied in the year:		
· Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	638	1,716
Balance at 31st March	3,990	4,027

16.2 Pension Reserve

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Partnership accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Partnership makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a shortfall in the benefits earned by past and current employees and the resources the Partnership has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

16. UNUSABLE RESERVES (Contd.)

16.2 Pension Reserve (Contd.)

	2014/15 £'000	2013/14 £'000
Balance at 1st April	(332)	(275)
Actuarial losses or (gains) on pension assets and liabilities	0	0
Remeasurements of the net defined benefit liability / (asset)	(19)	(43)
Reversals of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.	(78)	(67)
Employer's pension contributions and direct payments to pensioners payable in the year.	56	53
Balance at 31st March	(373)	(332)

16.3 Accumulated Absence Account

The Accumulated Absence Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, for example, annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund balance is neutralised by transfers to or from the Account.

	2014/15 £'000	2013/14 £'000
Balance at 1st April	(8)	(2)
Settlement or cancellation of accrual made at the end of the preceding year	8	2
Amounts accrued at the end of the current year	(6)	(8)
Balance at 31st March	(6)	(8)

17. MEMBERS EXPENSES

The Partnership paid the following amounts to members during the year:

	2014/15 £'000	2013/14 £'000
Expenses	1	1
	1	1

18. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by SERCOP.
However decisions about resource allocation are taken by the Partnership's Board on the basis of budget reports analysed across functions. These reports are prepared on a different basis from the accounting policies used in the Annual Accounts. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement),
- the cost of retirement benefits is based on cash flows (payments of employer's pensions contributions) rather than current service cost of benefits accrued in the year,
- expenditure on some support services is budgeted for centrally and not charged to projects

The income and expenditure of the Partnership's principal functions recorded in the budget reports for the year is as follows:

Segmental Income and Expenditure 2014/15	Core Service £'000	Projects £'000	Total £'000
Fees, charges & other service income	0	(1,066)	(1,066)
Interest and investment income	0	0	0
Government grants	(266)	(516)	(782)
Constituent Council requisitions	(200)	0	(200)
Total Income	(466)	(1,582)	(2,048)
Employee expenses	227	0	227
Other service expenses	173	0	173
Support service recharges	54	0	54
Project costs	0	1,594	1,594
Total Expenditure	454	1,594	2,048
Net Expenditure	(12)	12	0

Segmental Income and Expenditure 2013/14	Core Service £'000	Projects £'000	Total £'000
Fees, charges & other service income	0	(1,794)	(1,794)
Interest and investment income	0	0	0
Government grants	(266)	(516)	(782)
Constituent Council requisitions	(200)	0	(200)
Total Income	(466)	(2,310)	(2,776)
Employee expenses	194	0	194
Other service expenses	187	0	187
Support service recharges	52	0	52
Project costs	0	2,343	2,343
Total Expenditure	433	2,343	2,776
Net Expenditure	(33)	33	0

18. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS (Contd.)

Reconciliation of Segmental Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of the segmental income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2014/15 £'000	2013/14 £'000
Net expenditure in the Segmental Analysis	0	0
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Segmental Analysis	42	(1,710)
Amounts in the Segmental Analysis not included in the Comprehensive Income and Expenditure Statement *	982	982
Cost of Services in Comprehensive Income and Expenditure Statement	1,024	(728)

(* Investment income, government grant and Council requisitions are presented differently in the Comprehensive Income and Expenditure Statement)

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of segmental income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2014/15	Segmental Analysis £'000	IFRS Gross Up £'000	Not Reported to Mgmt £'000	Not Included in CIES £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Reconciliation to Subjective Analysis							
Fees, charges & other service income	(1,066)				(1,066)		(1,066)
Interest and investment income	0			0	0	0	0
Government grants	(782)			782	0	(782)	(782)
Constituent Council requisitions	(200)		29	200	29	(200)	(171)
Expected return on pensions assets					0	(58)	(58)
	(2,048)	0	29	982	(1,037)	(1,040)	(2,077)
Employee expenses	227	190	(2)		415		415
Other operating expenses	173				173		173
Support services	54				54		54
Project costs	1,594	(190)	(29)		1,375		1,375
Contributions credited to the CIES that have been applied to capital financing			(638)		(638)		(638)
Depreciation			675		675		675
Pensions/ Other interest cost			(1)		(1)	73	72
Reversal of employer pension contributions			(56)		(56)		(56)
Actuarial valuation of employer pension contributions			64		64		64
	2,048	0	13	0	2,061	73	2,134
(Surplus) or Deficit on the provision of service	0	0	42	982	1,024	(967)	57

18. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS (Contd.)

2013/14 (RE-STATED)	Segmental Analysis £'000	IFRS Gross Up £'000	Not Reported to Mgmt £'000	Not Included in CIES £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Reconciliation to Subjective Analysis							
Fees, charges & other service income	(1,795)				(1,795)		(1,795)
Interest and investment income	0			0	0	0	0
Government grants	(782)			782	0	(782)	(782)
Constituent Council requisitions	(200)		14	200	14	(200)	(186)
Expected return on pensions assets					0	(59)	(59)
	(2,777)	0	14	982	(1,781)	(1,041)	(2,822)
Employee expenses	195	187	6		388		388
Other operating expenses	187				187		187
Support services	52				52		52
Project costs	2,343	(187)	(14)		2,142		2,142
Contributions credited to the CIES that have been applied to capital financing			(1,716)		(1,716)		(1,716)
Depreciation					0		0
Pensions interest cost			(1)		(1)	73	72
Reversal of employer pension contributions			(53)		(53)		(53)
Actuarial valuation of employer pension contributions			54		54		54
	2,777	0	(1,724)	0	1,053	73	1,126
(Surplus) or Deficit on the provision of service	0	0	(1,710)	982	(728)	(968)	(1,696)

The South East of Scotland Transport Partnership (SESTRAN)

19. EXTERNAL AUDIT COSTS

The Partnership has incurred the following costs in relation to the audit of the Annual Accounts, certification of grant claims, and statutory inspections and to non-audit services provided by the Partnership's external auditors:

Fees payable in respect of:	2014/15 £'000	2013/14 £'000
· external audit services carried out by the appointed auditor for the year	9	9
	9	9

20. GRANT INCOME

The Partnership credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2014/15:

	2014/15 £'000	2013/14 £'000
Credited to Taxation and Non Specific Grant Income		
Scottish Government - Revenue Grant	(782)	(782)
Constituent Council Requisitions (Note 21.3)	(200)	(200)
	(982)	(982)
Credited to Services		
EU Grant - Regional Real Time Bus Passenger Information System (RTPI)	0	(520)
EU Grant - Lo Pinod	(55)	(62)
EU Grant - I Transfer	(21)	(21)
EU Grant - Foodport	(7)	(34)
EU Grant - Weastflows	(32)	(21)
EU Grant - CHUMS	(30)	0
EU Grant - NWE Ride	(16)	0
Bus Investment Fund Grant - RTPI	(578)	(648)
Contribution - City of Edinburgh Council	(3)	(61)
Contribution - Midlothian Council	(1)	(42)
Contribution - Fife Council	(4)	0
Contribution - East Lothian Council	(1)	(22)
Contribution - Scottish Borders Council	(1)	(5)
Contribution - Falkirk Council	0	(19)
Contribution - Kent County Council	0	(5)
Contribution - Perth & Kinross Council	(3)	0
Contribution - SUSTRANS	(99)	0
	(851)	(1,460)

21. RELATED PARTIES

The Partnership is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Partnership or to be controlled or influenced by the Partnership. Disclosure of these transactions allows readers to assess the extent to which the Partnership might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Partnership.

21.1 Scottish Government

The Partnership receives grant-in-aid revenue funding through the Scottish Government. Grants received from the Scottish Government are set out in the subjective analysis in Note 20.

21.2 Members

Members of the Partnership have direct control over the Partnership's financial and operating policies. The total of members' expenses paid by the Partnership in 2014-15 is shown in Note 17.

21.3 Other Parties

During the year, the Partnership entered into the following transactions with related parties:

	2014/15 £'000	2013/14 £'000
• Revenue Expenditure - Support Services		
City of Edinburgh Council - Financial Services	31	27
Fife Council - Clerking/ Legal Services	21	19
	52	46
• Revenue Expenditure - Other		
City of Edinburgh Council	26	12
Clackmannanshire Council	2	5
East Lothian Council	74	2
Midlothian Council	0	12
	102	31

21. RELATED PARTIES (Contd.)

21.3 Other Parties (contd.)

	2014/15 £'000	2013/14 £'000
• Revenue Income - Requisitions		
Clackmannanshire Council	(7)	(7)
East Lothian Council	(13)	(13)
City of Edinburgh Council	(63)	(64)
Falkirk Council	(20)	(20)
Fife Council	(48)	(48)
Midlothian Council	(11)	(11)
Scottish Borders Council	(15)	(15)
West Lothian Council	(23)	(22)
	(200)	(200)
• Revenue Income - Interest on Revenue Balances		
City of Edinburgh Council	1	1
	1	1
• Revenue Income - Other		
Scottish Goverment	(578)	(648)
Constituent Councils	(14)	(173)
City of Edinburgh Council	(3)	(61)
East Lothian Council	(1)	(22)
Falkirk Council	0	(19)
Fife Council	(4)	0
Kent County Council	0	(5)
Midlothian Council	(1)	(42)
Perth and Kinross Council	(3)	0
Scottish Borders Council	(1)	(5)
West Lothian Council	0	0
	(605)	(975)

21. RELATED PARTIES (Contd.)

21.4 Other Parties

The following represents amounts due to/ (from) the Partnership at 31 March 2015, with its related parties.

CREDITORS	2014/15 £'000	2013/14 £'000
· Creditors - Related Parties (Revenue Grants)		
Clackmannanshire Council	(2)	(5)
City of Edinburgh Council	(15)	0
East Lothian Council	(74)	(2)
	(91)	(7)
· Creditors - Related Parties (Other)		
City of Edinburgh Council	(23)	(22)
Fife Council	(21)	(19)
Constituent Councils	(29)	(14)
	(73)	(55)
· Creditors - Other Parties	(1,220)	(1,149)
Total Creditors	(1,384)	(1,211)
DEBTORS		
· Debtors - Related Parties (Other)		
Fife Council	0	8
Scottish Government	475	0
	475	8
· Debtors - Other Parties	819	1,185
Total Debtors	1,294	1,193

22. LEASES

Operating Leases

The Partnership leases an office at Claremont House, 130 East Claremont Street, Edinburgh which the Partnership has occupied since 4th May 2011. The Partnership has the option to terminate the lease under no penalty if at least six months notice is given.
This lease has been accounted for as an operating lease.

The Partnership also has the use of a photocopier under a hire agreement, which has been accounted for as an operating lease. The hire agreement renewal started on 29th August 2014 and is due to expire on 28th August 2015.

On 1st April 2014, the Partnership entered into a contract with MOBIUS Networks for the leasing of SIM cards for the RTPI project which enable the buses to be tracked live on the system. After the first year, the Partnership has the option to terminate the lease under no penalty if at least six months notice is given.

The future minimum lease payments due under non-cancellable leases in future years are:

	2014/15 £'000	2013/14 £'000
· Not later than 1 year	30	7
· Later than 1 year not later than 5 years	0	0
· Later than 5 years	0	0
	30	7

The Partnership has no other material operational leases.

23. DEFINED BENEFIT PENSION SCHEMES

23.1 Participation in Pension Schemes

As part of the terms and conditions of employment of its staff, the Partnership makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until the employees retire, the Partnership has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement. As explained in Accounting Policy 1.6, the Partnership is an admitted body to the Local Government Pension Scheme (LGPS) which is administered by the Lothian Pension Fund.

The Partnership participates in:

- A funded defined benefit final salary scheme. This means that the Partnership and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

- An arrangement for the award of discretionary post retirement benefits upon early retirement - this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

23. DEFINED BENEFIT PENSION SCHEMES (Contd.)

23.2 Transactions Relating to Post-employment Benefits

The Partnership recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	2014/15 £000	2014/15 £000	2013/14 £000	2013/14 £000
Comprehensive Income and Expenditure Statement				
Cost of services:				
Service cost, comprising:				
Current service costs	64		54	
Past service costs	0		0	
		64		54
Financing and investment income:				
Net interest expense		14		13
Total post employee benefit charged to the surplus on the provision of services		78		67
Other post-employment benefits charges to the Comprehensive Income / Expenditure Statement				
Remeasurement of the net defined liability, comprising:				
Return on plan assets, excluding the amount incl. in the net interest expense above.	2		(21)	
Actuarial gains and (losses) arising on changes in financial assumptions	185		65	
Actuarial gains and (losses) arising on changes in demographic assumptions	66			
Other experience	(234)		(1)	
		19		43
Total post-employment benefits charged to the Comprehensive Income / Expenditure Statement		97		110
Movement in Reserves Statement				
Reversal of net charges made to the surplus on the provision of services for post-employment benefits in accordance with the Code.		(41)		(57)
Actual amount charged against the General Fund Balance for pensions in the year:				
Employer's contributions payable to the scheme		56		53
		56		53

23. DEFINED BENEFIT PENSION SCHEMES (Contd.)

23.3 Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligations in respect of its defined benefit plan is as follows:

	2014/15 £'000	2013/14 £'000
Fair value of employer assets	1,457	1,418
Present value of funded liabilities	(1,830)	(1,750)
Present value of unfunded liabilities	0	0
Net liability arising from defined benefit obligation	(373)	(332)

23.4 Reconciliation of the Movements in the Fair Value of Scheme Assets

	2014/15 £'000	2013/14 £'000
Opening fair value of scheme assets	1,418	1,297
Interest income	58	59
Remeasurement gain / (loss):		
Return on plan assets, excluding the amount included in the net interest expense	(2)	21
Contributions from employer	56	53
Contributions from employees into the scheme	18	18
Contributions in respect of unfunded benefits		
Benefits paid	(91)	(30)
Unfunded benefits paid		
Closing fair value of scheme assets	1,457	1,418

Reconciliation of Present Value of the Scheme Liabilities

	2014/15 £'000	2013/14 £'000
Present value of funded liabilities	(1,750)	(1,572)
Present value of unfunded liabilities	0	0
Opening balance at 1st April	(1,750)	(1,572)
Current service cost	(64)	(54)
Interest cost	(72)	(72)
Contributions from employees into the scheme	(18)	(18)
Remeasurement gain / (loss):		
Change in demographic assumptions	(66)	0
Change in financial assumptions	(185)	(65)
Other experience	234	1
Past service cost	0	0
Benefits paid	91	30
Unfunded benefits paid	0	0
Closing balance at 31st March	(1,830)	(1,750)

23. DEFINED BENEFIT PENSION SCHEMES (Contd.)

23.5 Fair Value of Employer Assets

The following asset values are at bid value as required under IAS19.

	2014/15 £'000	%	2013/14 £'000	%
Equity Securities:				
Consumer *	204	14	215	15
Manufacturing *	171	12	193	14
Energy and Utilities *	146	10	158	11
Financial Institutions *	120	8	99	7
Health and Care *	99	7	97	7
Information technology *	91	6	92	7
Other *	65	4	63	5
Sub-total Equity Securities	896		917	
Debt Securities:				
Corporate Bonds (investment grade) *	0	0	46	3
Corporate Bonds (non-investment grade) *	0	0	7	0
UK Government *	85	6	48	3
Other *	36	2	1	0
Sub-total Debt Securities	121		102	
Private Equity:				
All *	0	0	12	1
All	169	12	160	11
Sub-total Private Equity	169		172	
Real Estate:				
UK Property	95	7	99	7
Overseas Property	15	1	11	1
Sub-total Real Estate	110		110	
Investment Funds and Unit Trusts:				
Equities *	16	1	15	2
Equities	0	0	5	0
Bonds *	4	0	0	0
Bonds	0	0	6	0
Commodities *	5	0	0	0
Commodities	0	0	5	0
Infrastructure *	9	1	0	0
Other *	5	1	0	0
Other	5	0	5	0
Sub-total Investment Funds and Unit Trusts	44		36	
Derivatives:				
Foreign Exchange *	2	0	0	0
Sub-total Derivatives	2		0	
Cash and Cash Equivalents				
All *	115	8	81	6
Sub-total Cash and Cash Equivalents	115		81	
Total Fair Value of Employer Assets	1,457		1,418	

Scheme assets marked with an asterisk (*) have quoted prices in active markets.

23. DEFINED BENEFIT PENSION SCHEMES (Contd.)

23.6 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years which are dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme has been assessed by Hymans Robertson LLP, an independent firm of actuaries and are based on the latest formal valuation of the scheme as at 31 March 2014.

The principal assumptions used by the actuary have been:

	2014/15	2013/14
Long term expected rate of return on assets in the scheme:		
· Equity investments	17.2%	6.0%
· Bonds	17.2%	6.0%
· Property	17.2%	6.0%
· Cash	17.2%	6.0%
Mortality assumptions - longevity at 65 for current pensioners:		
· Men	22.1 years	20.4 years
· Women	23.7 years	22.8 years
Mortality assumptions - longevity at 65 for future pensioners:		
· Men	24.2 years	22.6 years
· Women	26.3 years	25.4 years
Pension increase rate	2.4%	2.6%
Salary increase rate (see below)	4.3%	4.9%
Discount rate	3.2%	4.1%

Note: The salary increases are assumed to be 1.0% p.a. until 31 March 2015, reverting to the long-term assumption shown thereafter.

Estimation of defined benefit obligations is sensitive to the actuarial assumptions set out above. In order to quantify the impact of a change in the financial assumptions used, the Actuary has calculated and compared the value of the scheme liabilites as at 31 March 2015 on varying bases. The approach taken by the Actuary is consistent with that adopted to derive the IAS19 figures.

For example, to quantify the uncertainty around life expectancy, the Actuary has calculated the difference in cost to the Employer of a one year increase in life expectancy. For sensitivity purposes, this is assumed to be an increase in the cost of benefits of broadly 3%. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption and changes in some of the assumptions may be interrelated.

Change in assumptions at 31 March 2015	Approximate % Increase to Employer	Approximate Monetary Amount £'000
0.5% decrease in Real Discount Rate	9.0%	170
1 year increase in member life expectancy	3.0%	55
0.5% increase in the Salary Increase Rate	2.0%	37
0.5% increase in the Pension Increase Rate	7.0%	130

23. DEFINED BENEFIT PENSION SCHEMES (Contd.)

23.7 Analysis of projected amount to be charged to profit or loss for the period to 31 March 2016

	Assets £000	Obligations £000	Net (liability) / asset £000	% of pay
Current service cost	0	(71)	(71)	(28.2%)
Past service cost including curtailments	0	0	0	0.0%
Effect of settlements	0	0	0	0.0%
Total Service Cost	0	(71)	(71)	(28.2%)
Interest income on plan assets	47	0	47	18.6%
Interest cost on defined benefit obligation	0	(59)	(59)	(23.3%)
Total Net Interest Cost	47	(59)	(12)	(4.7%)
Total included in Profit or Loss	47	(130)	(83)	(32.9%)

SESTRAN's estimated contribution to Lothian Pension Fund for 2015/16 is £57,000.

24. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Partnership's activities expose it to a variety of financial risks:

- Credit risk - the possibility that other parties might fail to pay amounts due to the Partnership.
- Liquidity risk - the possibility that the Partnership might not have funds available to meet it's commitments to make payments.
- Re-financing risk - the possibility that the Partnership might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk - the possibility that financial loss might arise for the Partnership as a result of changes in such measures as interest rate movements.
- Price risk - the possibility that fluctuations in equity prices has a significant impact on the value of financial instruments held by the Authority. This is considered immaterial because the Authority does not generally invest in equity shares.
- Foreign exchange risk - the possibility that fluctuations in exchange rates could result in loss to the Partnership.

Treasury Management is carried out on the Partnership's behalf by the City of Edinburgh Council. The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The Council complies with the CIPFA Prudential Code, and has adopted the CIPFA Treasury Management in the Public Services Code of Practice.

Credit risk
Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Partnership's customers.

The Partnership's surplus funds not immediately required to meet expenditure commitments are held with the City of Edinburgh Council, and the Partnership receives interest on revenue balances on these monies. Since the Partnership's surplus funds are held with the City of Edinburgh Council, the counterparty default exposure is effectively nil.

All Partnership invoices become due for payment on issue, and all trade debtors are overdue less than a month.

Collateral - During the reporting period the Partnership held no collateral as security.

24. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Contd.)

Liquidity risk

The Partnership is also required by statute to provide a balanced budget, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. The arrangement with the City of Edinburgh Council ensures sufficient liquidity is available for the Partnership's day to day cash flow needs.

The Council manages the Partnership's liquidity position through the risk management procedures above as well as through cash flow management procedures required by the Code of Practice.

Refinancing risk

The Partnership has only a small level of surplus funds and no long term debt. The refinancing risk to the Partnership relates to managing the exposure to replacing financial instruments as they mature.
As such, the Partnership has no refinancing risk on its liabilities.

The Partnership has no investments with a maturity greater than one year.

Market risk

Interest rate risk

The Partnership is exposed to interest rate movements on its investments. Movements in interest rates have a complex impact on an organisation, depending on how variable and fixed interest rates move across differing financial instrument periods.
For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates - the interest expense charged to the Surplus or Deficit on the Provision of Services will rise;
- borrowings at fixed rates - the fair value of the liabilities borrowings will fall;
- investments at variable rates - the interest income credited to the Surplus or Deficit on the Provision of Services will rise; and
- investments at fixed rates - the fair value of the assets will fall.

The Partnership currently has no borrowings. Changes in interest receivable on variable rate investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. However, all investments currently have a maturity of less than one year and the fair value has therefore been approximated by the outstanding principal.

The Partnership's surplus funds are held with the City of Edinburgh Council.
The Council's Treasury Management Team continue to monitor market and forecast interest rates during the year and adjust investment policies accordingly.

Price risk

The Partnership does not invest in equity shares

Foreign exchange risk

As at 31 March 2015, the Partnership had financial assets of £91,000 subject to foreign exchange risk. The foreign exchange loss or gain on these financial assets cannot be determined until 2015/16, when the Partnership is in receipt of the related grant income from the European Regional Development Fund. The Partnership has no financial liabilities denominated in foreign currencies.

25. SESTRAN Limited

The Partnership incorporated a wholly-owned limited company - SESTRAN Limited - on 22 January 2010. The company has yet to commence the provision of services and there are no transactions to record for the purposes of preparing Group Accounts.

26. PRIOR PERIOD ADJUSTMENTS

Salaries re-charged to Projects

The prior year's Comprehensive Income and Expenditure Statement has been re-stated to correct a presentational error concerning salaries re-charged to Projects. The effect of this correction was to reduce expenditure and income by the same amount so no overall impact on the surplus or deficit on provision of services.
Consequently the segmental analysis of prior year expenditure and income (note 18) has also been re-stated.

Budget Underspend

The prior year's Comprehensive Income and Expenditure Statement has been re-stated to correct a presentational error concerning the budget underspend. The effect of this correction was to reduce expenditure and income from Constituent Councils requisitions by the same amount so no overall impact on the surplus or deficit on provision of services.

Consequently the following notes have also been re-stated:-

- Taxation and non specific grant incomes (note 9)
- Segmental analysis of prior year expenditure and income (note 18)

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of South East of Scotland Transport Partnership and the Accounts Commission for Scotland

I certify that I have audited the financial statements of South East of Scotland Transport Partnership for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash-Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014/15 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of Responsibilities, the Treasurer is responsibile for the preparation of the financial statements and for being satisfied that they give a true and fair view.

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are approriate to the Partnership's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view, in accordance with applicable law and the 2014/15 Code of the state of the affairs of South East of Scotland Transport Partnership as at 31 March 2015 and of the income and expenditure of the Partnership for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Code; and
- 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.

INDEPENDENT AUDITOR'S REPORT

Opinion on other prescribed matters

In my opinion:

- the part of the remuneration report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my 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 the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Stephen O'Hagan
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September 2015

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Performance and Audit Committee
South East of Scotland Transport Partnership

07 September 2015

South East of Scotland Transport Partnership
Annual Audit Report

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We are drawing to your attention matters for your consideration before the financial statements are approved and certified. We also present for your consideration our draft annual report on the 2014/15 audit which identifies significant findings from the financial statements audit. The section headed "Significant findings from the audit in accordance with ISA260" in the attached annual audit report sets out the issues identified. This report will be issued in final form after the financial statements have been certified.

2. Our work on the financial statements is now complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report by 25 September 2015 (the proposed report is attached at Appendix A). There are no anticipated modifications to the audit report.

3. In presenting this report to the performance and audit committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

4. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature and request that these misstatements be corrected. We have no unadjusted misstatements to bring to your attention.

5. As part of the completion of our audit we seek written assurances from the Accountable Officer on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix B. This should be signed and returned by the Accountable Officer with the signed financial statements prior to the independent auditor's opinion being certified.

APPENDIX A: Proposed Independent Auditor's Report

Independent auditor's report to the members of South East of Scotland Transport Partnership and the Accounts Commission for Scotland

I certify that I have audited the financial statements of South East of Scotland Transport Partnership for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash-Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014/15 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of Responsibilities, the Treasurer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Partnership and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2014/15 Code of the state of the affairs of South East of Scotland Transport Partnership as at 31 March 2015 and of the income and expenditure of the Partnership for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Code; and
- 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.

Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my 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 the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Stephen O'Hagan
Senior Audit Manager
Audit Scotland
4th Floor South Suite
The Athenaeum Building
8 Nelson Mandela Place
GLASGOW
G2 1BT

September 2015

Appendix B: ISA 580 - Letter of Representation

Stephen O'Hagan
Senior Audit Manager
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Building
Glasgow
G2 1BT

Dear Stephen

South East of Scotland Transport Partnership (SEStran)

Annual Accounts 2014/15

1. This representation letter is provided in connection with your audit of the financial statements of South East of Scotland Transport Partnership ("the Partnership") for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Partnership, as at 31 March 2015, and its comprehensive net expenditure for the year then ended.

2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Partnership Director and the Council's finance officers, the following representations given to you in connection with your audit of the Partnership for the year ended 31 March 2015.

General

3. I acknowledge my responsibility and that of the Partnership for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by the Partnership have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.

4. The information given in the Annual Report to the financial statements, including the Management Commentary, Annual Governance Statement and Remuneration Report, presents a balanced picture of the Partnership and is consistent with the financial statements.

5. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements.

Financial Reporting Framework

6. The financial statements have been prepared in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and the Local Authority Accounts (Scotland) Regulations 2014 including all relevant presentation and disclosure requirements.

7. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of the Partnership for the year ended 31 March 2015.

Accounting Policies & Estimates

8. All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

9. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

Going Concern

10. I have assessed the Partnership's ability to carry on as a going concern, as identified in the Statement of Accounting Policies, and have disclosed, in the financial statements, any material uncertainties that have arisen as a result.

Related Party Transactions

11. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Events Subsequent to the Balance Sheet Date

12. There have been no material events since the date of the Balance Sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.

13. Since the date of the Balance Sheet no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Corporate Governance

14. I acknowledge as Treasurer my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.

15. The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15. There have been no changes in the corporate governance arrangements or issues identified, since the 31 March 2015, which require disclosure.

Fraud

16. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

Assets

17. The assets shown in the Balance Sheet at 31 March 2015 were owned by the Partnership, other than assets which have been purchased under operating leases. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

18. The financial statements include a material amount of £446,000 within debtors, in respect of ERDF funding for Bus Improvement projects, which has been outstanding since 31 March 2014. To the best of my knowledge, the Partnership has complied with the relevant funding conditions and I am not aware of any factors which would result in this sum not being received.

Liabilities and Contingent Liabilities

19. All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31 March 2015.

20. There are no contingent liabilities arising either under formal agreements or through informal undertakings requiring disclosure in the financial statements.

Carrying Value of Assets and Liabilities

21. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

Financial Instruments

22. The information disclosed at note 11 of the financial statements (Financial Instruments) has been based on information provided by the City of Edinburgh Council Loans Fund. I have assessed the information provided and I am satisfied that the accounting, presentation and disclosure of this note are properly stated and are in accordance the Code requirements. I confirm that all transaction costs in respect of financial instruments were immaterial and were written off to the Comprehensive Income and Expenditure Statement as incurred.

Provisions

23. There are no provisions that require to be made in the accounts for any material liabilities which have resulted, or may be expected to result, by legal action or otherwise, from events which had occurred by 31 March 2015, and of which the Partnership could reasonably be expected to be aware.

Commitments

24. With the exception of the commitments disclosed in note 10.4 of the financial statements, there are no commitments under capital contracts. There are no other significant commitments or obligations which might adversely affect the Partnership which require to be disclosed.

Yours sincerely

Hugh Dunn

Treasurer

South East of Scotland Transport Partnership

Proposed Annual audit report to Members and the Controller of Audit

September 2015

Key contacts

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The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. (www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

The Accounts Commission has appointed Stephen O'Hagan as the external auditor of South East of Scotland Transport Partnershipfor the period 2011/12 to 2015/16.

This report has been prepared for the use of South East of Scotland Transport Partnership and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the Partnership. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

Contents

Key messages

Audit of financial statements	• Unqualified independent auditor's report (audit certificate) on the 2014/15 financial statements. • Working papers were of a good standard and officers provided good support which enabled the audit team to complete fieldwork by the planned target date. • All monetary, presentation and disclosure issues, identified in unaudited accounts, corrected by management in audited financial statements.
Financial management and sustainability	• During 2014/15, the Partnership recorded a breakeven position with total outturn expenditure matching outturn income of £2.018 million.
Governance and transparency	• The Partnership had sound governance arrangements in place during 2014/15.
Outlook	• The Partnership has approved a revenue budget for 2015/16 which makes provision for £0.552 million of core service costs and £2.614 million of project expenditure. The Partnership has been successful in sourcing additional funding for projects to date. However, there is a risk around the delivery of the partnership's objectives if adequate funding cannot be sourced beyond 2015/16.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of South East of Scotland Transport Partnership ("the Partnership").

2. The management of the Partnership is responsible for:
   - preparing financial statements which give a true and fair view
   - implementing appropriate internal control systems
   - putting in place proper arrangements for the conduct of its affairs
   - ensuring that the financial position is soundly based.

3. Our responsibility, as the external auditor of the Partnership is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.

4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.

5. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures. Consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

6. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 financial statements

Audit opinion	• We have completed our audit and issued an unqualified independent auditor's report.
Going concern	• The financial statements of the Partnership have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the Partnership's ability to continue as a going concern.
Other information	• We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.

Submission of financial statements for audit

7. We received the unaudited financial statements in accordance with the agreed timetable. The working papers were of a good standard and staff provided good support to the audit team which assisted the delivery of the audit to deadline.

Overview of the scope of the audit of the financial statements

8. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Partnership in March 2015.

9. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

10. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance.

11. **Appendix I** sets out the audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

12. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

13. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. In addition, a misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).

14. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

15. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of South East of Scotland Transport Partnership the Partnership, we set planning materiality for 2014/15 at £14,000 (1% of gross expenditure). We report all misstatements greater than £1,000. Performance materiality was calculated at £10,000, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

16. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and set materiality for 2014/15 at £26,000. We report all misstatements greater than £1,000. Performance materiality was calculated at £18,000. The change in materiality levels is mainly due to increased depreciation charges affecting the Partnership's financial statements as a result of new assets becoming operational.

Evaluation of misstatements

17. Officers have amended all identified misstatements exceeding our misstatement threshold.

18. We identified a number of presentational and monetary adjustments within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. These adjustments have reduced both the cost of services gross income and gross expenditure by £219,000. The effect on the balance sheet was to reduce the general fund reserve balance and increase the capital adjustment account by £675,000. There is no effect on the net cost of services or net assets. A prior year re-statement was also made to reduce the prior year cost of services gross income and gross expenditure by £201,000. The net effect on the prior year net cost of services is nil.

Significant findings from the audit

19. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
    - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
    - Significant difficulties encountered during the audit.
    - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
    - Written representations requested by the auditor.
    - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

20. The following table contains a summary of the significant findings that, in our view, require to be communicated to you in accordance with ISA260.

Significant findings from the audit

Issue	Resolution
ERDF Funding Debtor: The financial statements include debtors of £446,000 in respect of ERDF funding for Bus Improvement projects, which has been outstanding since 31 March 2014. There is a risk that this amount may not be received in full, resulting in a write-off being required.	Management Assurances have been provided in respect of the recoverability of this debtor and it has been included in the ISA 580 Letter of Representation.
Salaries Recharge Journal: The unaudited financial statements included an adjustment to re-charge salary costs to projects. However the credit side of the adjustment had been processed incorrectly, resulting in both cost of services gross income and gross expenditure being overstated by £190,230. A similar adjustment was also made in 2013/14 and the effect was to overstate both income and expenditure by £187,000. There is no effect on the net cost of services or net assets.	The audited financial statements have been adjusted to correct this error.
Adjustment between Accounting Basis and Funding Basis: No depreciation charge adjustment has been made in the Movement in Reserves Statement. This has resulted in the general fund being overstated by £675,000 and the Capital Adjustment Account being understated by the same amount. There is no effect on the net cost of services or net assets.	The audited financial statements have been adjusted to correct this error.

Issue	Resolution
Budget Underspend: The unaudited financial statements included an adjustment to increase expenditure in respect of the amount of underspent requisitions, instead of reducing income. This resulted in both income and expenditure being overstated by £29,000. A similar adjustment was also made in 2013/14 and the effect was to overstate both income and expenditure by £14,000.	The audited financial statements have been adjusted to correct this error.
Remuneration Report disclosure: The unaudited remuneration report omitted disclosure of one officer with remuneration over £50,000.	The audited remuneration report has been amended to include this disclosure.
Performance Reporting in Management Commentary: The unaudited financial statements include a management commentary as required by the Local Authority Accounts (Scotland) Regulations 2014. However this does not include an analysis of non financial performance indicators as required by the regulations	The management commentary has been amended to include information about non financial performance.

Future accounting and auditing developments

Revisions to the Code of Practice

21. The financial statements of the Partnership are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which interprets and adapts International Financial Reporting Standards (IFRS) to the local authority context. There are no significant changes to accounting requirements introduced by the 2015/16 Code which are likely to impact on the financial statements of the Partnership.

Financial management and sustainability

Financial management

22. As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
    - the officer responsible for finance has sufficient status to be able to deliver good financial management
    - standing financial instructions and standing orders are comprehensive, current and promoted within the body
    - reports monitoring performance against budgets are accurate and provided regularly to budget holders
    - monitoring reports do not just contain financial data but are linked to information about performance
    - members provide a good level of challenge and question budget holders on significant variances.

23. The main financial management arrangements for the Partnership have been set down in the financial regulations and based on our accumulated knowledge and our review of relevant papers we conclude that the Partnership has made appropriate financial management arrangements.

Financial outcomes

24. The main financial objective for the Partnership is to ensure that the financial outturn for the year is within the resource budget allocated.

25. The Partnership's outturn total expenditure exceeded its budgeted total expenditure for 2014/15 however the Partnership achieved a breakeven position, with its outturn income matching the actual expenditure incurred as detailed in Table 1 below.

Table 1: Resource Budget

	Final Budget (£'000)	Actual Outturn (£'000)	(Under) / Over spend
Core Service	465	453	(12)
Revenue Projects	730	662	(68)
Capital Project	628	902	274
Interest	4	1	(3)
Total Expenditure	**1,827**	**2,018**	**191**
Government Grant	(782)	(782)	0

	Final Budget (£'000)	Actual Outturn (£'000)	(Under) / Over spend
Constituent Councils Requisitions	(200)	(171)	29
Other Income - Revenue Projects	(346)	(327)	19
Other Income - Capital Projects	(487)	(690)	(203)
Other Income - SESplan	(12)	(48)	(36)
Total Income 2014/15	**(1,827)**	**(2,018)**	**(191)**

Source: SEStran audited financial statements 2014/15

26. Capital expenditure of £0.902 million was incurred on the Real Time Passenger Information (RTPI) project. This expenditure was funded principally by income from the bus operators, the Bus Investment Fund and by using the underspend which was carried forward from the Partnership's revenue budget for 2013/14.

27. The Partnership recorded an underspend of £29,000 against its revenue budget for 2014/15. The normal practice is for the Partnership Board to vote to carry forward any underspend into the following year. The Board will make a decision on the use of the 2014/15 underspend following approval of the audited accounts.

28. The Partnership has no usable reserves at the year end as it holds no statutory powers to operate this type of reserve. Unusable reserves decreased by £76,000 mainly due to the net effect of adjustments through the Capital Adjustment Account and Pension Reserve.

2015/16 and beyond

29. In March 2015 the Partnership agreed a balanced budget for 2015/16 which made provision for £0.552 million of core service costs and £2.614 million of project expenditure in support of Regional Transport Strategy projects. The 2015/16 budget is based on confirmed Scottish Government and council funding for a one year period.

30. The Partnership has been successful in sourcing additional funding for projects to date. However there is a risk around the delivery of the Partnership's objectives if adequate funding cannot be sourced to support new projects beyond 2015/16.

31. In the absence of confirmed budget allocations for local government beyond 2015/16, longer-term funding assumptions remain subject to considerable uncertainty. Those projections that are available, however, point to a tightening of the overall fiscal position and potential cash-reductions in funding provided through the Scottish Block grant over the following two years. The Partnership intends to develop a revenue budget proposal for 2016/17 for consideration by the Partnership Board in the autumn of 2015.

Governance and transparency

Corporate governance

32. Members and management of the Partnership are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.

33. The Partnership Board comprises elected members from the eight constituent authorities and non-councillor members and is responsible for overseeing key aspects of governance. In addition there are a number of standing committees overseeing specific aspects of governance.

34. In previous years we have raised an issue with regard to the Performance and Audit Committee (PAC) achieving a quorate for meetings. We note that all PAC meetings took place during 2014/15.

35. From our work undertaken during the year, we have concluded that the Partnership has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

Accounting and Internal control systems

36. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

37. A number of key financial systems of the Partnership are provided through City of Edinburgh Council (CEC), and our consideration of the internal control environment for the Partnership is informed by our CEC audit work. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

38. During our financial statements testing of creditors, we identified an instance where a VAT invoice had not been passed on to finance officers, resulting in VAT of £401 not being reclaimed from HMRC.

Appendix 3 – action plan point 1

Internal audit

39. Internal audit provides members and management of the Partnership with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment

of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.

40. Our review established that the work of internal audit is of a good quality allowing us to place reliance on their work on the annual governance statement. We had planned to place reliance on internal audit's work in relation to accounts payable however, due to the scope of internal audit work carried out, we were unable to place reliance on it for this area and we modified our procedures accordingly.

Arrangements for the prevention and detection of fraud

41. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.

42. There were no instances of fraud or corruption reported by the Partnership in 2014/15.

43. We assessed the arrangements for the prevention and detection of fraud during the planning phase of our audit. The Partnership's anti-fraud and corruption and anti- bribery policies provide a framework for deterring and preventing fraud and also dealing with any frauds which may occur.

44. We concluded that there are effective arrangements for the prevention and detection of fraud, although it should be noted that no system can eliminate the risk of fraud entirely.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

45. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

Best Value and performance

46. Best value is a key factor to consider when planning policies, programmes and projects, and when taking any spending decisions. The Partnership should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

Performance management

47. The aims of the Partnership are set out in the Regional Transport Strategy. During 2014/15, the Partnership has been working on refreshing the strategy previously approved by the Scottish Government in 2008. A revised strategy was approved by the Partnership Board in March 2015 and by the Scottish Government in July 2015.

48. The annual Business Plan sets out the levels of capital and revenue expenditure approved by the Board and the projects and activities that will be taken forward by the Partnership in the year.

49. Progress towards the achievement of the Partnership's objectives is monitored on an annual basis, with the results reported in an Annual Report. In addition, progress on Projects is reported to the Board on a quarterly basis.

Overview of performance targets in 2014/15

50. A key project within the Partnership's Business Plan is Real Time Passenger Information (RTPI). The March 2015 Projects Report notes that the Partnership has obtained funding of £5.3 million for this project to date however a significant change was required to the project as a result of Stagecoach Fife taking the decision to implement its own RTPI system instead of the SESTRANs system. Following discussions with Stagecoach, it was agreed that data from the Stagecoach system will be fed into the SESTRANs system, which will enhance the system, although it has not been possible to develop the necessary interface by the end of March 2015.

51. The following deliverables were agreed with Transport Scotland :

- 31 buses in the First fleet would be equipped and commissioned by the end of March 2015
- Development of the system interface to accept data from Stagecoach and smaller operators would commence and be approximately 50% complete by the end of March 2015.

52. The June 2015 Projects report notes that, other than the transfer of on-bus units from Stagecoach to First, the timetable for which is determined by Stagecoach, the installation of equipment on First vehicles would be complete by July 2015.

53. The quarterly Projects reports also outline progress made for a range of other projects, including Sustainable Travel Awareness, Urban Cycle Networks and a project to improve accessibility to the SESTRAN ports and linkages to Europe.

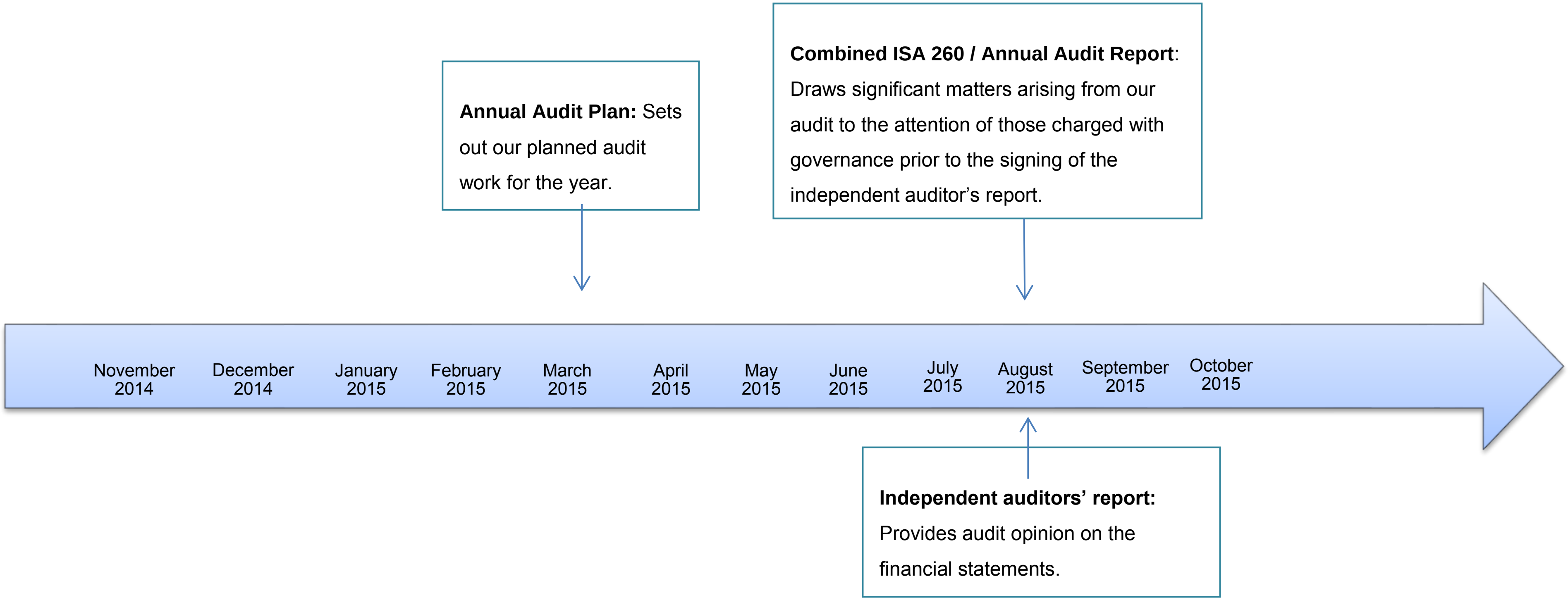
Appendix 1 – Audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
Income SEStran receives a significant amount of income in addition to SG funding. The complexity of income means there is an inherent risk of fraud in accordance with ISA240.	• Detailed substantive testing of revenue transactions focusing on the areas we consider to be of greatest risk.	• No fraud identified from substantive testing performed.
Management override of controls As stated in ISA 240, management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	• Detailed testing of journal entries • Review of accounting estimates for bias • Evaluating significant transactions that are outside the normal course of business.	• No issues identified from testing performed.
Receipt of European funding There is a risk that budgets will not be achieved if future settlements from Europe include significant common management costs which have not been provided for within the budget.	• Substantive testing of grant funding debtors as part of financial statement programme.	• No specific issues re. management costs identified however an issue re. recoverability of ERDF debtor has been raised.

Audit Risk	Assurance procedure	Results and conclusions
Depreciation Policy With the exception of the RTPI assets, all of SEStrans assets have been fully depreciated but are still in use. There is a risk that the existing depreciation policy does not fully reflect the consumption of economic benefit of assets.	• Consideration of appropriateness of revised asset lives. • Detailed testing of fixed assets.	• No issues identified from testing performed.

Appendix 2 – Summary of local audit reports 2014/15



Appendix 3 – Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 **13/38**	**VAT not reclaimed:** During testing of creditors, we identified an instance where a VAT invoice had not been passed on to finance officers, resulting in VAT of £401 not being reclaimed from HMRC. **Risk:** The Partnership may not recover VAT paid **Recommendation:** Relevant officers are reminded of the correct procedures for dealing with VAT invoices.			