

**PERFORMANCE & AUDIT COMMITTEE MEETING
FRIDAY 4TH MARCH 2016 AT 10:00AM
SESTRAN OFFICES, MEETING ROOM 3D-34, VICTORIA QUAY, EDINBURGH, EH6 6QQ**

Tea and coffee will be served from 9.30am.

1. Order of Business
2. Apologies
3. Declarations of Interest

AGENDA A – POINTS FOR DECISION

- A1. Minutes of the Performance & Audit Committee – Friday 20th November 2015
 - A2. Matters Arising
 - A3. Budget 2016/17
 - A3.1 Budget Support Paper
 - A3.2 Revenue Budget 2016/17
 - A4. Annual Treasury Strategy
 - A5. Audit Scotland – Audit Plan 2016/17
4. AOCB
 5. Date of Next Meeting
3rd June 2016, 3D-34 Meeting Room, Victoria Quay, Edinburgh, EH6 6QQ

PERFORMANCE & AUDIT COMMITTEE MEETING

**HELD IN SESTRAN OFFICES, 130 EAST CLAREMONT STREET, EDINBURGH
ON FRIDAY, 20TH NOVEMBER, 2015
10.00 A.M. – 10.50 A.M.**

PRESENT:	<u>Name</u>	<u>Organisation Title</u>
	Councillor Gordon Edgar (Chair)	Scottish Borders Council
	Councillor Tony Boyle	West Lothian Council
	Sandy Scotland	Non-Councillor Member
	John Jack	Non-Councillor Member

IN ATTENDANCE:	<u>Name</u>	<u>Organisation Title</u>
	Alex Macaulay	Partnership Director, SEStran
	Iain Shaw	Treasurer, SEStran
	Andrew Ferguson	Secretary and Legal Adviser, SEStran
	Craig Beattie	Treasurer, SEStran

Action by

1. ORDER OF BUSINESS

The Chair confirmed that the Order of Business was as per the agenda.

2. APOLOGIES

Apologies were received from Councillor Michael Veitch, East Lothian Council, and Councillor Donald Balsillie, Clackmannanshire Council.

3. DECLARATIONS OF INTERESTS

No declarations of interest were made.

A1. MINUTES

The minutes of the Performance & Audit meeting of Friday 11th September, 2015 were noted and approved as a correct record.

A2/.

A2 MATTERS ARISING

None.

A3 DRAFT BUDGET 2016/17 FINANCIAL PLANNING

The Committee considered a report by the Treasurer on financial planning being undertaken in presenting a revenue budget to the Partnership for approval in March, 2016. Members requested that, in order to demonstrate the added value that SEStran provides, the report to the Board include detail on the amount of spend leveraged into the budget from external sources to supplement the contributions to core budget by the member authorities. The Partnership Director advised that this aspect would be covered in a separate report.

Decision

The Committee noted -

- (1) the risk that Scottish Government funding allocations to RTP's may be reduced, given the uncertainty around the Scottish Government budget for 2016/17;
- (2) the financial planning assumptions currently being progressed for SEStran;
- (3) that this report would be presented to the Partnership Board meeting of 4th December, 2015; and **IS**
- (4) the revenue budget for 2016/17 will be presented to Members for approval at the meeting of the Partnership in March, 2016. **IS**

A4 MID TERM TREASURY REPORT

The Committee considered a report reviewing the investment activity undertaken, on behalf of the Partnership during the first half of the 2015/16 Financial Year.

Decision

The Committee noted the investment activity undertaken on behalf of the Partnership.

A5/.

A5. RISK REPORT

The Committee considered a report by the Office Manager, which outlined that SEStran had been using its Risk Register to record, report and evaluate risks within the organisation since May, 2008. All risks had been reviewed regularly by the relevant staff and Appendix 1 to the report was an extract from the SEStran Risk Register, highlighting the key net rated risks.

Decision

The Committee noted the report.

4. ANY OTHER BUSINESS

Members asked for an update on progress regarding the move of premises to Victoria Quay. The Partnership Director advised that matters were in hand with a view to the move happening in February, 2016. The cost savings that had been identified in item A3 were on track to be delivered.

AM/AF

5. DATE OF NEXT MEETING

Decision (Subject to Approval)

AC

Friday 4th March 2016 at 10:00am in Room 2D-45 (bridge), Victoria Quay, Edinburgh, EH6 6QQ

A6.1 Supporting Paper to Draft Budget 2016/17 Financial Planning Report

1. Introduction

- 1.1 Regularly, since 2009, SEStran has been successful in attracting additional funding from a variety of sources.

2. Details

- 2.1 In 2009, an ERDF grant of approximately **£1.3m** was won for the initial spend on the RTPi contract. Contributing further to RTPi, an award of **£2m** covering years 2013 and 2014 was won from the Bus Investment Fund.
- 2.2 SEStran's RTPi scheme was awarded Gold in the category of Local Authority Bus Project of the Year for 2014 at the UK Bus Awards in London, on 18th November 2014. This represents recognition, at a UK level, of SEStran's achievement in working in partnership with its Local Authorities and transport providers to provide a step change in quality of service for passengers across the region.
- 2.3 SEStran was awarded an Achievement Award in September 2015 from the Scottish Accessible Transport Alliance in recognition of outstanding achievement in facilitating transport services for disabled people. This was for our work on the SEStran Thistle card which has now been rolled out in other RTP areas and is an excellent example of what can be achieved on a limited budget.
- 2.4 SEStran has also received support from Scottish Enterprise for the RTPi scheme towards the promotion of display screens in commercial premises, showing RTPi along with potential advertising material for which SEStran would gain an income stream to contribute towards the long term maintenance of the system.
- 2.5 Over a similar timescale, substantial further funding was attracted from the EU, through the North Sea Region and North West Europe Interreg programmes and this will continue during 2016/17 with projects under IEE (Intelligent Energy Europe) and Horizon 2020. Past projects include Dryport, ITransfer, Lopinod, Foodport, Weastflows and Nweride which collectively brought in **£891,000** from the European Union.
- 2.6 SEStran continues to seek further opportunities to get involved in European projects which can contribute to the development of the Regional Transport Strategy and bring in funding to supplement that of the Government and the Councils and enhance its ability to achieve its stated aim of building a transportation system for South East Scotland

that is comprehensive, sustainable and inclusive, that meets the needs of business and helps guarantee the economic future of the region.

- 2.7 Against a back-cloth of reduced funding from both Scottish Government and the constituent Councils in recent years, SEStran in the past year, has had to absorb the loss of £48,000 of SESplan income following their decision to vacate the SEStran office. In the following year, when the current office lease expires, SEStran anticipates making a further saving in premises costs by taking up accommodation within the Scottish Government’s building at Victoria Quay in Leith.
- 2.8 With reference to the Transport (Scotland) Act 2005, Section 3 (1) which states, “The net expenses of a Transport Partnership for each financial year shall be paid by – (a) its constituent councils;.....”, it is pertinent to note that in the financial years 2013/14 and 2014/15 SEStran’s outturns were under-spends of 1.4% and 1.3%, respectively which is evidence of diligent budget management.
- 2.9 In the current year, SEStran’s project budget is **£2.6m** and this includes **£2.169m** of external income brought in by SEStran. Based on the Council requisition of £200,000, this represents an investment of **£10.85 for every £1** invested by constituent Councils.

3. Recommendations

- 3.1 That the board notes the contents of this report.

Jim Grieve

Programme Manager

March 2016

Policy Implications	None
Financial Implications	As detailed in this report
Race Equalities Implications	None
Gender Equalities Implications	None
Disability Equalities Implications	None

REVENUE BUDGET 2016/17

1. Introduction

1.1 This report presents to the Partnership, for approval, a revenue budget for 2016/17, together with the share of net expenses to be paid by each constituent council.

2. Proposed Revenue Budget 2016/17

2.1 Section 3 of the Transport (Scotland) Act requires the constituent councils of each Regional Transport Partnership to fund the Partnership's net expenses.

2.2 A financial planning report was considered by the Partnership Board on 4th December 2015. The Board noted there was uncertainty around the level of Scottish Government funding for 2016/17 and the consequent financial planning process and assumptions being progressed by the Partnership.

2.3 The proposed revenue budget has been prepared on the basis of a range of estimates and assumptions and in consultation with the Partnership Director. Revenue budget lines have been updated to take account of known cost commitments and savings.

2.4 On 17th December 2015, the Scottish Government confirmed that SEStran will receive a grant of £782,000 in 2016/17. This represents no change from 2015/16.

2.5 A council requisition of £200,000 in 2016/17 is proposed.

2.6 Within the proposed revenue budget, provision is made to absorb the following costs:

- Employee cost net increases of £25,000, including increments and pay award provision (1%);
- RTPI costs of £114,000 – project officer and marketing officer (2 fte fixed-term), maintenance and development costs.

2.7 These cost increases are offset by:

- Reduction in premises costs following office move to Victoria Quay of £24,000;
- Reduction in consultancy expenditure (i.e. Lindean Partnership & JPFS Consultancy) £35,000;
- Reduction in Rail Stations Development expenditure £35,000;
- Increase in income from EU Projects £10,000;
- Increase in income from Bus Operators £35,000.

2.8 If approved, the Partnership will have operated at the same level of Scottish Government grant funding of £782,000 since 2011/12, with council requisitions fixed at £200,000 since 2012/13. Since 2009/10, council requisitions have reduced by 37%. For 2016/17, the level of budgeted external funding is forecast to be £625,000 - an increase by a factor of 6 from the level of external income in 2011/12.

- 2.9 A detailed analysis of the proposed core revenue budget for 2016/17 is shown in Appendix 1, with the proposed projects budget detailed in Appendix 2.
- 2.10 Risk and contingency planning have been considered as part of the budget development process. A risk assessment is included at Appendix 3.

3. Revenue Budget - 2017/18 and Later Years

- 3.1 The proposed revenue budget is for the financial year 2016/17 only. Based on recent forecasts on long-term budget projections, real-term reductions for 2017/18 are anticipated in Scottish Government spending limits, in line with the UK 2015 Spending Review.
- 3.2 A revenue budget proposal for 2017/18 will be developed for consideration by the Partnership Board in the autumn of 2016.

4. Recommendations

It is recommended that the Partnership Board:-

- (i) approve the proposed core revenue and revenue projects budget for 2016/17, as detailed in Appendices 1 and 2, and agree that I be authorised to requisition the individual constituent authorities for amounts as follows:

Clackmannanshire	£ 6,612
East Lothian	£13,183
Edinburgh	£63,646
Falkirk	£20,364
Fife	£47,443
Midlothian	£11,137
Scottish Borders	£14,731
West Lothian	<u>£22,884</u>
	<u>£200,000</u>

- (ii) note that financial planning for 2017/18 will be developed for consideration by the Partnership Board in autumn 2016;
- (iii) note that the proposed budget is subject to a number of risks and that all income and expenditure of the Partnership will continue to be monitored closely with updates reported to each Partnership meeting.

HUGH DUNN
Treasurer

Appendices

Appendix 1 – Proposed Core Revenue Budget 2016/17
Appendix 2 – Proposed Revenue Projects Budget 2016/17
Appendix 3 – Risk Assessment

Contact/tel

Iain Shaw, Tel: 0131 469 3117
(iain.shaw@edinburgh.gov.uk)

Proposed Core Revenue Budget 2016/17

Appendix 1

	Approved 2015/16	Proposed 2016/17	Proposed Cost Commitments
	£000	£000	
Employee Costs			
Salaries, National Insurance and Pension Fund	418	460	11 employees (3 fixed-term/1 part-time contract).
Premises Costs	40	16	Lease for office in Victoria Quay and related costs.
Staff Travel	9	9	
Supplies and Services			
Marketing	20	20	£10,000 Car Share/£10,000 general marketing and sustainable travel
Communications & Computing	31	31	
Hosted Service – Routewise	53	53	£50,000 saving per annum in total to participating constituent councils
Printing/Stationery/Supplies	10	10	
Insurance	4	4	Employer/employee liability insurance
Equipment/Furniture/Materials	1	1	
Training/Conferences	10	10	
Interview Expenses/Advertising	2	2	
Miscellaneous Expenses	11	11	

Proposed Core Revenue Budget 2016/17 (continued)

Appendix 1

	Approved 2015/16	Proposed 2016/17	Proposed Cost Commitments
	£'000	£'000	
Support Services			
Finance	25	25	Per Service Level Agreement with City of Edinburgh Council. Statutory financial statements, payroll, invoice payments, debt recovery, banking and cash management, budgeting, internal audit.
Legal Services / HR	7	7	Per Service Level Agreements with Fife Council and Falkirk Council
Corporate and Democratic			
Clerks Fees	15	15	Per Service Level Agreement with Fife Council
External Audit Fees	10	10	Per Audit Scotland Annual Audit Plan
Members Expenses	3	3	Non-Council Members expenses – Partnership meetings
Interest	4	1	Net cost of borrowing per Partnership's Treasury Management Strategy
Funding			
Recharges:			
• EU Projects	0	(70)	Recovery of employee costs – Chums, Social Car, Share-north, Regio-mob projects
• Bus Investment Fund	(100)	0	Bus Investment Fund ceased
• RTPI	0	(47)	2 FTE fixed term contract staff recharged to RTPI Project
• Sustainable Transport	(20)	(20)	Recovery of employee costs - SUStrans
Scottish Government Grant	(350)	(351)	
Net Core Expenditure	200	200	To be met by constituent councils

Proposed Project Budget 2016/17

Appendix 2

	Approved 2015/16	Proposed 2016/17	EU /Other Grant	Net Expenditure	Proposed Cost Commitments
	£'000	£'000	£'000	£'000	
EU Projects					
RTPI	230	344	(173)	171	Maintenance contractually committed (£0.243m), partially offset by bus operators income
NWE Ride	64	0	0	0	Project ceased
Chums	68	23	(17)	6	Contractually committed
Social Car	47	47	(47)	0	EU grant funded project
Share-north	0	40	(20)	20	EU grant funded project
Regio-mob	0	80	(68)	12	EU grant funded project
Total	409	534	(325)	209	
Bus Investment Fund	1,000	0		0	Bus Investment Fund ceased
Sustainable Travel	130	130		130	Provision of match funding to constituent councils, universities and colleges, Police Scotland
Rail Stations Development	850	215	(200)	15	Proposals for stations at Reston and East Linton/ studies for Newburgh and Winchburgh stations
South Tay Park and Ride	35	20		20	Agreement now in place to purchase the land. Agreement with TACtran, Dundee and Fife Councils.
Rail/Bus Advice	35	15		15	Responses to consultation documents
SDP/LDP	20	20		20	RTP input to LDP's and SDP's
RTS Monitoring	5	5		5	Ensures the RTS is up to date with transport changes
Urban Cycle Networks	120	120	(100)	20	Contractually committed on a year to year basis
Equalities Action Forum	10	10		10	Funding for the Equalities Action Forum is included to fund a minimal level of actions identified by the Forum.
One Ticket	(13)	(13)		(13)	
Total	2,601	1,056	(625)	431	

Risk Assessment

Risk Description	Existing Controls
Pay awards. The proposed budget assumes provision for a pay award of up to 1% in 2016/17. A 1% increase in pay award uplift equates to an increase in cost of approximately £4,000.	Alignment with Scottish Government Public Sector Pay Policy.
There is a risk that the proposed budget does not adequately cover price inflation and increasing demand for services.	Allowance has been made for specific price inflation and other budgets have been adjusted in line with current demand / forecasts. The proposed budget includes a small contingency.
There is a risk that the deficit on the staff pension fund could lead to increases in the employer's pension contribution.	Lothian Pension Fund has developed a contribution stability mechanism as part of the strategy to manage potential volatility in employer contribution rates arising from the 2014 actuarial review. For 2016/17, there will be no change to the current employer contribution rate, based on Lothian Pension Fund's stability of pension fund contributions mechanism.
Delays in payment of grant by the EU results in additional short-term borrowing costs.	SESTran grant claims for EU funded projects were submitted in compliance with requirements of EU control processes to ensure minimal delay in payment of grants. Ongoing monitoring of cash flow will be undertaken to manage exposure to additional short-term borrowing costs.
There is a risk that current levels of staffing cannot be maintained due to funding constraints and that the Partnership will incur staff release costs.	The Partnership Director continues to seek additional sources of funding for activities aligned to the Partnership's objectives to supplement resources.

Performance and Audit Committee

ANNUAL TREASURY STRATEGY

1 Purpose of report

- 1.1 The purpose of this report is to propose an Investment Strategy for 2016/17.

2 Annual Treasury Strategy

- 2.1 The Partnership currently maintains its bank account as part of the City of Edinburgh Council's group of bank accounts. Any cash balance is effectively lent to the Council, but is offset by expenditure undertaken by the City of Edinburgh Council on behalf of the Board. Interest is given on month end net indebtedness balances between the Council and the Board in accordance with the Local Authority (Scotland) Accounts Advisory Committee's (LASAAC) Guidance Note 2 on Interest on Revenue Balances (IoRB). These arrangements were put in place given administration arrangements with the City of Edinburgh Council and the relatively small investment balances which the Board has. Although the investment return will be small, the Board will gain security from its counterparty exposure being to the City of Edinburgh Council.

3 Recommendations

- 3.1 It is recommended that the Committee refers the Strategy to the Board to approve the continuation of the current arrangement outlined in Appendix 1.

Hugh Dunn
Treasurer

Appendix Appendix 1 - Annual Treasury Strategy

Contact/tel Iain Shaw, Tel: 0131 469 3117
(iain.shaw@edinburgh.gov.uk)

APPENDIX 1

Annual Treasury Strategy

(a) Treasury Management Policy Statement

1. The Partnership defines its Treasury Management activities as:

The management of the Partnership's investments, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

2. The Partnership regards the successful identification monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
3. The Partnership acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive measurement techniques, within the context of effective risk management.

Treasury Management is carried out on behalf of the Partnership by the City of Edinburgh Council. The Board therefore adopts the Treasury Management Practices of the City of Edinburgh Council. The Board's approach to investment is a low risk one, and its investment arrangements reflect this.

(b) Permitted Investments

The Partnership will maintain its banking arrangement with the City of Edinburgh Council's group of bank accounts. The Partnership has no Investment Properties and makes no loans to third parties. As such the Partnership's only investment / counterparty exposure is to the City of Edinburgh Council.

(c) Prudential Indicators

Whilst the Partnership has a Capital Programme this is funded by grant income therefore no long term borrowing is required. The indicators relating to debt are therefore not relevant for the Partnership. By virtue of the investment arrangements permitted in (b) above, all of the Partnership's investments are variable rate, and subject to movement in interest rates during the period of the investment.



South East of Scotland Transport Partnership

Annual Audit Plan
2015/16

Prepared for the South East of Scotland Transport
Partnership

February 2016



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/about/).

The Accounts Commission has appointed Stephen O'Hagan as the external auditor of the Partnership for the period 2011/12 to 2015/16.

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

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.

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Summary

Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement in the South East Scotland Transport Partnership's (the Partnership's) financial statements.
 2. This report summarises the key challenges and risks facing the Partnership and sets out the audit work that we propose to undertake in 2015/16. Our plan reflects:
 - the risks and priorities facing the Partnership
 - current national risks that are relevant to local circumstances
 - the impact of changing international auditing and accounting standards
 - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
 - issues brought forward from previous audit reports.
- they give a true and fair view of the state of affairs of the Partnership as at 31 March 2016 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
 - a review and assessment of the Partnership's governance and performance arrangements in a number of key areas including: a review of the adequacy of internal audit and the governance statement.

Summary of planned audit activity

3. Our planned work in 2015/16 includes:
 - an audit of the financial statements and provision of an opinion on whether:

Responsibilities

4. The audit of the financial statements does not relieve management or the Partnership, as the body charged with governance, of their responsibilities.

Responsibility of the appointed auditor

5. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
6. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Responsibility of the Treasurer

7. It is the responsibility of the Treasurer, as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This means:
 - maintaining proper accounting records

- preparing financial statements which give a true and fair view of the state of affairs of the Partnership as at 31 March 2016 and its expenditure and income for the year then ended.

Format of the accounts

8. The financial statements should be prepared in accordance with the Code, which constitutes proper accounting practice.

Audit Approach

Our approach

9. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of the Partnership. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:
 - understanding the business of the Partnership and the risk exposure which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation and understanding how the Partnership will include these in the financial statements
 - assessing and addressing the risk of material misstatement in the financial statements
 - determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.
10. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Planned management action being relied on for 2015/16 includes:
 - comprehensive closedown procedures for the Partnership financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for preparation of financial statements and the provision of supporting working papers
 - delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package
 - completion of the internal audit programme for 2015/16.
11. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. Internal audit services are provided by the Internal Audit section of the City of Edinburgh Council. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function to determine whether it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

12. We plan to place formal reliance on aspects of the work of internal audit in the following areas, to support our audit opinion on the financial statements:
- City of Edinburgh Council systems operated on behalf of the Partnership, specifically payroll
 - audit work carried out in support of the Annual Governance Statement for inclusion with the financial statements.

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. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, the failure to achieve a statutory requirement or, an item contrary to law). In the event of such an item arising, its materiality has to be viewed in a narrower context; such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.
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. Based on our knowledge and understanding of the Partnership we have set our planning materiality at £21,000 (1% of gross expenditure).
16. We set a lower level, known as performance materiality, when defining our audit procedures. This is to ensure that uncorrected and undetected audit differences do not exceed our planning materiality. This level depends on professional judgement and is informed by a number of factors including:
- extent of estimation and judgement within the financial statements
 - nature and extent of prior year misstatements
 - extent of audit testing coverage.
17. For 2015/16 performance materiality has been set at £15,750. We will report, to those charged with governance, all misstatements identified which are greater than £1,000.

Reporting arrangements

18. The Local Authority Accounts (Scotland) Regulations 2014 require that the unaudited annual accounts are submitted to the appointed external auditor no later than 30 June each year. The Partnership Board is required to consider the unaudited annual accounts at a meeting by 31 August.
19. The Partnership must publish the unaudited accounts on their websites and give public notice of the inspection period.
20. The 2014 regulations require the Partnership Board (or a committee whose remit includes audit or governance) to meet by 30 September to consider whether to approve the audited annual accounts for signature. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year.
21. The Partnership is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October. The annual audit report is required to be published on the website by 31 December.

A proposed timetable for the audit of the 2015/16 financial statements is included at Exhibit 1.

Exhibit 1: Financial statements audit timetable

Key stage	Date
Planned Board approval of unaudited financial statements	17 June 2016
Submission of unaudited financial statements with working papers package	30 June 2016
Progress meetings with lead officers on emerging issues	As required during audit
Latest date for final clearance meeting with Treasurer	26 August 2016
Agreement of unsigned financial statements for Performance and Audit Committee agenda, and issue of combined ISA 260 report to those charged with governance and Annual Audit Report.	2 September 2016
Performance & Audit Committee date	9 September 2016
Independent auditor's report signed	By 30 September 2016

22. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the Partnership Director to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission. A copy of all final agreed reports will be sent to the

- Partnership Director, the Treasurer, internal audit and Audit Scotland's Performance Audit and Best Value Group.
23. We will provide an independent auditor's report to the Partnership and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. The combined ISA 260 and proposed Annual Audit Report will be issued by 2 September.
 24. All annual audit reports produced are published on Audit Scotland's website: www.audit-scotland.gov.uk.
 25. Planned outputs for 2015/16 are summarised at [Appendix 1](#).

Quality control

26. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established as part of financial audit procedures. This is to provide reasonable assurance that those professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews and has been subject to a programme of external reviews by the Institute of Chartered Accountants of Scotland (ICAS).

27. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, Stephen O'Hagan.

Independence and objectivity

28. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council (FRC) and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.
29. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. In significant cases we would change the audit team, however where there are potential issues that are not fundamental to the delivery of the audit, we advise the senior finance officer of the circumstances and of the steps we have taken to manage this. We are not aware of any other such relationships pertaining to the audit of the Partnership.

Audit issues and risks

Audit issues and risks

30. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for the Partnership. We have categorised these risks into financial risks and wider dimension risks. The financial statements issues and risks, which require specific audit testing, are summarised below and detail contained in Appendix 2.

Financial statement issues and risks

31. **Risk 1 – Management Override of controls:** ISA 240 highlights the unique position of management to influence the financial statements by overriding controls that otherwise operate effectively. The ability to override these controls exists in all entities and therefore represents a financial statements risk due to fraud.
32. We will undertake focused substantive testing of journal entries, accounting estimates and significant transactions outside the course of normal business.
33. **Risk 2 – Fraud risk over income:** ISA 240 requires auditors to presume a risk of fraud where income streams are significant. The Partnership receives a significant amount of funding from the Scottish Government, however income is also received from a number of other sources including constituent authorities and

European Union grant funding. The extent and complexity of income means there is an inherent risk that income could be materially misstated.

34. We will undertake targeted substantive testing on the income streams included in the financial statements.
35. **Risk 3 –Receipt of European funding:** In prior years there have been issues largely outwith the control of the Partnership that have caused delays in receipt of ERDF funding, and uncertainty over the amounts to be paid. In the current financial year, the Partnership has now received final settlement of grant funding relating to bus improvements projects. However around £63,000 of funding claimed by the Partnership has been disallowed by the EU. The Partnership will need to consider how it addresses this funding shortfall within its financial plans.
36. **Risk 4 – Re-allocation of salary costs:** During the 2014/15 financial statements audit process, audit adjustments have been required to correct presentational errors identified in the processing of salary re-charge journals. Whilst these presentational errors had no impact on the net expenditure in the financial statements, both gross income and gross expenditure had been materially overstated within the unaudited financial statements. There is a risk that similar presentational errors in 2015/16 lead to material disclosure errors in the financial statements.
37. We will review salary re-charge journals processed in 2015/16 to ensure they have been processed correctly.

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38. **Risk 5 – The Bus Improvement Fund projects:** The Bus Improvement Fund projects 2 and 3 are two projects with £500,000 each of potential funding attached to them. They are both due to be 'wound-up' at the end of this financial year. As the deadline for the end of the projects approaches, there is a greater risk of irregular expenditure as the pressure to utilise the remaining funds increases.
39. We will undertake focused testing in relation to the Bus Improvement Fund projects as part of our financial statements audit procedures.

Fees and resources

Audit fee

40. Over the past four years, Audit Scotland has reduced audit fees by 24% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to maintain audit fees for 2015/16 at the same level as last year. This represents an additional real term fee reduction of 1.6%.
41. In determining the audit fee we have taken account of the risk exposure of the Partnership, the planned management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 30 June 2016.
42. The proposed audit fee for the 2015/16 audit of the Partnership is £9,530. Our fee covers:
- the costs of planning, delivering and reporting the annual audit including auditors' attendance at committees
 - your organisation's allocation of the cost of national performance studies and statutory reports by the Auditor General for Scotland
 - a contribution towards functions that support the local audit process (e.g. technical support and coordination of the National

Fraud Initiative), support costs and auditors' travel and subsistence expenses.

43. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

who will be your primary contact. Details of the experience and skills of our team are provided in Exhibit 2. The core team will call on other specialist and support staff as necessary.

Audit team

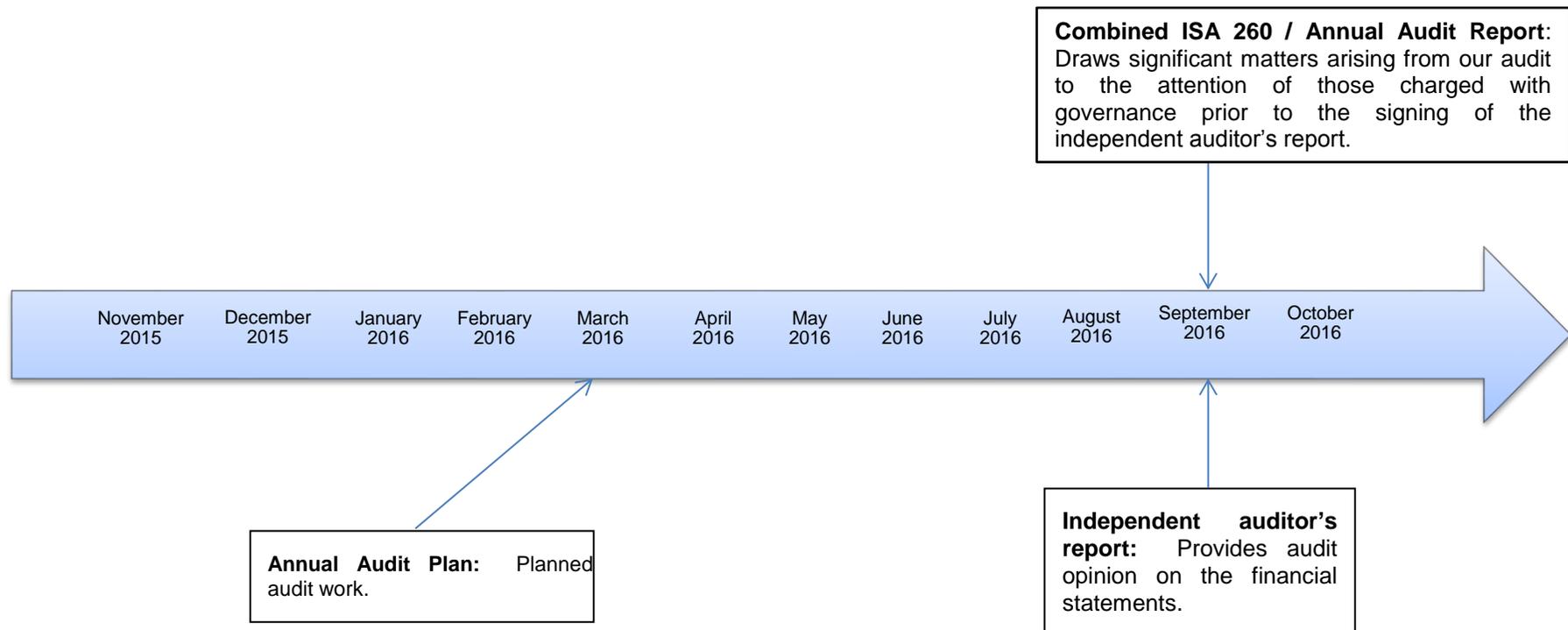
44. Stephen O'Hagan, Senior Audit Manager, Audit Services is your appointed auditor. The local audit team will be led by Daniel Melly who will be responsible for day to day management of the audit and

Exhibit 2: Audit team

Name	Experience
Name Senior Audit Manager (and certifying auditor)	Stephen has over 19 years experience of public sector audit with Audit Scotland, covering local government, central government, health and the education sector. Prior to joining Audit Scotland, Stephen worked in local government finance for 5 years.
Daniel Melly Auditor	Daniel has over 8 years experience of public sector audit with Audit Scotland, covering local and central government. Before joining the audit team, he was a member of the Scottish Government audit team and led on the audit of the Student Awards Agency.
Marta Kuzma Professional Trainee	Marta joined Audit Scotland in 2015. Prior to that she was working as a Finance Assistant in different organisations.

Appendix 1: Planned audit outputs

The diagram below shows the key outputs planned for the Partnership in 2015/16.



Appendix 2: Significant audit risks

The table below sets out the key audit risks, the related sources of assurance received and the audit work we propose to undertake to address the risks during our audit work.

#	Audit Risk	Source of assurance	Audit assurance procedure
Financial statement issues and risks			
1	Management override of controls: ISA 240 highlights the unique position of management to influence the financial statements by overriding controls that otherwise operate effectively. The ability to override these controls represents a financial statements risk due to fraud.	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Detailed testing of journal entries Review of accounting estimates for bias Evaluation of significant transactions that are outside the normal course of business
2	Fraud risk over income: ISA 240 requires auditors to presume a risk of fraud where income streams are significant. The extent and complexity of income means there is an inherent risk that income could be materially misstated.	<ul style="list-style-type: none"> Existing control arrangements, internal audit review 	<ul style="list-style-type: none"> Detailed substantive testing of revenue transactions focusing on identified areas of greatest risk
3	Receipt of European funding: Around £63,000 of ERDF funding claimed by the Partnership has been disallowed by the EU. There is a risk that this shortfall in funding impacts adversely on other projects being delivered by the Partnership.	<ul style="list-style-type: none"> Project outcome to be reported to Partnership board in March 2016, along with options for addressing financial implications 	<ul style="list-style-type: none"> Review of board papers and minutes, including future financial plans Comment on financial sustainability within Annual Audit Report

#	Audit Risk	Source of assurance	Audit assurance procedure
4	<p>Re-allocation of salary costs: In the past audit adjustments have been required to correct presentational errors identified in the processing of salary re-charge journals. There is a risk that similar presentational errors in 2015/16 lead to material disclosure errors in the financial statements.</p>	<ul style="list-style-type: none"> • Issue discussed at Performance and Audit Committee as part of the consideration of the 2014/15 Annual Audit Report • Revised processes implemented during financial year to mitigate risk of re-occurrence • Final accounts closedown procedures will be reviewed and updated as necessary 	<ul style="list-style-type: none"> • Detailed review of salary recharge journals as part of financial statements work
5	<p>The Bus Improvement Fund projects: The Bus Improvement Fund projects 2 and 3 are two projects with £500k each of potential funding attached to them. They are both due to be financially 'wound-up' at the end of this financial year. Therefore there is a greater risk of irregular expenditure towards the end of the projects as the pressure to spend the remaining funds increases.</p>	<ul style="list-style-type: none"> • Project management controls in place around expenditure eligibility 	<ul style="list-style-type: none"> • Focused testing on Bus Improvement Fund expenditure as part of financial statements work.