Partnership Board Meeting
Friday 22nd September 2017
Item 8(c) External Audit Annual Report

South East of Scotland Transport Partnership

2016/17 Annual Audit Report to members of South East of Scotland Transport Partnership and the Controller of Audit

September 2017

Contents

Key messages

Annual accounts

South East of Scotland Transport Partnership annual accounts for the year ended 31 March 2017 are due to be approved by the Partnership on 22 September 2017.

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

Our thanks go to management and staff for their assistance with our work.

Key facts

- The Partnership spent £2.729million on the delivery of services in 2016/17.
- The Partnership achieved a breakeven position in 2016/17.
- The Partnership has approved a balanced budget for 2017/18.

Wider scope

As outlined in our External Audit Plan, our annual audit work in respect of our wider scope audit responsibilities was restricted to:

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

Our conclusions are set out below:

Governance statement

- We have reviewed the Annual Governance Statement and have found that it is consistent with the accounts and has been prepared in accordance with Delivering Good Governance in Local Government: Framework (2016).
- The Partnership has adequate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in the Partnership's accounting and internal control systems.

Financial sustainability

- The Partnership has arrangements in place for short term (1year) financial planning, with budgets aligned to its annual business plan and regional transport strategy. However, the Partnership does not prepare medium to long-term financial plans due to the uncertainty over future funding allocations.

Conclusion

This report concludes our audit for 2016/17. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK and Ireland) and Ethical Standards.

Scott-Moncrieff
September 2017

1

Introduction

Introduction

1. This report summarises the findings from our 2016/17 audit of the South East of Scotland Transport Partnership ("the Partnership"). The scope of our audit was set out in our External Audit Plan which was presented to the Partnership in March 2017.

2. The core elements of our audit work in 2016/17 have been:

   - an audit of the 2016/17 annual accounts; and
   - consideration of the Partnership's arrangements for securing financial sustainability.

3. The Partnership is responsible for preparing annual accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

4. This report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions. We give each recommendation a grading to help the Partnership assess their significance and prioritise the actions required.

5. We would like to thank management and staff who have been involved in our work for their co-operation and assistance during our audit work.

Adding value through the audit

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

7. This report is addressed to both the Partnership and the Controller of Audit and will be published on Audit Scotland's website. www.audit-scotland.gov.uk.

8. We welcome any comments you may have on the quality of our work and this report via: www.surveymonkey.co.uk/r/S2SPZBX.

2

Annual accounts

Annual accounts

9. The Partnership's annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. The respective responsibilities of the Partnership and the auditor in relation to the annual accounts are outlined in Appendix 2.

10. In this section we summarise the findings from our audit of the 2016/17 annual accounts.

An unqualified audit opinion on the annual accounts

11. The annual accounts for the year ended 31 March 2017 are due to be approved by the Partnership on 22 September 2017. We intend to report, within our independent auditor's report:

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

Adequate administrative processes were in place

12. We received draft annual accounts and supporting papers of an adequate standard, in line with our agreed audit timetable. Our thanks go to management and staff at the Partnership and City of Edinburgh Council for their assistance.

Our assessment of risks of material misstatement

13. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual accounts as a whole, and not express an opinion on individual accounts or disclosures. Our opinion on the annual accounts is not modified with respect to any of the risks described in Exhibit 1 below.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1. Revenue recognition

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

Excerpt from the 2016/17 External Audit Plan

14. We have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the annual accounts. To inform our conclusion we evaluated the Partnership's key revenue streams and reviewed the controls in place over revenue accounting. We also carried out testing to confirm that the revenue recognition policy is appropriate and it was consistently applied throughout the year.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

2. Management override

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

Excerpt from the 2016/17 External Audit Plan

15. We have not identified any indications of management override in the year. We have reviewed the Partnership's accounting records, obtained evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed the journal entries processed in the period and around the year-end.

16. During our review of the financial controls processes however, we did note a lack of segregation of duties in respect of the posting of journals. Journals are prepared and posted without any evidence of secondary review or authorisation. While our audit work did not identify any indications of management override, we recommend that a review process is put in place over the preparation and posting of journals to the ledger.

Action plan point 1

Our application of materiality

17. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual accounts.

18. Our initial assessment of materiality for the annual accounts was £34,000. We revised our assessment following receipt of the unaudited annual accounts to £26,000 and it remained at this level throughout our audit. Our assessment of materiality equates to approximately 1% of the Partnership's expenditure. We consider this to be a principal consideration for the users of the accounts when assessing the performance of the Partnership.

19. We set a performance materiality for each area of work based on a risk assessment for the area and percentage application of overall materiality. We then perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below

Area risk assessment	Weighting	Performance materiality
High	45%	£11,700
Medium	55%	£14,300
Low	70%	£18,200

20. We agreed with the Partnership that we would report all audit differences in excess of 5% of the overall materiality figure, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We would also report to the Partnership on disclosure matters that we identified when assessing the overall presentation of the annual accounts.

Audit differences

21. We identified three material adjustments to the annual accounts. These have been discussed with management and are detailed within an appendix to the letter of representation. The letter covers a number of issues and we have requested that it be presented to us at the date of signing the annual accounts.

22. We additionally identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts.

An overview of the scope of our audit

23. The scope of our audit was detailed in our External Audit Plan, which was presented to the Partnership in March 2017. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Partnership. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

24. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.

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

Legality

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

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

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

Other matters identified during our audit

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

Property, plant and equipment

29. In the unaudited annual accounts, the Partnership disclosed an impairment of £0.196million (in 2016/17). Following a full impairment review on assets which provide the Real-Time Passenger Information system, the Partnership's long-term assets were restated to reflect the impairment of RTPI ICT Equipment, Screens and development costs.

30. This adjustment resulted in a £2.095million decrease in Property, Plant and Equipment value as at 31 March 2016. A further adjustment was made to impair asset balances as at 31 March 2017 which increased the original gross impairment of £0.196million to £1.918million.

The Local Authority Accounts (Scotland) Regulations 2014

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

Management commentary

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

Remuneration report

33. Our independent auditor's report confirms that the part of the remuneration report to be audited has been properly prepared in

[1] Regulations 8 to 10 relates to the preparation and publication of unaudited accounts, notice of public right to inspect and object to the accounts and consideration and signing of the audited accounts.

accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Annual governance statement

34. The Treasurer of the Partnership has confirmed that in their opinion, reasonable assurance can be placed upon the adequacy and effectiveness of the systems of internal financial control.

35. We have reviewed the annual governance statement and have found that it is consistent with the accounts and has been prepared in accordance with Delivering Good Governance in Local Government: Framework (2016).

Internal audit

36. The Partnership's internal audit function is provided by City of Edinburgh Council's Internal Audit service. We have taken cognisance of the work of internal audit in forming our opinion on the appropriateness of the disclosures in the annual governance statement.

Accounting and internal control systems

37. The Partnership has adequate systems in place to record, process, summarise and report financial and other relevant data. While we have not identified any significant weaknesses or governance issues in the accounting and internal control systems, we did identify four areas for improvement during our final audit. We outline the issues identified and our recommendations at Appendix 1.

Action plan points 2-5

Qualitative aspects of accounting practices and financial reporting

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

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the annual accounts, are considered appropriate to the Partnership.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts. Estimates have been made in relation to property, plant and equipment and pensions. We consider the estimates made, and the related disclosures, to be appropriate to the Partnership.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts.
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the management commentary or material inconsistencies with the annual accounts.	The management commentary contains no material misstatements or inconsistencies with the accounts.
Any significant annual accounts disclosures to bring to your attention.	There are no significant annual accounts disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or annual accounts disclosure.	While disclosure and presentational adjustments were made during the audit process there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit. However, as noted in paragraphs 29 and 30, a prior year restatement was required.

3

Financial sustainability

Financial sustainability

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

Overall Conclusion

40. The Partnership has effective arrangements in place for short term (1 year) financial planning. Annual business plans are aligned to the annual budget and focus on the objectives as outlined in the Regional Transport Strategy.

41. The Partnership has recognised that there is a high degree of uncertainty over future budget allocations and therefore has not prepared medium or long term financial plans. It is the Partnership's intention to develop a revenue budget proposal for 2018/19 in the autumn of 2017.

Key audit risk

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

Exhibit 2: Key audit risk: financial sustainability

Financial sustainability

The Partnership has produced a Regional Transport Strategy 2015-2025 and a supporting Business Plan 2016/17. The Strategy sets out the long-term objectives of the Partnership, but revenue funding is generally only confirmed for the forthcoming financial year. This therefore challenges the Partnership's long-term financial sustainability and the ability to agree detailed long-term plans and objectives. There is therefore a risk that there is a disconnect between medium and long-term objectives and the associated budgets.

In addition, the Partnership is currently undertaking three projects which receive European funding and is planning to apply for funding for an additional four projects. Given the UK's decision to leave the European Union, there is a risk that the Partnership will lose access to this key funding source, which may impact on the delivery of key projects and the achievement of objectives.

During our audit we will consider whether the Partnership has adequate arrangements in place for managing its financial position and its use of resources. Our conclusion will be based on a review of the Partnership's financial performance, underlying financial position, financial plans, financial reporting and achievement of savings targets.

Excerpt from the 2016/17 External Audit Plan

43. The Partnership has set a balanced budget for 2017/18. This is based on a reduction of budgeted income in 2017/18 of 18% reducing from £1.620million to £1.327million. The Partnership's budget is funded through Scottish Government funding of £0.782million and Council requisitions of £0.190million alongside external funding from EU grants and other sources of £0.355million.

44. The reduction in income for 2017/18 has been offset by a reduction in core staff costs of £0.078million and a reduction in project costs of £0.215million.

45. The levels of European Funding have reduced to £0.095million, a reduction of 37.5% against the prior year budget. The Partnership has recognised the risk of achieving European funding following the decision to leave the European Union and are exploring options for alternative funding. There is an ongoing risk that if the European funding was not received and alternative funds were not identified the projects would not be able to go ahead.

Exhibit 2: Key audit risk: financial sustainability

46. Although the Partnership has a long term strategy, it is not linked to financial information. The budget information prepared by the Partnership focuses on the coming financial year with no forecasts beyond 31 March 2018. There is therefore a risk that short term needs are prioritised over the long term objectives of the Partnership.

Action Plan point 6

The Partnership's financial performance in 2016/17

47. The Comprehensive Income and Expenditure Statement for 2016/17 shows that the Partnership spent £2.729million on the delivery of services, resulting in an accounting deficit of £1.285million. However, the accounting deficit includes certain elements of income and expenditure that need to be accounted for to comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the 2016/17 Code), and which are subsequently adjusted to show their impact on reserves.

48. Taking account of these adjustments, the Partnership reported a breakeven position.

2016/17 outturn position

49. The Partnership reduced expenditure in year on both core service and revenue projects which resulted in a £0.168million underspend against budget. This was matched by a reduction in the income giving an overall breakeven position.

Exhibit 2: Revenue performance against budget

	Revised Budget £'000	Actual £'000	Variance £'000
Core	550	457	(93)
Projects	1,069	995	(74)
Interest	1	-	(1)
Total Expenditure	**1,620**	**1,452**	**(168)**
Government grant	(782)	(782)	-
Constituent council requisitions	(200)	(151)	49
Other income	(638)	(519)	119
Total Income	**(1,620)**	**(1,452)**	**168**
Total	**-**	**-**	**-**

Source: *Annual accounts for the year ended 31 March 2017*

50. The reduction in core service expenditure was mainly due to a reduction in staff costs £0.095million, relating to vacant posts within the year. The revenue projects net expenditure was £0.258million which was an underspend of £0.002million against budget.

51. The Partnership recorded an underspend of £0.049million against constituent council requisitions for 2016/17. At the Partnership meeting on 2 March 2017 the Partnership approved the carry forward of the underspend to 2017/18 for use on the Sustainable and Active Travel Grant Scheme.

52. The Partnership holds no usable reserve which is in line with the powers outlined by the Transport Scotland Act 2005. The balance on the unusable reserves reduced by £1.392million in year to £0.038million following the prior year restatement referred to in paragraph 29. This predominantly related to adjustments through the Capital Adjustment Account for depreciation and impairments.

4

Appendices

Appendix 1: Management action plan

Our action plan details the control weaknesses and opportunities for improvement that we have identified during our audit.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist. The weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist.

Communication of the matters arising from the audit of the annual report and accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Action plan grading structure

To assist the Partnership in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. The rating structure is summarised as follows:

Grade 5	Very high risk exposure – major concerns requiring Partnership attention
Grade 4	High risk exposure – material observations requiring senior management attention
Grade 3	Moderate risk exposure – significant observations requiring management attention
Grade 2	Limited risk exposure – minor observations requiring management attention
Grade 1	Efficiency / housekeeping point

Action plan point	Issue & Recommendation	Management Comments
1. Authorisation of journals **Rating** **Grade 3** **Paragraph ref** **16**	**Observation** Our review of the journals environment found that there was a lack of segregation of duties over the posting of journals. Journals are prepared and posted without any secondary review or authorisation. Journals can be used to override controls and create fraudulent errors therefore, it is essential appropriate controls are in place **Recommendation** While our audit review in respect of the 2016/17 financial year did not identify any indications of management override we recommend that a review process is put in place for the preparation and posting of journals to the ledger.	Expenditure and Income monitoring reports are prepared in full consultation with officers of the Partnership for reporting to the Partnership Board on a quarterly basis, in line with the Financial Regulations of the Partnership. Any exceptional or unanticipated expenditure or income created by journal entry would be identified through this process. To enhance control, Partnership officers will receive a monthly report to include details of all journal entries processed, for review. Strict separation of financial controls, segregation of duties and authorisation levels exist for all actual expenditure transactions of the Partnership. **Action owner:** Treasurer **Due Date:** immediate

Action plan point	Issue & Recommendation	Management Comments
2. Asset recording and tagging **Rating** **Grade 4** **aragraph ref** **37**	**Observation** Assets within the asset register are not allocated a unique reference number and are instead grouped by type. In addition to this the physical assets are not individually labelled. It is therefore not possible to undertake a physical verification of assets from the register to the floor (or vice versa). There has been significant issues verifying the number of assets held and the value per item in year **Recommendation** To ensure assets are accounted for appropriately and prevent against the possible misappropriation of assets, we recommend that new assets acquired, across all sites are: • brought into the fixed asset register with sufficient detail to allow each unit to be individually identifiable including purchase date and value per item; and • appropriately labelled when brought into use to create a direct link between the fixed asset register and the physical assets.	The Partnership Director has instructed that the Projects team oversee the creation of a full and comprehensive asset register for SEStran. **Action owner:** Partnership Director **Due Date:** 31 March 2018

Action plan point	Issue & Recommendation	Management Comments
3. Registers of Interest **Rating** **Grade 3** **Paragraph ref** **37**	**Observation** From our review of the Registers of Interests of members it was found that a number of the declarations forms had not been updated since 2014. Upon further review we identified an undisclosed related party transaction of £0.086million relating to an undeclared related party for Edinburgh and Lothians Greenspace Trust. The annual accounts have been updated to reflect the appropriate disclosures. **Recommendation** The Partnership should ensure registers of interest are updated on at least an annual basis	All members of the Partnership Board are reminded and have been in Summer 2017 of the provision of regulations which provide for Board Members to give notice of registerable interests as outlined in SEStran Code of Conduct and all members of the Board at the first meeting of the new session has been reminded of their Code of Conduct responsibilities. Keeping entries in the Register of Interests up to date is ultimately the responsibility of individual MembersThe Secretary of the Partnership is the proper officer for these purposes. We we should stress that they receive an annual reminder **Action owner:** Partnership Director **Due Date:** 31 December 2017

Action plan point	Issue & Recommendation	Management Comments
4. Reconciliation of holding accounts **Rating** **Grade 2** **Paragraph ref** **37**	**Observation** The City of Edinburgh Council maintains a holding account on behalf of the Partnership. The holding account is reconciled on an annual basis. There is a risk that any errors in the allocation of items to the holding account are not discovered timeously. **Recommendation** The holding account should be reconciled with the Partnership records on a regular basis to reduce the risk of significant error.	The indebtedness between the City of Edinburgh Council and the Partnership, as reflected in the holding account balance, was reconciled a number of times during 2016/17. The frequency of reconciliation will be formalised such that a reconciliation will be undertaken on a quarterly basis. **Action owner:** Treasurer **Due Date:** 31 December 2017

Action plan point	Issue & Recommendation	Management Comments
5. Income and expenditure controls **Rating** **Grade 3** **Paragraph ref** **37**	**Observation** While income and expenditure testing did not identify any misstatements to the annual accounts, we did identify a number of errors relating to income and expenditure invoice processing. Income and expenditure invoices are sent to City of Edinburgh Council alongside a cover sheet that details the VAT coding, ledger coding and supplier/customer details. We found that the details on cover sheets were often incorrect which resulted in credit notes being raised on numerous occasions. Income invoices were also found to have a number of errors in year which resulted in an under declaration of output tax of £12k (disclosed in the accounts as a debtor and creditor). A voluntary disclosure to HMRC was made in relation to this. As part of our review we found that there were weaknesses in the review and authorisation of invoices. **Recommendation** The Partnership should ensure all invoices are subject to rigorous checks and are appropriately authorised prior to submitting for processing by City of Edinburgh Council officers.	A new protocol/guidelines have been obtained from City of Edinburgh Council around the declaration of VAT and have been put in place. This processing change is continuing to be embedded across the organisation. Controls on authorisation and review of invoice payments have been updated. **Action owner:** Partnership Director/Treasurer **Due Date:** immediate

Action plan point	Issue & Recommendation	Management Comments
6. Long term financial planning **Rating** **Grade 4** **Paragraph ref** **46**	**Observation** The Partnership develops a budget for one financial year which is aligned to the annual business plan and Regional Transport Strategy. There is a risk that funding is used to support short term need rather than long term strategic priorities. **Recommendation** In order to ensure financial sustainability the Partnership should develop medium to long term financial plans on a 3 to 5 year basis. This would assist the Partnership in highlighting risks to its sustainability and ensure funding is allocated in line with the long term strategic aims of the Regional Transport Strategy.	The removal of capital funding in 2009/10 means there is a difficulty for long-term strategic funding of RTS projects. The Director continues to monitor and advocate for investment by stakeholders in strategic priorities and for the return of long-term significant funding to RTPs through the second National Transport Strategy review process. However, given our main funder Transport Scotland has only been able to issue one year funding settlements in recent years, this has limited our ability to take a long-term budgetary approach to investment. **Action owner: Partnership Director** **Due Date: 31 December 2017**

Appendix 2: Respective responsibilities of the Partnership and the Auditor

Responsibility for the preparation of the annual accounts

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

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

In preparing the annual accounts, the Treasurer is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- complying with legislation; and
- complying with the Code.

The Treasurer is also responsible for:

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

Auditor responsibilities

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

- they give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of the affairs of the body as at 31 March 2017 and of the its surplus/deficit for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code;
- they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003;
- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014;
- the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government Scotland Act 2003; and
- the information given in the Annual Governance Statement and Statement of Financial Control is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

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

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

Wider scope of audit

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

The Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money. The Code recognises that full application of its requirements may be impractical or inappropriate due to the nature or size of the audited body.

We have concluded that the full application is not appropriate due to the size of the organisation. As part of our annual audit we consider and report against:

- appropriateness of the disclosures in the governance statement; and
- financial sustainability of the body and the services that it delivers over the medium to longer term.

Independence

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

Scott-Moncrieff
business advisers and accountants