



PERFORMANCE & AUDIT COMMITTEE

Conference Room 2, Victoria Quay, Edinburgh, EH6 6QQ
Friday 2nd March 2018 – 10:00am

AGENDA

1. **ORDER OF BUSINESS**
2. **APOLOGIES**
3. **DECLARATIONS OF INTEREST**
4. **MINUTES OF THE P&A COMMITTEE – FRIDAY 24th NOVEMBER 2017**
5. **AUDIT PLANS**
 - (a) External Audit Plan 2017/18 – Report by Scott Moncrieff
 - (b) Internal Audit Plan – Report by Lesley Newdall
6. **FINANCE REPORTS – Reports by Iain Shaw**
 - (a) Revenue Budget 2018/19
 - (b) Treasury Management
 - (c) Accounting Policies
7. **INFORMATION GOVERNANCE UPDATE – Report by Angela Chambers**
8. **DATE OF NEXT MEETING**

The date of the next meeting has been scheduled for **10:00am on Friday 8th June 2018, Conference Room 3, Victoria Quay, Edinburgh, EH6 6QQ**

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Secretary to SESTRAN
Corporate Governance Manager
Strategy & Insight Division
The City of Edinburgh Council
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23 February 2018

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PERFORMANCE & AUDIT COMMITTEE MEETING

**HELD IN SESTRAN OFFICES, MEETING ROOM 3E-95, VICTORIA QUAY,
EDINBURGH, EH6 6QQ
ON FRIDAY, 24 November 2017
10.00 A.M. – 12.30 P.M.**

PRESENT:	<u>Name</u>	<u>Organisation Title</u>
	Sandy Scotland (Chair)	Non-Councillor Member
	Councillor Dempsey	Fife Council
	John Martin	Non-Councillor Member
	Councillor Murtagh	Falkirk Council
	Dr Doreen Steele	Non-Councillor Member
	Barry Turner	Non-Councillor Member

IN ATTENDANCE:	<u>Name</u>	<u>Organisation Title</u>
	Angela Chambers	SEStran
	George Eckton	SEStran
	Elizabeth Forbes	SEStran
	Claire Gardiner	Scott-Moncrieff
	Jim Grieve	SEStran
	Gavin King	City of Edinburgh Council
	Iain Shaw	City of Edinburgh Council

Action by

A1. ORDER OF BUSINESS

It was confirmed that there was no change to the order of business.

A2. APOLOGIES

Apologies were received from Councillors Gardiner, Horne and Imrie.

A3. DECLARATIONS OF INTERESTS

None.

A4. MINUTES

Decision

The minute of the Performance and Audit Committee of 8 September 2017 was approved as a correct record.

A5. EXTERNAL AUDIT - CONSIDERATION OF MANAGEMENT RESPONSE

Scott-Moncrieff, the external auditors completed an audit in September 2017 finding that the Partnership had adequate systems in place. No significant weaknesses or governance issues were found in the Partnership's accounting and internal control systems.

Six actions points had been identified and the corresponding management response was outlined.

Decision

To note the report.

A6. INTERNAL AUDIT PLAN 2017/18

Committee was asked to consider the timing of the audit plan process and the focus of internal audit for 2017/18.

Decision

- 1) To consider any possible issues to be included in the Internal Audit Plan and to feedback to the Partnership Director.
- 2) To agree that a meeting between the Committee members and Internal Audit should take place before the February meeting and a meeting between the Committee members and External Audit should take place before the September meeting.

A7. FINANCE REPORTS

(a) Financial Planning 2018/19

Financial planning options for the 2018/19 revenue budget were highlighted.

The Committee expressed concern at Option 1 which involved a reduction of 5% in the Partnership's requisition to constituent Councils. This amounted to £10,000 and members expressed the opinion that this would have a significant impact on the Partnership's budget but would be negligible for Councils.

Decision

- 1) To note the financial planning assumptions currently being progressed for 2018/19.
- 2) To note the view of the Chief Officers Group, noted at paragraph 3.1 of the report by the Treasurer, on financial planning assumptions for 2018/19.
- 3) To agree that a paper should be brought to the first two

meetings of 2018 on 'aggregation' proposals for 2019/20 and if possible 2018/19.

- 4) To note the risk that Scottish Government funding allocations to Regional Transport Partnership's may be reduced.
- 5) To note that a report on financial planning would be presented to the Partnership Board on 8 December 2017.
- 6) To note a revenue budget for 2018/19 will be presented to the Partnership Board for approval in March 2018.

(b) Mid Term Review – Treasury Management Activity

Details were provided of the investment activity undertaken on behalf of the Partnership during the first half of the 2017/18 financial year.

Decision

To note the investment activity undertaken on behalf of the Partnership.

A8. RISK REGISTER

A draft version of the proposed new risk register was provided to the Committee. In addition, details of a cyber security risk were outlined.

Decision

- 1) To add an identifier for each risk and explore the formatting to ascertain the best way to display the risk register for Committee.
- 2) To note the update on key identified risk under Digital/IT of Cyber Security Assessments.
- 3) To note that discussions would be progressed to determine the appropriate level of Cyber Essentials accreditation required and that further updates would be provided to future meetings.
- 4) To agree that the Business Continuity Management Plan review should be postponed to January 2018.

A9. POLICY & PROJECTS UPDATE

An update was provided on key aspects of projects and initiatives progressed in the last quarter and the latest position on the UK leaving the EU.

Decision

- 1) To note the report.

- 2) To provide a list of the existing real time passenger information screens.

A10. RTS MONITORING

Details were provided of the Regional Transport Strategy (RTS) monitoring framework and progress outcomes.

Decision

- 1) To agree to the continued review and revision of the RTS Monitoring Framework.
- 2) To undertake a prioritised analysis of progress listed RTS actions outlined in appendix 2 of the report.
- 3) To introduce the submission of regular concise narrative accounts of progress with key actions which contribute to RTS outcomes by each constituent council of the South East of Scotland Transport Partnership. This would form the basis of the annual report monitoring until a new cost-effective and sustainable monitoring framework could be developed

A11. AOCB

Details were provided of Tripshare, a web-based car sharing scheme which had been shortlisted for an award at the Holyrood Public Service Awards.

The Winter Wheelers Falkirk Cycle Challenge would commence on 1 December 2017.

A12. PROVISIONAL DATE OF NEXT MEETING

10:00am on Friday 2 March 2018 in Conference Room 2, Victoria Quay, Edinburgh, EH6 6QQ



South East of Scotland Transport Partnership

**External Audit Plan
2017/18**

March 2018

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1

Introduction

Introduction

1. This document summarises the work plan for our 2017/18 external audit of the South East of Scotland Transport Partnership (“the Partnership”).
2. The core elements of our work include:
 - an audit of the 2017/18 financial statements and related matters;
 - a review, where applicable, of arrangements for governance and transparency, financial management, financial sustainability and value for money; and
 - any other work requested by Audit Scotland.

Audit appointment

3. The Accounts Commission is an independent body appointed by Scottish Ministers responsible for securing the audit of local authorities and other local government bodies. The Commission’s work is governed mainly by the Local Government (Scotland) Act 1973.
4. Audit Scotland is an independent statutory body that provides the Accounts Commission with the services required to carry out their statutory functions, including monitoring the performance of auditors through a quality control process.
5. The Accounts Commission has appointed Scott-Moncrieff as external auditor of the Partnership for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2017/18 and summarises:
 - the responsibilities of Scott-Moncrieff as the external auditor;
 - our audit strategy;
 - our planned audit work and how we will approach it;
 - our proposed audit outputs and timetable; and
 - background to Scott-Moncrieff and the audit team.

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

2

Respective responsibilities of the auditor and the Partnership

Respective responsibilities of the auditor and the Partnership

Auditor responsibilities

Code of Audit Practice

9. The Code of Audit Practice (the Code) outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.

Our responsibilities

10. Auditor responsibilities are derived from statute, the Code, International Standards on Auditing (UK) (ISAs (UK)), professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities (paragraph 12). These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards
- provide an opinion on audited bodies' financial statements
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports
- notify the Controller of Audit when circumstances indicate that a statutory report may be required
- demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':
 - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets
 - suitability and effectiveness of corporate governance arrangements
 - financial position and arrangements for securing financial sustainability

11. Weaknesses or risks identified by auditors are only those which have come to their attention

during their normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements 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.

Wider scope audit work

12. 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.
13. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.
14. Where the application of the full wider scope is judged by us not to be appropriate then our annual audit work on the wider scope is restricted to:
 - Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and
 - Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.
15. Our assessment takes into account the size, nature and risks of the organisation.
16. Taking these factors into consideration, we have concluded that application of the restricted wider scope is appropriate for the Partnership.

Partnership responsibilities

17. The Partnership has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives. The Partnership's responsibilities are summarised in Exhibit 2.

Exhibit 1: Audit dimensions of wider scope public audit

Financial sustainability

Financial sustainability looks forward to the medium (2 to 5 years) and longer term (5 to 10 years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Financial management

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

Governance and transparency

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

Value for money

Value for money is concerned with using resources effectively and continually improving services.

Exhibit 2 – Partnership’s responsibilities

Area	Partnership responsibilities
<p>Financial statements: Annual accounts containing financial statements and other related reports should be prepared.</p>	<p>The Partnership has responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures; • maintaining proper accounting records; and • preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements.
<p>Financial sustainability: Financial sustainability looks forward to the medium and longer term to consider whether the organisation is planning effectively to continue to fulfill its functions in an affordable and sustainable manner.</p>	<p>The Partnership is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with any statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • How the organisation plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.
<p>Financial management: Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>It is the Partnership's responsibility to ensure that financial affairs are conducted in a proper manner. Management are responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.</p> <p>The Partnership is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>It is the Partnership's responsibility to establish arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>

Exhibit 2 – Partnership’s responsibilities

Area	Partnership responsibilities
<p>Governance and transparency: Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>The Partnership is responsible for establishing arrangements to ensure the proper conduct of their affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p> <p>The Partnership is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>
<p>Value for money: Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.</p>	<p>The Partnership has a specific responsibility to ensure that arrangements have been made to secure best value. They are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p>

3

Audit strategy

Audit strategy

Risk-based audit approach

18. 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. Our audit planning is based on:



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

Communications with those charged with governance

20. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed with the Partnership that these communications will be through the Performance and Audit Committee.

Professional standards and guidance

21. We perform our audit of the annual accounts in accordance with International Standards on Auditing (UK) (ISAs (UK)), the International Standard on Quality Control 1 (UK), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

Partnership working

22. We will coordinate our work with Audit Scotland, internal audit and other external auditors, recognising the increasing integration of service delivery and partnership working within the public sector.

Audit Scotland

23. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We will share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

24. Audit Scotland undertakes national performance audits on issues affecting the public sector. We will review the Partnership's arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We plan to assess the extent to which the Partnership uses the national performance reports as a means to help improve performance at a local level.

25. During the year we may also be required to provide information to Audit Scotland to support the national performance reports.

Internal audit

26. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the Partnership's total audit resource. The Partnership's internal audit function is provided by the City of Edinburgh Council's internal audit team. We will consider the findings of the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource to the Partnership are used efficiently and effectively.

Service Organisations

27. The Partnership utilises a number of the constituent local authorities to provide services including financial ledger, legal and human resources. Where the systems may have a material impact on the financial statement we will work with these authorities to understand the controls in place at the service organisation.



Annual accounts

Annual accounts

Introduction

28. Audited bodies' annual accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of the Partnership's annual accounts.

Approach to the audit of the annual accounts

29. Our opinion on the annual accounts will be based on:

Risk-based audit planning

30. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the annual accounts will be based.

An audit of key systems and internal controls

31. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the annual accounts.

32. The systems we review and the nature of the work we perform will be based on the initial risk assessment. We will examine and test compliance with best practice and the Partnership's own policies and procedures.

33. We will take cognisance of any relevant internal audit reviews of systems and controls.

34. We will update the risk assessment following our evaluation of systems and controls and this will ensure that we continue to focus attention on the areas of highest risk.

A final audit of the annual accounts

35. During our final audit we will test and review the material amounts and disclosures in the annual accounts. The extent of testing will be based on our risk assessment.

36. In 2016/17 we noted that there were disclosure and presentational issues within the published unaudited annual accounts. We will provide additional support to officers in 2017/18 and conduct a provisional review of the unaudited annual accounts prior to publication.

37. Our final audit will seek to provide reasonable assurance that the annual accounts are free from material misstatement and comply with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the CIPFA Code).

Independent auditor's report

38. Our opinion on whether the financial statements give a true and fair view of the financial position and the income and expenditure will be set out in our independent auditor's report which will be included in the annual accounts.

39. We also provide an opinion on the auditable section of the remuneration report and whether the information in the management commentary and annual governance statement is consistent with our knowledge and compliant with relevant guidance.

Materiality

40. Materiality is an expression of the relative significance of a matter in the context of the annual accounts as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We will review our assessment of materiality throughout our audit.

41. Our initial assessment of materiality for the annual accounts is £28,000, approximately 1% of the Partnership 2016/17 gross expenditure. We consider gross expenditure to be the principal consideration for the users of the accounts when assessing the performance of the Partnership. We will review and update our assessment of materiality following receipt of the unaudited annual accounts.

42. We set a performance (testing) materiality for each area of work which is based on a risk assessment for the area. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas

deemed to be of significant risk of material misstatement.

Area risk assessment	Weighting	Performance materiality
High	40%	£11,200
Medium	50%	£14,000
Low	65%	£18,200

- Other misstatements below the 5% threshold that we believe warrant reporting on qualitative grounds.

Key audit risks in the annual accounts

43. We will report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements;
 - Uncorrected misstatements with a value in excess of 5% of the overall materiality figure (i.e. over £1,400); and

44. Auditing standards require that we inform the Performance and Audit Committee of our assessment of the risk of material misstatement in the annual accounts. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the Performance and Audit Committee if our assessment changes significantly during the audit.

Exhibit 3: Key audit risks in the annual accounts

1. Management override

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

45. In response to this risk we will review the Partnership's accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We will review the key accounting estimates, judgements and decisions made by management.

2. Revenue recognition

Under ISA 240 (UK)- *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.

46. Our work on income will include an evaluation of each type of revenue transaction and a review of the controls in place over revenue accounting. We will consider the Partnership's key revenue transactions and streams and carry out testing to confirm that the Partnership's revenue recognition policy is appropriate and has been applied consistently throughout the year.

Exhibit 3: Key audit risks in the annual accounts

3. Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 “The Audit of Public Sector Financial Statements” which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.



47. In response to this risk we will evaluate the significant expenditure streams (excluding payroll which is not deemed to be a significant risk area) and review the controls in place over accounting for expenditure. We will consider the Partnership’s key areas of expenditure and obtain evidence that the expenditure is recorded in line with appropriate accounting policies and that the policies have been applied consistently across the year.

4. Property, Plant and Equipment

Following auditor queries in 2016-17, a full impairment review of the Real-Time Passenger Information system was undertaken. This resulted in a prior year audit adjustment of £2.095 million and an adjustment in 2016/17 of £1.722 million in the annual accounts (bringing the 2016/17 impairment to £1.918 million from £0.196 million in the unaudited annual accounts).

From our review of the operation of the fixed asset register we identified issues in recording and valuing assets. Assets are not individually recorded in the fixed asset register and are grouped by type. This resulted in significant issues verifying the number of assets and the value per item. The Partnership has indicated that there will be significant additions in 2017/18. There is therefore a risk that the new assets are not brought into the asset register and annual accounts appropriately.



48. We will review the steps taken by officers to improve the maintenance of the fixed asset register in 2017/18. In addition we will consider whether any progress has been made on tagging assets and matching all assets to the fixed asset register.
49. We will review the process for recording new additions on the fixed asset register to ensure this allows individual assets to be identified and a value directly allocated to each asset. We will ensure compliance with the CIPFA Code in recording any new assets

5

Wider scope audit

Wider scope audit

Introduction

- 50. As described in section 2, the Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. Following consideration of the size, nature and risks of the Partnership, the application of the full wider scope audit is judged by us not to be appropriate. Our annual audit work on the wider scope will therefore be restricted to:
 - Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and
 - Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.
- 51. Our planned audit work against these two dimensions is risk based and proportionate.
- 52. Our initial assessment builds upon our understanding of the Partnership's priorities and risks which we developed in 2016/17,

discussions with management and review of the Partnership' minutes and key strategy documents. In 2017/18 we have also considered the following risk areas as they relate to the Partnership:

- EU withdrawal
- New financial powers
- Ending of public sector pay cap
- Response to cyber security risks
- Openness and transparency.

- 53. At this stage of our audit planning, we have identified one significant risk to the wider scope of our audit in relation to financial sustainability (Exhibit 4). We have not, at this stage, identified any other significant risks in relation to the Partnership. Audit planning however is a continuous process and we will report any identified significant risks, as they relate to the four dimensions, in our annual audit report.

Exhibit 4 – Significant risk: financial sustainability

1. Financial sustainability

The Partnership produced a Regional Transport Strategy (2015-2025) and a supporting business plan for 2017-18. While the strategy sets out the long-term objectives of the Partnership, revenue funding is generally only confirmed for the forthcoming financial year. This therefore challenges the Partnership's ability to agree detailed long-term plans and objectives.

In addition, the review of the Transport (Scotland) Bill may result in changes to the operation of the Partnership, which cannot currently be reflected in long-term financial planning.



- 54. 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 and financial reporting.

6

Audit outputs, timetable and fees

Audit outputs, timetable and fees

Audit output	Format	Description	Target month
External audit plan	Report	This report sets out the scope of our audit for 2017/18.	March 2018
Independent Auditor's Report	Report	This report will contain our opinions on the true and fair view of the annual accounts.	September 2018
Annual Report to the Partnership and the Controller of Audit	Report	At the conclusion of each year's audit we will issue an annual report setting out the nature and extent of our audit work for the year and summarising our opinions, conclusions and the significant issues arising from the work. This report will pull together all of our work under the Code of Audit Practice.	September 2018

Audit outputs

38. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.
39. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

Audit fee

40. Audit Scotland sets an expected fee for each audit carried out under appointment that assumes the body has well functioning controls, an effective internal audit service, and an average risk profile. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.
41. As auditors we negotiate a fee with the audited body during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.
42. For 2017/18 we propose setting the audit fee above the expected fee level. The expected fee for the Partnership is £9,500. We propose setting the fee above this level at £11,150 to

take cognisance of the level of risk and the audit work we will carry out as identified in this plan.

43. The total proposed fee for the Partnership for 2017/18 is as follows:

2017/18	
Auditor remuneration	£9,900
Pooled costs	£730
Performance audit and Best Value	-
Audit support costs	£520
Total expected fee	£11,150¹

44. We will take account of the risk exposure of the Partnership and the management assurances in place. We assume receipt of the draft accounts and working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management

¹ The audit fee in 2016/17 was £9,700

assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

Audit timetable

45. The dates for our final audit visit has been discussed with the Head of Programmes and the City of Edinburgh Council Finance Team. A summary timetable, including audit outputs, is set out below:



8

Appendices

Appendix 1: Your audit management team

Scott-Moncrieff is one of the largest independent accountancy firms in Scotland. We have 17 partners and over 200 staff operating from Edinburgh, Glasgow and Inverness. We are also part of the global Moore Stephens network.

We have been external auditors within the public sector for at least fifty years. We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE colleges. We also provide services to charities, schools, as well as private and public limited companies.

Edinburgh	Glasgow	Inverness
Exchange Place 3 Semple Street Edinburgh EH3 8BL	25 Bothwell Street Glasgow G2 6NL	Scott-Moncrieff 10 Ardross Street Inverness IV3 5NS
(0131) 473 3500	(0141) 567 4500	(01463) 701 940

Your audit management team



Karen Jones
Director
Karen.jones@scott-moncrieff.com

Karen is one of our directors responsible for the audit of our Audit Scotland external audit appointments. Karen has over 15 years' experience in auditing the public sector. She has extensive experience in auditing local authorities and other local government bodies.

Karen will be your engagement lead.



Claire Gardiner
Audit Manager
Claire.gardiner@scott-moncrieff.com

Claire has over 12 years' public sector external audit experience. She has delivered external audit services to a range of public sector bodies, including pension funds, local authorities, health bodies and central government bodies.

Claire will manage the onsite team and work alongside Karen to deliver the audit engagement.



Rachel Wynne
Audit Senior
Rachel.wynne@scott-moncrieff.com

Rachel joined the firm in 2014 as a public sector audit trainee and has since achieved her CA qualification. She has experience delivering external audit services to a range of public sector bodies, including local government.

Rachel will be responsible for the delivery of the onsite work.

Confirmation of independence

International Standard on Auditing (UK) 260
“Communication with those charged with governance”
requires us to communicate on a timely basis all facts
and matters that may have a bearing on our
independence.

We confirm that we will comply with FRC’s Revised
Ethical Standard (June 2016). In our professional
judgement, the audit process is independent and our
objectivity has not been compromised in any way. In
particular there are and have been no relationships
between Scott-Moncrieff and the Partnership, its
Partnership members and senior management that
may reasonably be thought to bear on our objectivity
and independence.

Appendix 2: Statement of understanding

Introduction

The purpose of this statement of understanding is to clarify the terms of our appointment and the key responsibilities of the Partnership and Scott-Moncrieff.

Annual accounts

We will require the annual accounts and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant Partnership staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit.

Scope of audit

As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for the Partnership' responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from the Partnership during the course of the audit on matters having a material effect on the annual accounts. This will take place by means of a letter of representation, which will require to be signed by the Treasurer.

Internal audit

It is the responsibility of the Partnership to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective internal audit function exists.

We will liaise with internal audit to ensure an efficient audit process.

Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or

irregularity issues to be reported to us as they arise. We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants of Scotland.

Fees

We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved.

Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting Karen Jones. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants of Scotland.

We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work.

Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target dates for implementation and details of the responsible officer.

Agreement of terms

We shall be grateful if the Performance and Audit Committee would consider and note this statement of understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.



Scott-Moncrieff
business advisers and accountants

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Internal Audit Plan

1. INTRODUCTION

1.1 The City of Edinburgh Council Internal Audit team provides assurance over the controls established to mitigate the SEStran partnership's key risks by provision of one annual Internal Audit review.

1.2 The purpose of this paper is to provide an update on progress with the 2017/18 SEStran Internal Audit review, and request the Committee's insights on areas for potential inclusion in the scope of the planned 2018/19 review.

2. Scope of the 2017/18 Internal Audit review

2.1 The scope of the 2017/18 Internal Audit review was discussed and agreed with SEStran management and external audit (Scott Moncrieff), and provides assurance on the following risks recorded in the SEStran risk register:

- Strategy;
- Governance;
- Key person dependency; and
- Grant Disbursement

2.2 The review is currently in progress and is scheduled to complete by 30 March 2018. A report will be prepared that includes Internal Audit recommendations to address any control gaps identified, together with management's responses and agreed actions.

The full terms of reference are included at Appendix 1.

3. 2018/19 Internal Audit Review

3.1 The Internal Audit team has now completed their 2018/19 annual planning process, and the draft plan will be presented to the Council's Governance, Risk, and Best Value Committee for review and scrutiny on 20 March 2018.

The draft annual plan includes one 15-day Internal Audit review for SEStran. This is consistent with the level of assurance provided in prior years.

4. RECOMMENDATIONS

- 4.1 The Committee is requested to note the scope of the 2017/18 Internal Audit review, and provide insights in relation to key SEStran risks and areas of concern for inclusion in the planned 2018/19 Internal Audit review.

Lesley Newdall

Chief Internal Auditor

E-mail: lesley.newdall@edinburgh.gov.uk | Tel: 0131 469 3216

February 2018

Appendix 1 – Terms of Reference

Policy Implications	None
Financial Implications	None
Equalities Implications	None
Climate Change Implications	None

SEStran

Terms of Reference – Annual Audit, ref MIS 1708

To: Jim Grieve, Acting Partnership Director

From: Lesley Newdall, Chief Internal Auditor,

Date: 14 February 2018

Cc: *See Key Contacts List*

This review is being undertaken as part of the 2017/18 City of Edinburgh Council Internal Audit plan approved by the City of Edinburgh Council Governance, Risk, and Best Value Committee in March 2017.

Background

The South East of Scotland Transport Partnership (SEStran) is one of seven Regional Transport Partnerships in Scotland. The partnership area includes eight local authorities, and is home to 28% of Scotland's population.

There is a huge diversity of transportation issues within the SEStran partnership area, from urban congestion to rural public transport and from ferry ports to airports. SEStran aims to address these issues and work towards a more sustainable and efficient transport network.

SEStran's Regional Transport Strategy (RTS) is the cornerstone of their work. It lays out their vision for the strategic development of transport in south east Scotland up to 2028 and includes a particular focus on links to and from Edinburgh, as the economic hub of the region.

SEStran is predominantly grant funded and received £1.4M funding in the financial year 2016/17. Funding is normally received from the Scottish Government; European bodies; and local authority councils. Circa £1m of this funding was spent on projects to support delivery of the RTS, and the balance on operating costs.

Given the significant grant funding contributed to support delivery of SEStran projects, it is essential that an adequate and effective governance framework has been established to support SEStran operations and disbursement of grant funds.

Scope

The scope of this review will assess the design adequacy and operating effectiveness of the key governance controls established to support SEStran operations and disbursement of grant funding on delivery of SEStran projects, with the objective of mitigating the following key risks:

- Strategy (medium)
- Governance (including Supplier dependency) - medium
- Key person dependency (low)
- Grant Disbursement (low)

Limitations of Scope

The scope of our review is limited to review of the key controls noted above.

Approach

Our audit approach is as follows:

- Obtain an understanding of the key governance processes through discussions with key personnel, and review of systems documentation and walkthrough tests (where applicable);
- Identify the key risks;
- Evaluate the design of the controls in place to address the key risks; and
- Test the operating effectiveness of the key controls.

The sub-processes and related control objectives included in the review are:

Sub-process	Control Objectives
Governance and supplier management	<ul style="list-style-type: none">• There is an established succession planning process in place to ensure continuity in the event of senior officer absence;• Authorities and approvals are adequately designed and effectively and consistently applied in relation to payments; procurement; payroll and grant acceptance;• There are formal structures in place relating to the partnership board and committees;• There are formal processes in place which set out the remits of the board and committees the roles and responsibilities of senior officers; SEStran employees; the partnership board; and councillor and non-councillor members;• There is a formal process for the selection, education and training of new board members; and• SEStran annually obtains third party supplier confirmations to confirm that third party services are compliant with all applicable regulations and legislation.
Strategy	<ul style="list-style-type: none">• Contingency plans have been developed to address key Brexit risks such as sourcing alternative funding and sharing information and best practice with European bodies;• The contingency plans are approved at the correct level, regularly reviewed and updated to reflect ongoing Brexit developments; and• Ownership of contingency plans has been appropriately allocated.
Grant Disbursement	<ul style="list-style-type: none">• Grant payments are disbursed in line with the terms specified in Grant Offer Letters, with appropriate evidence of disbursement retained.

Our Responsibilities

The role of Internal Audit is to act as an independent, objective assurance and consulting function, designed to add value and improve the operational effectiveness of the organisation. Internal Audit has unrestricted access to all activities undertaken in the organisation in order to independently review and report on the governance, risk management and control processes established by management.

Internal auditors will ensure they conduct their work with due professional care and in line with the requirements of the Public Sector Internal Audit Standards and other relevant professional standards.

The responsibilities of Internal Audit in respect of individual audit assignments are detailed in Appendix 2.

Your Responsibilities

It is Management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for Management's responsibilities for the design and operation of these systems.

Management will co-operate with Internal Audit on assignments and provide access to records, systems and staff as required within a reasonable timeframe following the request.

Where an audit report is delivered, management are required to provide formal responses to all recommendations, including specifying responsibility and anticipated dates for the implementation of the solutions within two weeks of the draft report being issued. They are also responsible for the implementation of the solutions and this implementation will be monitored and subject to follow-up review.

Internal audit work is performed solely for SEStran and solely for the purposes outlined above. Reports and documents prepared by Internal Audit should not be provided to anyone else.

The responsibilities of the Auditee in respect of individual audit assignments are detailed in Appendix 2.

Internal Audit Team

Name	Role	Contact Details
Lesley Newdall	Chief Internal Auditor	0131 469 3216
Elizabeth Maccallum	Internal Auditor	0131 469 3075

Key Contacts

Name	Title	Role	Contact Details
Jim Grieve	SEStran Partnership Director (Acting)	Review Sponsor	0131 524 5160
Angela Chambers	SEStran Business Manager	Key Contact	0131 524 5154
Lisa Freeman	Strategy & Projects Officer	Key Contact	
Moira Nelson	Active Travel Strategic Development Officer	Key Contact	
Iain Shaw	CEC Principal Accountant	Key Contact	0131 469 3117

Timetable

Fieldwork Start	12 February 2018
Fieldwork Completed	02 March 2018
Draft report to Auditee	09 March 2018
Response from Auditee	23 March 2018
Final Report to Auditee	30 March 2018

Appendix 1: Information Request

It would be helpful to have the following available prior to our audit or at the latest our first day of field work:

- Relevant background papers, as discussed at the scoping meeting.

This list is not intended to be exhaustive; we may require additional information during the audit which we will bring to your attention at the earliest opportunity.

Governance (including Supplier dependency)

- Copy of the scheme of delegation of role and responsibilities
- Evidence of the annual assurance from third party providers that they are compliant with applicable regulations and legislation

Strategy

- Contingency plans for Brexit

Grant Disbursement

- A sample of a grant offer letter

Appendix 2: Key Audit Stages, Responsibilities and Timetable

Area	Principles	Further guidance
Planning the audit	Agreeing the audit scope and objectives	<ul style="list-style-type: none"> • Internal Audit will determine and make arrangements for sufficient resources to achieve audit engagement objectives. This will be based on an evaluation of the nature and complexity of each engagement, time constraints and available resources. • An initial planning meeting will be held between Internal Audit and the Partnership Director. The planning meeting will be held in advance of the audit fieldwork commencing. The purpose of the meeting will be to agree the scope and objectives for the review, requirements during the audit and a reporting and closeout timetable. • The Partnership Director will identify the personnel who have the relevant knowledge and are best placed to answer questions in relation to the audit scope. The Partnership Director will be responsible for notifying these staff of the audit scope and any other requirements agreed with Internal Audit during the planning meeting. • Internal Audit shall be responsible for organising meetings with relevant staff.
Audit fieldwork and planning	Timely communication of issues identified during fieldwork	<ul style="list-style-type: none"> • The Auditee will be informed of the progress of the audit on a regular basis. • Any issues identified during the fieldwork by Internal Audit will be discussed with the relevant staff to ensure that they are accurate and proposed recommendations are valid and achievable. • Any material issues (Critical) will be raised by Internal Audit with the Partnership Director immediately as they arise.
Reporting	Closeout meeting to discuss and agree the internal audit report	<ul style="list-style-type: none"> • The closeout meeting will be undertaken with the Partnership Director within two weeks of the audit fieldwork being completed. • Internal Audit will provide the Partnership Director with a copy of the draft report within 2 weeks of completing the fieldwork.
Reporting	Management response to internal audit report	<ul style="list-style-type: none"> • The Partnership Director will have 2 weeks to provide management comments on the findings and recommendations in the Internal Audit report. • Internal Audit will issue the final report to the Partnership Director within 1 week of receipt of management comments.
Reporting	Reporting of internal audit findings to the Performance & Audit Committee	<ul style="list-style-type: none"> • Internal Audit shall prepare an internal audit update report annually for the Performance & Audit Committee. The update report will summarise the findings arising from the finalised internal audit report. It will also include progress on implementation of prior year internal audit recommendations.

Area	Principles	Further guidance
Follow up	Monitoring the implementation of internal audit recommendations	<ul style="list-style-type: none"> • A questionnaire will be issued to be completed by the Auditee to allow opportunity to comment directly to the Chief Internal Auditor on the satisfaction of the audit service provided. This forms part of the Internal Audit Quality Review program. • Internal audit will track the status of all open recommendations. Recommendations that are overdue will be reported to the Performance & Review Committee on an annual basis. Internal Audit will advise management of all open recommendations and invite them to provide evidence that the recommendations have been actioned.

REVENUE BUDGET 2018/19

1. Introduction

- 1.1 This report presents a revenue budget for 2018/19 for review by the Partnership's Performance and Audit Committee.
- 1.2 A revenue budget for 2018/19 will be presented to the Partnership Board for approval at its meeting on 16th March 2018.

2. Proposed Revenue Budget 2018/19

- 2.1 Section 3 of the Transport (Scotland) Act requires the constituent councils of a Regional Transport Partnership to meet the net expenses of the Partnership.
- 2.2 A financial planning report was considered by the Partnership on 19th January 2018. Three options were identified:
- a 5% reduction of £9,500 in constituent council requisitions;
 - no change in constituent council requisitions from 2017/18;
 - increase constituent council requisition and progress "Intelligent Centralisation".
- The Partnership noted the financial planning assumptions being progressed for 2018/19 and instructed options be presented on reductions in constituent council requisition of 10% and 15%.
- 2.3 The Financial Planning report also noted that a paper should be brought to the first two meetings of 2018 on "Intelligent Centralisation" proposals for 2019/20 and if possible 2018/19. To date, one proposal has been received in respect of "Intelligent Centralisation"; this for modelling and appraisal work. Officers of the Partnership will provide progress updates to future meetings of the Partnership.
- 2.4 The Scottish Government has advised that Scottish Government grant will be at the same level as 2017/18 - £782,000.
- 2.5 The Cabinet Secretary for Finance and the Constitution presented a provisional one-year Local Government Finance Settlement to the Scottish Parliament as part of the 2018/19 Draft Scottish Budget on 14th December. The draft Settlement was subject to consultation until 26th January and Scottish Parliamentary consideration thereafter.
- 2.6 On a like-for-like basis and taking account of monies provided in respect of new commitments and/or pressures, the headline year-on-year Scotland-wide decrease was around £153m, or 1.6%, of total current funding. The rate of reduction varied from council to council.
- 2.7 Following consultation and debate by the Scottish Parliament, a re-assessment of the total level of grant funding to councils was made, resulting

in an additional £170m being introduced to the Local Government Finance Settlement. While a number of differing comparisons of the relative change in the level of Settlement can be made, receipt of these additional monies resulted in an overall Scotland-wide year-on-year cash terms increase of about 0.1%.

- 2.8 Longer-term funding assumptions remain subject to uncertainty. There remains a considerable risk that there will be reductions in funding provided through the Scottish Block grant for 2019/20 and beyond.
- 2.9 A base revenue budget with a standstill council requisition of £190,000 has been prepared in consultation with officers of the Partnership. Revenue budget lines have been updated to take account of known cost commitments and savings.
- 2.10 Within the base revenue budget, provision is made for the following:
- An organisation structure of 8.54fte, based on the structure reported by the Partnership Director to Performance and Audit Committee on 17th February 2017. The employee budget includes continuing professional support as referred to in paragraph 2.5 of the Performance and Audit Committee report;
 - Implementation of pay grading structure to mitigate risk of Single Status (Equal Pay) challenges;
 - staff recharges to projects of £136,000;
 - pay award provision of up to 3%, seeking alignment to the Scottish Government public sector pay policy for 2018/19 - £10,249;
 - increment pay provision of up to £5,000;
 - 0.5% increase in employers' pension fund contribution rate, following Lothian Pension Fund actuarial review at 31st March 2017.
- 2.11 A detailed analysis of the base core revenue budget for 2018/19 is shown in Appendix 1, with the base projects budget detailed in Appendix 2.
- 2.12 As instructed by the Partnership at its meeting on 19th January 2018, options to achieve reductions of 10% and 15% in council requisitions have been developed in consultation with the Partnership's Head of Programmes, in addition to the previously identified reduction of 5%.
- 2.13 A 5% reduction in council requisitions is £9,500. It is now anticipated a reduction of £9,500 can be achieved through re-negotiation of the existing contract with Ineo Systrans to host and maintain the server to support Real Time Passenger Information. This follows First East Scotland Limited's move towards 'Ticketer' technology. It is expected that the cost of maintaining the system will reduce and this will be subject to negotiation with Ineo Systrans. There is no change anticipated for users of Real Time Passenger Information.
- 2.14 A 10% reduction in council requisitions is £19,000. It is anticipated a reduction of £19,000 could be achieved through re-negotiation of the existing contract with Ineo Systrans to host and maintain the server to support Real Time Passenger Information, as described at paragraph 2.13. As the contract is subject to re-negotiation, however, a risk remains as to the achievement of the full value of the increased saving. To mitigate this risk, other contract re-

procurement opportunities and savings will be developed, if required, during 2018/19. Only if it is not possible to realise the full value of the saving through contract re-procurement will alternative savings be identified to the Partnership for approval.

- 2.15 A 15% reduction in council requisitions is £27,500. In addition to the contract savings of £19,000 identified at paragraph 2.14, this saving would require a further saving of £9,500, which would be achieved through a reduction in Sustainable Travel expenditure. This would be achieved through a reduction in match funding for Sustainable Travel projects led by constituent councils, universities and colleges and Police Scotland.
- 2.16 At the meeting of SEStran Chief Officers on 15th February 2018, Chief Officers noted the budget options presented and expressed preference for a standstill requisition or at most a 5% reduction, to mitigate potential impacts on progressing the Active Travel agenda.
- 2.17 For the base 2018/19 revenue budget, external income of £281,000 is anticipated to fund 22.4% of proposed expenditure. Scottish Government grant funding would meet 62.4% of proposed expenditure with council contributions funding 15.2% of expenditure. The table below shows the profile of the Partnership's expenditure and income since 2011/12.

SEStran Budget 2011/12 – 2018/19

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Core	467	461	463	465	550	551	478	531
Projects	791	709	504	1,076	2,384	725	510	614
RTPI	110	117	222	286	230	344	339	108
Total Budget	1,368	1,287	1,189	1,827	3,164	1,620	1,327	1,253
External Funding								
EU Grants	313	245	146	233	131	152	95	139
Other income	48	60	61	266	1,051	486	260	142
Bus Investment Fund				346	1,000	0	0	0
Total External Funding	361	305	207	845	2,182	638	355	281
Scottish Government	782	782	782	782	782	782	782	782
Council Requisition	225	200	200	200	200	200	190	190
Total Funding	1,368	1,287	1,189	1,827	3,164	1,620	1,327	1,253

- 2.18 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 - 2019/20 and Later Years

- 3.1 The proposed revenue budget is for financial year 2018/19 only. Longer-term funding assumptions remain subject to uncertainty. There remains a risk that there will be reductions in funding provided through the Scottish Block grant for 2019/20 and beyond.
- 3.2 Public sector financial resource forecasts will be tracked throughout 2018 and a revenue budget proposal for 2019/20 will be developed for consideration by the Partnership in the autumn of 2018.
- 3.3 Proposals for any “Intelligent Centralisation” of services to deliver financial benefits for 2019/20 and if possible, 2018/19 will continue to be explored with lead transport officials of constituent councils.

4. Recommendations

- 4.1 It is recommended that the Performance and Audit Committee review this report.
- 4.2 Performance and Audit Committee is asked to note that it is anticipated that the recommendations to the Partnership meeting on 16th March 2018 will be to approve the following recommendations:
- 4.2.1 *note the baseline revenue budget developed for 2018/19, as detailed in Appendices 1 and 2;*
- 4.2.2 *note the savings option proposed at paragraph 2.13 to achieve a 5% reduction in constituent councils’ requisition;*
- 4.2.3 *note the savings option proposed at paragraph 2.14 to achieve a 10% reduction in constituent councils’ requisition;*
- 4.2.4 *note the savings option proposed at paragraph 2.15 to achieve a further 5% reduction leading to a 15% reduction overall in requisition;*
- 4.2.5 *approve a core revenue and projects budget for 2018/19 based on either:*
- 4.2.5.1 *a standstill constituent council requisition of £190,000 **or***
- 4.2.5.2 *a 5% reduction in constituent council requisition to £180,500 following a reduction in contract costs; **or***
- 4.2.5.3 *a 10% reduction in constituent council requisition to £171,000 following an increased reduction in contract costs; **or***
- 4.2.5.4 *a 15% reduction in constituent council requisition to £161,500, following a reduction of £19,000 in contract costs and a further £9,500 in Sustainable Travel expenditure.*

4.2.6 Based on the core revenue and projects budget approved at paragraph 4.2.5, instruct the Treasurer to requisition the individual constituent councils for the relevant amounts as follow:

Council Note ¹	'Stand-still' requisition	Option 1 - 5% reduction in requisition	Option 2 - 10% reduction in requisition	Option 3 - 15% reduction in requisition
Clackmannanshire	£6,192	£5,883	£5,573	£5,263
East Lothian	£12,552	£11,925	£11,297	£10,669
Edinburgh	£61,160	£58,102	£55,044	£51,986
Falkirk	£19,220	£18,259	£17,298	£16,337
Fife	£44,658	£42,425	£40,192	£37,959
Midlothian	£10,685	£10,151	£9,617	£9,083
Scottish Borders	£13,811	£13,121	£12,430	£11,739
West Lothian	£21,722	£20,636	£19,550	£18,464
Total	£190,000	£180,500	£171,000	£161,500

4.2.7 note that financial planning for 2019/20 will be developed throughout 2018 for consideration by the Partnership in autumn 2018;

4.2.8 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.

5. Background Reading/External References

[Financial Planning 2018/19: Partnership Board, 19 January 2018](#)

[Partnership Staffing Update: Performance and Audit Committee, 17 February 2017](#)

HUGH DUNN
Treasurer
2nd March 2018

¹ Council requisitions are split according to National Records of Scotland Mid-Year population estimates 2016

Appendices

Appendix 1 – Base Core Revenue Budget 2018/19
Appendix 2 – Base Revenue Projects Budget 2018/19
Appendix 3 – Risk Assessment

Contact/tel

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

Policy Implications	There are no policy implications arising as a result of this report.
Financial Implications	There are no financial implications arising.
Race Equalities Implications	There are no race equality implications arising as a result of this report.
Gender Equalities Implications	There are no gender equality implications arising as a result of this report.
Disability Equalities Implications	There are no disability equality implications arising as a result of this report.
Climate Change Implications	There are no climate change implications arising as a result of this report.

Base Core Revenue Budget 2018/19

Appendix 1

	Approved 2017/18	Base 2018/19	Cost Commitments
	£000	£000	
Employee Costs			
Salaries, National Insurance and Pension Fund	381	444	8.54 FTE permanent employees
Premises Costs	16	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	37	37	
Hosted Service – Routewise	53	53	£50,000 saving per annum in total to participating constituent councils
Printing/Stationery/Supplies	10	7	
Insurance	4	4	Employer/employee liability insurance
Equipment/Furniture/Materials	1	1	
Training/Conferences	10	10	
Interview Expenses/Advertising	2	2	
Miscellaneous Expenses	11	6	

Base Core Revenue Budget 2018/19 (continued)

Appendix 1

	Approved 2017/18 £'000	Base 2018/19 £'000	Cost Commitments
Support Services			
Finance	25	25	Per Service Level Agreement with City of Edinburgh Council. Preparation of statutory annual accounts, payment of payroll and invoices, debt recovery, banking and cash management, budget preparation, Internal Audit.
Legal Services / HR	7	7	Per contractual agreements with the Partnership's external legal provider and Falkirk Council HR service.
Corporate and Democratic			
Clerks Fees	15	15	Per Service Level Agreement with City of Edinburgh Council.
External Audit Fees	10	10	
Members Expenses	3	1	Non-Council Members expenses – Partnership meetings.
Interest	1	0	Net cost of borrowing per Partnership's Treasury Management Strategy.
Funding			
Recharges:			
• EU Projects	(117)	(136)	Recovery of employee costs – Social Car, Share-north, Regio-mob, Surflogh projects.
• Sustainable Transport	(20)	0	
Scottish Government Grant	(288)	(341)	
Net Core Expenditure	190	190	To be met by constituent councils

Base Project Budget 2018/19

Appendix 2

	Approved 2017/18	Base 2018/19	EU /Other Grant	Net Expenditure	Cost Commitments
	£'000	£'000	£'000	£'000	
EU Projects					
Social Car	0	4	(4)	0	EU grant funded project
Share-north	20	60	(30)	30	EU grant funded project
Regio-mob	5	65	(55)	10	EU grant funded project
Surflogh	0	100	(50)	50	EU grant funded project
Total	25	229	(139)	90	
RTPI					
Maintenance	226	108		108	First East Scotland Ltd moving to 'Ticketer' technology, with a server required to link operators to Traveline and Real Time Passenger Information system (RTPI).
Expansion	113	0		0	First East Scotland Ltd moving to 'Ticketer' technology.
Bus Operators income	(160)		(42)	(42)	Reduction follows First East Scotland Ltd move to 'Ticketer' technology.
Total – RTPI	179	108	(42)	66	
Sustainable Travel	190	243		243	Provision of match funding to constituent councils, universities and colleges, Police Scotland
South Tay Park and Ride	10	0		0	Agreement with TACtran complete.
Urban Cycle Networks	20	132	(100)	32	Contractually committed on a year to year basis. Includes funding for Cycling Officer.
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.
Research and Development	50	0		0	Funding for Rail/Bus Advice, SDP/LDP and RTS Monitoring transferred to Sustainable Travel.
Total	484	722	(281)	441	

Risk Assessment

Appendix 3

Risk Description	Existing Controls
Pay awards. The proposed budget assumes provision for a pay award of up to 3% in 2018/19, which is based on alignment with the Scottish Government's public sector pay policy for 2018/19. A 1% increase in pay award uplift equates to an increase in cost of approximately £3,400.	Alignment with Scottish Government Public Sector Pay Policy.
The proposed budget does not adequately cover price inflation.	Allowance has been made for specific price inflation and other budgets have been adjusted in line with current demand / forecasts.
The deficit on the staff pension fund could lead to increases in the employer's pension contribution.	The Partnership continues to benefit from Lothian Pension Fund's (LPF) contribution stability mechanism as part of the Fund's strategy to manage volatility in employer contribution rates. Following LPF's Triennial Actuarial Review in 2017, Partnership contribution rates are confirmed to 2020/21.
Following the outcome of the EU Referendum, the Partnership is unable to access EU funding	The Partnership continues to seek alternative funding sources to progress knowledge exchange/transfer and to seek to successfully bid for EU projects following the United Kingdom servicing notice under Article 50.
Delays in payment of grant by the EU results in additional short-term borrowing costs.	SEStran grant claims for EU funded projects are submitted in compliance with requirements of EU control processes to ensure minimal delay in receipt of payment. Ongoing monitoring of cash flow is undertaken to manage exposure to additional short-term borrowing costs.
Current staffing levels cannot be maintained due to funding constraints and the Partnership incurs staff release costs.	The Partnership continues to seek additional sources of funding for activities aligned to the Partnership's objectives to supplement resources.
Approved savings options are not delivered.	Regular monitoring of savings implementation, with action taken by Partnership officers to develop alternative measures, if required for approval by the Partnership.

Annual Treasury Strategy

1. Purpose of Report

1.1 The purpose of this report is to propose an Investment Strategy for 2018/19.

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 Partnership. Interest is given on month end net indebtedness balances between the Council and the Partnership in accordance with the former Local Authority (Scotland) Accounts Advisory Committee's (LASAAC) Guidance Note 2 on Interest on Revenue Balances (IoRB). These arrangements were put in place given the existing 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 Partnership 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 Partnership 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.



ACCOUNTING POLICIES

1. Introduction

- 1.1 This report presents the Partnership's Accounting Policies proposed for preparation of the 2017/18 Annual Accounts, for review by the Partnership's Performance and Audit Committee.

2. Accounting Policies

- 2.1 The Partnership's Annual Accounts are prepared in accordance with the International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) to ensure that the Annual Accounts "present a true and fair view" of the financial position and transactions of the Partnership.
- 2.2 Appendix 1 presents the Partnership's existing Accounting Policies, applied in preparation of the 2016/17 Annual Accounts.
- 2.3 There are no changes to the Accounting Code of Practice which are anticipated to require a change to the Partnership's Accounting Policies for preparation of the 2017/18 Annual Accounts and it is consequently recommended that the Policies detailed in Appendix 1 are applied when preparing the 2017/18 Annual Accounts.

4. Recommendations

- 4.1 It is recommended that the Performance and Audit Committee review the proposed Accounting Policies for 2017/18 and comment as appropriate.
- 4.2 Subject to any comments arising from Performance and Audit Committee's review of the proposed Accounting Policies for 2017/18, it is recommended that the Accounting Policies detailed in Appendix 1 are applied when preparing the 2017/18 Annual Accounts.

HUGH DUNN
Treasurer
2nd March 2018

Appendices Appendix 1 – Accounting Policies

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

Policy Implications	There are no policy implications arising as a result of this report.
Financial Implications	There are no financial implications arising.
Race Equalities Implications	There are no race equality implications arising as a result of this report.
Gender Equalities Implications	There are no gender equality implications arising as a result of this report.
Disability Equalities Implications	There are no disability equality implications arising as a result of this report.
Climate Change Implications	There are no climate change implications arising as a result of this report.

1. Statement of Accounting Policies

1.1 Accounting Policies

The Annual Accounts are prepared in accordance with the International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This is to ensure that the Annual Accounts "present a true and fair view" of the financial position and transactions of the Partnership.

The Annual Accounts are prepared on an historic cost basis, modified by the valuation of pension assets and liabilities and property, plant and equipment, where appropriate.

1.2 Revenue Expenditure

Revenue expenditure is that which does not yield benefit beyond the year of account. In broad terms the revenue expenditure of the Partnership can be divided into two categories:

- employees;
- day-to-day operating expenses, includes costs incurred in respect of furniture and fittings, and equipment.

1.3 Accruals of Expenditure and Income

The revenue account is 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 are accounted for on an accruals basis.

1.4 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 does not have any leased-out assets that fall under the definition of operating leases.

1.5 Overheads

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

1.6 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.

1.7 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 are 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 are 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 are 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.

1.8 Non-Current Assets

a) Intangible Assets

Expenditure on assets that have no physical substance but are identifiable and controlled by the Partnership are 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 are 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 is capitalised on an accruals basis;

Depreciation:

- Depreciation is provided on all Property, Plant and Equipment;
- The Partnership provides depreciation on its Property, Plant and Equipment from the month when it comes into use. 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 is included in the Balance Sheet at the lower of net current replacement cost or net realisable value in existing use, net of depreciation.

1.9 Government Grants and Other Contributions

● Revenue

Revenue grants and other contributions are included in the financial statements on an accruals basis.

Where such funds remain unapplied at the Balance Sheet date, but approval has been given to carry these funds forward to the next financial year, the funds are accrued.

● Capital

Capital grants and contributions are recognised in the Comprehensive Income and Expenditure Statement, except to the extent there are conditions attached to them that have not been met.

Where there are no conditions attached to capital grants and contributions, these funds are a reconciling item in the Movement in Reserves Statement by way of an adjusting transaction with the capital adjustment account where expenditure has been incurred and the unapplied capital grants account, where expenditure has not been incurred.

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

1.10 Provisions

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

1.11 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.

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.

1.12 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.

1.13 Cash and Cash Equivalents

Cash and cash equivalents include credit and debit funds held in banks.

1.14 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.

1.15 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.

1.16 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.

1.17 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 are included.

1.18 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.

General Data Protection Regulation (GDPR) and Cyber Security

1. INTRODUCTION

- 1.1 The purpose of this report is to provide the Committee with an update on the work being undertaken by Officers in preparation for the GDPR and the Scottish Government's (SG) Cyber Security Action Plan.

2. BACKGROUND

- 2.1 The GDPR is a regulation by which the European Parliament, the Council of the European Union and the European Commission intend to strengthen and unify data protection for all individuals within the European Union (EU).
- 2.2 The GDPR will introduce significant new fines for personal data breaches from May 2018 which reinforces the key role that cyber security has in underpinning digital public services that handle personal data.

3. GDPR

- 3.1 Following a review of the status of current information governance initiatives, it was concluded that while SEStran holds little personal data, there are a number of compliance tasks which must be addressed in a proportionate way.
- 3.2 The following draft documents have been prepared and are currently under review by the Partnership's legal advisers and once finalised will be presented to the Board for adoption:
- A SEStran Privacy Notice to describe, for the public, SEStran use of personal data with the details required by GDPR.
 - A revised SEStran Data Protection Policy to outline arrangements for GDPR compliance.
- 3.3 Other actions include reviewing our SLAs to incorporate the requirements of GDPR article 28 and reviewing disposal periods for staff mailboxes.

4. CYBER SECURITY

- 4.1 Following on from reports presented to the September and November meetings last year, which outlined the requirements of the SG Cyber Security Public Sector Action Plan, the Committee should note that SG have issued grant award letters of up to £1000 for Cyber Essentials Pre-Assessment.
- 4.2 The pre-assessments are a precursor to Cyber Essentials accreditation and will identify any remedial actions that may be required before accreditation can be awarded and recommends the level of accreditation required.

4.3 The Committee should note that the cost of any remediation work will be the responsibility of SEStran, as is the cost of accreditation. Whilst the cost of remedial works is unknown, Officers are optimistic that the organisation is already 85% compliant.

4.4 Timescales for the project are:

- Pre-Assessment March 2018
- Accreditation October 2018

5. RECOMMENDATIONS

4.1 The Committee is asked to note the contents of this report; and .

4.2 Note that further reports will presented to the Committee and Partnership Board.

Angela Chambers
Business Manager
February 2018

Policy Implications	Revised Data Protection Policy to be adopted
Financial Implications	Potential remedial works and cost of accreditation
Equalities Implications	None
Climate Change Implications	None