



PERFORMANCE & AUDIT COMMITTEE

Conference Room 2, Victoria Quay, Edinburgh, EH6 6QQ
Friday 8th June 2018 – 10:00am

AGENDA

1. **ORDER OF BUSINESS**
2. **APOLOGIES**
3. **DECLARATIONS OF INTEREST**
4. **APPOINTMENT OF CHAIR**
5. **MINUTES OF THE P&A COMMITTEE – FRIDAY 24th NOVEMBER 2017**
6. **ANNUAL INTERNAL AUDIT OPINION 2017/18** - Report by Lesley Newdall
Supporting Documents:
(a) Draft Annual Governance Statement
(b) Statement on the System of Internal Financial Controls
7. **FINANCE REPORTS** – Reports by Iain Shaw
(a) Unaudited Annual Accounts 2017/18
(b) Annual Treasury Management Report 2017/18
8. **RISK MANAGEMENT REPORT** – Report by Angela Chambers
9. **CYBER RESILIENCE** – Report by Angela Chambers
10. **DATE OF NEXT MEETING**
The date of the next meeting has been scheduled for **10:00am on Friday 7th September 2018, Conference Room 2, Victoria Quay, Edinburgh, EH6 6QQ**

Gavin King
Secretary to SESTRAN
Democracy, Governance and Resilience Senior Manager
Strategy & Insight Division
The City of Edinburgh Council
Waverley Court 2.1
Edinburgh
EH8 8BG

1 June 2018

Telephone: 0131 529 4239 or E-mail: gavin.king@edinburgh.gov.uk
Agendas and papers for all SEStran meetings can be accessed on www.sestran.gov.uk



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, Howie 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
Internal Audit – Annual Report 2017/2018

1. Introduction

This report details Internal Audit's annual opinion for the South East of Scotland Transport Partnership (SEStran) for the year ended 31 March 2018. Our opinion is based on the outcomes of one audit included in the 2017/18 Internal Audit annual plan; the status of any open Internal Audit findings; and review of the SEStran draft annual governance statement.

Internal Audit considers that the SEStran control environment and governance and risk management frameworks are generally adequate, but with enhancements required, and is therefore reporting an 'amber' rated opinion (see Appendix 1), with our assessment towards the low end of this category.

This report is a component part of the overall annual assurance provided to SEStran, and the Board should consider the opinion of other assurance sources (such as external audit and the Treasurer's annual statement) when forming their own view on the design and effectiveness of the control environment and governance and risk management frameworks at SEStran.

2. Background

- 2.1 The objective of Internal Audit is to provide a high quality independent audit service to SEStran in accordance with Public Sector Internal Audit Standards (PSIAS) requirements, that provides assurance over the control environment established to manage SEStran's key risks and their overall governance and risk management arrangements.
- 2.2 PSIAS provide a coherent and consistent internal audit framework for public sector organisations. Adoption of the PSIAS is mandatory for internal audit teams within UK public sector organisations, and PSIAS require annual reporting on conformance.
- 2.3 It is the responsibility of the Council's Chief Internal Auditor to provide an independent and objective annual opinion on the adequacy and effectiveness of the SEStran control environment and governance and risk management frameworks in line with PSIAS requirements. The opinion is provided to the Partnership Board, and should be used to inform the SEStran annual governance statement.

- 2.4 The City of Edinburgh Internal Audit team currently performs one annual audit that focuses on the key controls established to manage SEStran's most significant risks.
- 2.5 The annual opinion provides an independent view of the adequacy and effectiveness of the SEStran control environment and governance and risk management frameworks, and is based on the outcomes of the audit performed; the status of any open Internal Audit findings; and review of the SEStran draft annual governance statement.
- 2.6 Where control weaknesses are identified, Internal Audit findings are raised, and management agree actions to address the gaps identified. However, it is the responsibility of management to address and rectify the weaknesses identified via timely implementation of these agreed management actions.
- 2.7 The IA definition of an overdue finding is any finding where all agreed management actions have not been implemented by the final date agreed by management and recorded in Internal Audit reports.

3. Main Report

- 3.1 Internal Audit considers that the SEStran control environment and governance and risk management frameworks are generally adequate, but with enhancements required, and is therefore reporting an 'amber' rated opinion (see Appendix 1), with our assessment towards the low end of this category.
- 3.2 This opinion is subject to the inherent limitations of internal audit (covering both the control environment and the assurance provided over controls) as set out in Appendix 2.
- 3.3 This report is a component part of the overall annual assurance provided to SEStran, and the Board should consider the opinion of other assurance sources (such as external audit, and the Treasurer's annual statement) when forming their own view on the design and effectiveness of the SEStran control environment and governance and risk management frameworks

4. Basis of opinion

- 4.1 Our opinion is based on the outcome of the audit completed in the year to 31 March 2018; the status of any open internal audit findings; and review of the SEStran draft annual governance statement.

Item 6. Internal Audit – Annual Audit Opinion 2017/2018

Audit outcomes

- 4.2 The 2017/18 Internal Audit review assessed 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.
- 4.3 Our review identified some moderate control gaps in the design of the SEStran governance scheme in relation to short term contingency planning in the event of unplanned absence at senior levels within the partnership; SEStran employee succession planning; and the process to be applied in the event of resignation of a Board chair during their term of office.
- 4.4 We also noted that whilst the partnership risk register includes a high rated risk in relation to potential Brexit impacts on funding, no plan has been established detailing the actions in progress to ensure that post Brexit funding can be sourced and secured.

It is essential that at least circa 4% of new funding (this reflects the percentage of SEStran total average funding across the last 3 years sourced from the EU) is secured post Brexit to support both the ongoing operation of the partnership, and delivery of the planned strategic transport improvements through to 2028 as detailed in the Regional Transport Strategy, however, it is also acknowledged SEStran cannot realistically plan financial budgets beyond one year due to ongoing constraints in relation to government funding.

- 4.5 Consequently, one medium and one low rated internal audit findings were raised.

Status of Internal Audit Findings

- 4.6 All Internal Audit findings raised in 2015/16 and 2016/17 have been addressed and agreed management actions effectively implemented and sustained.
- 4.7 Internal Audit confirmed that management proposals to address the Medium and Low rated findings raised in the 2017/18 audit review are satisfactory, subject to agreement on the approach with the Council's Board Services team. Management has advised that they are aiming to implement their agreed actions in advance of the June Board meeting, with a verbal progress update to be provided.

Review of SEStran draft annual governance statement schedule

- 4.8 Review of the schedule prepared by management supporting the SEStran annual governance statement did not identify any instances of non compliance highlighted in the management responses that would adversely impact on our internal audit opinion.

5. Internal Audit Independence

- 5.1 PSIAS require that Internal Audit must be independent and internal auditors must be objective in performing their work. To ensure conformance with these requirements, Internal Audit has established processes to ensure that both team and personal independence is consistently maintained and that any potential conflicts of interest are effectively managed.
- 5.2 We do not consider that we have faced any significant threats to our independence during 2017/18, nor do we consider that we have faced any inappropriate scope or resource limitations when completing our work.

6. Recommendations

- 6.1 It is recommended that the Board notes the internal audit opinion for the year ended 31 March 2018.

Lesley Newdall

Chief Internal Auditor, City of Edinburgh Council

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

Appendices: Appendix 1 – Internal Audit Annual Opinion Definitions

Appendix 2 - Limitations and responsibilities of internal audit and management responsibilities

Appendix 3 – SEStran annual internal audit review – final report

Appendix 4 – SEStran assurance questionnaire

Appendix 1

Appendix 1 – Internal Audit Annual Opinion Definitions

The PSIAS require the provision of an annual Internal Audit opinion, but do not provide any methodology or guidance detailing how the opinion should be defined. We have adopted the approach set out below to form an opinion for SEStran.

We consider that there are 4 possible opinion types that could apply to SEStran. These are detailed below:

<p>1 Adequate</p> <p><i>An adequate and appropriate control environment and governance and risk management framework is in place enabling the risks to achieving organisation objectives to be managed</i></p>	<p>2 Generally adequate but with enhancements required</p> <p><i>Areas of weakness and non-compliance in the control environment and governance and risk management framework that may put the achievement of organisational objectives at risk</i></p>
<p>3 Significant enhancements required</p> <p><i>Significant areas of weakness and non-compliance in the control environment and governance and risk management framework that puts the achievement of organisational objectives at risk</i></p>	<p>Inadequate</p> <p><i>The framework of control and governance and risk management framework is inadequate with a substantial risk of system failure resulting in the likely failure to achieve organisational objectives.</i></p>

Professional judgement is exercised in determining the appropriate opinion, and it should be noted that in giving an opinion, assurance provided can never be absolute.

Appendix 2 - Limitations and responsibilities of internal audit and management responsibilities

Limitations and responsibilities of internal audit

The opinion is based solely on the internal audit work performed for the financial year 1 April 2017 to 31 March 2018. Work completed was based on the terms of reference agreed with management. However, where other matters have come to our attention that are considered relevant, they have been considered when finalising our reports and the annual opinion.

There may be additional weaknesses in the SEStran control environment and governance and risk management frameworks that were not identified as they were not included in the 2017/18 audit review; were excluded from the scope of the review; or were not brought to Internal Audit's attention. Consequently, management and the Board should be aware that the opinion may have differed if these areas had been included, or brought to Internal Audit's attention.

Control environments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making; human error; control processes being deliberately circumvented by employees and others; management overriding controls; and the impact of unplanned events.

Future periods

The assessment of controls relating to the SEStran is for the year ended 31 March 2017. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Audit

It is Management's responsibility to develop effective control environments and governance and risk management frameworks that are designed to prevent and detect irregularities and fraud. Internal audit work should not be regarded as a substitute for Management's responsibilities for the design and operation of these controls.

Internal Audit endeavours to plan its work so that it has a reasonable expectation of detecting significant control weaknesses and, if detected, performs additional work directed towards identification of potential fraud or other irregularities. However, internal audit procedures alone, even when performed with due professional care, do not guarantee that fraud will be detected.

Consequently, internal audit reviews should not be relied upon to detect and disclose all fraud, defalcations or other irregularities that may exist.

The City of Edinburgh Council

Internal Audit

SEStran - Annual Internal Audit review

Final Report

30 April 2018

MIS1708

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This internal audit review is conducted for the South East Scotland Transport Partnership under the auspices of the 2017/18 internal audit plan approved by the South East Scotland Transport Partnership Board in March 2017. The review is designed to help the South East Scotland Transport Partnership assess and refine its internal control environment. It is not designed or intended to be suitable for any other purpose and should not be relied upon for any other purpose. The City of Edinburgh Council accepts no responsibility for any such reliance and disclaims all liability in relation thereto.

The internal audit work and reporting has been performed in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as a result is not designed or intended to comply with any other auditing standards.

Although there specific recommendations are included in this report to strengthen internal control, it is management's responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the South East Scotland Transport Partnership. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical rated risk findings will be raised with senior officers and board members as appropriate

1. Background and Scope

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.

The SEStran Governance Scheme was implemented in August 2017, and includes a range of key documents that form the basis of both Partnership operations and decision making.

Scope

The scope of this review assessed 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 risks:

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

For the full terms of reference see Appendix 2.

2. Executive summary

Summary of findings raised

1. **Medium - Governance Scheme- contingency and succession planning**

2. **Low - Future Funding**

Opinion

Our review identified some moderate control gaps in the design of the SEStran governance scheme in relation to short term contingency planning in the event of unplanned absence at senior levels within the partnership; SEStran employee succession planning; and the process to be applied in the event of resignation of a committee chair during their term of office.

We also noted that whilst the partnership risk register includes a high rated risk in relation to potential Brexit impacts on funding, no plan has been established detailing the actions in progress to ensure that post Brexit funding can be sourced and secured. It is essential that at least circa 4% of new funding (this reflects the percentage of SEStran total average funding across the last 3 years sourced from the EU) is secured post Brexit to support both the ongoing operation of the partnership, and delivery of the planned strategic transport improvements through to 2028 as detailed in the Regional Transport Strategy.

Consequently, one medium and one low rated findings have been raised.

Our review confirmed that all other aspects of the SEStran governance framework are adequately designed and operating effectively. We noted that there is a robust process in place for recruiting new non-councillor Board members and provision of training; and that third party services are effectively managed and monitored to ensure ongoing compliance with applicable legislation. Additionally, controls in relation to grant disbursement are operating effectively with returns provided to all grant providers demonstrating that funds have been disbursed as per grant offer conditions.

Our detailed findings and recommendations are laid out within Section 3: [Detailed findings](#)

SEStran management met with Internal Audit on 30 April 2018 to outline their proposals to address the findings raised. IA has confirmed that the planned approach is satisfactory. SEStran are aiming to implement the agreed actions in advance of the agreed implementation dates (subject to agreement of the approach with the Council's Committee Services team) so that confirmation of closure can be provided at the SEStran Board meeting scheduled for 22 June 2018.

3. Detailed findings

1. Governance scheme – contingency and succession planning

Medium

The remit and responsibilities of the SEStran Succession Planning Committee are detailed in the ‘List of Committee Powers’ document. However, their remit does not include responsibility for either short term operational contingency or long term succession planning for SEStran employees, or for the replacement of a committee chair in the event that they leave during their term of office.

There is currently no established SEStran contingency plan to ensure that the organisation continues to operate effectively in the event of unplanned long term absence at senior levels (Director and Programme Manager). There is also no established long-term succession plan to ensure that appropriate successors have been identified and developed to move into more senior operational roles in future.

Whilst there is an established process delegating authority to authorise invoices for payment from the Partnership Director to the Head of Programmes and the Business Manager to cover annual leave, there is no established delegated authority for key operational processes such as payments; procurement; payroll; and grant acceptance in the event of unplanned absence at senior levels.

Risk

The partnership is unable to operate in the event of unplanned absence at senior levels.

Internal Audit Recommendation(s)

1. The remit of the SEStran succession planning committee should be revised to include responsibility for establishing operational contingency and succession plans for the partnership. These plans should be presented to the partnership Board for approval prior to implementation;
2. A partnership contingency plan should be prepared, approved by the Board, and implemented. This should include (but should not be limited to) allocation of operational responsibilities and the processes to be applied in the event of unplanned absence at a senior level; and the process to be applied in the event that a committee chair leaves during their term of office; and
3. A SEStran succession plan should be prepared, approved by the Board, and implemented. This should include identification of potential role successors together with an assessment of their level of readiness (based on skills recorded in the SEStran skills matrix); their development needs; and training plans to support their future development. Identification and upskilling potential future successors should also support effective contingency planning.

Agreed Management Action(s)

1. It is proposed to add a further remit to the “List of Committee Powers” document, at Section 3, for the Succession Planning Committee as follows:
 “to prepare, for Partnership Board approval, operational contingency and succession plans for the Partnership”.
 We would then seek to work with the Succession Planning Committee and to progress this as soon as possible.

Owner: Acting Partnership Director

Implementation Date: 22/06/18

2. A “Partnership Operational Contingency Plan” will be prepared and included as an addendum to the “List of Officer Powers” document within the Governance Scheme. The plan will assign operational and procedural responsibilities to appropriate staff levels, in the event of absence at a senior level.
 In addition, the document will include a procedure to be followed in the event of the Partnership Board Chair leaving during a term of Office, which will clearly require engagement with the Vice Chairs and the wider Board, as part of the process.

Owner: Acting Partnership Director

Implementation Date: 22/06/18

3. A succession plan in relation to SEStran staff will be prepared.

Owner: Acting Partnership Director

Implementation Date: 22/06/18

2. Future funding

Low

SEStran has identified Brexit as a high risk on their risk register. However, the risk register does not include planned actions to ensure that post Brexit funding of an equal value to that currently received from the European Union (4% of total average funding for the last 3 years) can be sourced to support ongoing operations, and delivery of the planned strategic transport improvements through to 2028 as detailed the Regional Transport Strategy.

It is acknowledged SEStran cannot realistically plan financial budgets beyond one year due to ongoing constraints in relation to government funding.

Risk

Long term viability of the partnership post Brexit.

Internal Audit Recommendation(s)

The risk register should be updated to include proposed actions in relation to sourcing alternative funding sources post Brexit, with regular progress updates provided to the Board.

Agreed Management Action(s)

The risk register will be updated in respect of actions to source additional funding beyond Brexit.

Owner: Acting Partnership Director

Implementation Date: 22/06/18

Appendix 1 - Basis of our classifications

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 2 – Terms of Reference

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.• 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;

	<ul style="list-style-type: none"> 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
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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 and Responsibilities

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.

		<ul style="list-style-type: none"> • 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.

**Joint Boards
Schedule to Support Evidence of Assurance
for the Annual Governance Statement**

For the year end 31 March 2018

Name of Joint Board		South East Scotland Transport Partnership		
Completed by	Angela Chambers	Job title	Business Manager	Date completed 13 April 2018
Signed off by (signature)		Job title	Acting Partnership Director	
Print name of signatory	Jim Grieve	Date of signature	13 April 2018	

Introduction

The Statement of Accounts 2017/2018 includes the Annual Governance Statement signed by the Chair of the Partnership, the Partnership Director and the Treasurer. The Annual Governance Statement is supported by the Certificate of Assurance.

The Certificate of Assurance requires the Partnership Director to confirm that:

1. They have considered the effectiveness of internal controls, including controls in place to mitigate major risks to the Partnership's objectives;
2. To the best of their knowledge, appropriate controls are in operation upon which they can place reasonable assurance and that there are no significant matters arising that should be raised specifically in the Annual Governance Statement (or otherwise);
3. They have identified actions that will be taken to continue improvement.

This schedule should be used as a prompt for the Partnership Director to consider various aspects of good governance and the internal control environment before signing the Certificate of Assurance. It is not an exhaustive list.

Guidance notes for completing the schedule

The schedule should be completed by the Partnership Director or by a nominated officer. Before signing the Certificate of Assurance the Partnership Director should ensure that this schedule has been completed accurately.

Guidance notes are provided throughout the document but if you have any questions please email the Council's Governance Team at governance@edinburgh.gov.uk.

Please note that although evidence does not need to be attached to the completed schedule, accurate reference should be made to any supporting evidence. **This is because responses made in the schedule may be subject to audit at a later date.**

Your assessment should consider how your Partnership's arrangements would stand up to external scrutiny. When completing the schedule please include an assessment of the Partnership's compliance and, if your assessment is partially or not compliant, please note planned improvement actions in the relevant column.

Please return your completed schedule to governance@edinburgh.gov.uk no later than **Friday 20 April 2018**.

Internal Control Environment, Risk and Resilience Requirement	Guidance notes	Response and reference to evidence	Assessment	Improvement Actions
1 You must ensure internal controls and procedures are in place throughout the Partnership that are proportionate, robust, monitored and operating effectively.	Please describe and/or give examples of the controls and procedures that you have in place and how these are monitored, tested and reported.	The Partnership has the following controls and procedures: Governance Scheme, HR Policies, Internal/External Audit, EU projects Audits, Conditions of Grant compliance, Anti-Fraud and Corruption Policy, Whistle Blowing Policy, Business Continuity Plan, Complaints Policy, Code of Conduct. There is a monitoring framework in place, including regular management meetings with key support staff/stakeholders/service providers and regular reporting to Performance & Audit Committee, Partnership Board and regulatory bodies.	Compliant	
2 You must ensure risk management arrangements identify the key risks to the Partnership, including those arising from: change (e.g. structural, service delivery, demographic and/or management); partnerships (external and internal) and projects.	Please describe your risk management arrangements and confirm that the three categories listed are included (where relevant).	Regular risk reports, identifying key risks, are presented to the Performance & Audit Committee and are also contained within finance/budget papers taken to the P&A Comm., Partnership Board and Officer meetings. Risk framework review complete and approved by P&A in November 2017.	Compliant	
3 You must ensure effective controls and procedures are in place to manage the risks identified above to a tolerable level. Where this is not the case, actions should be identified that, once put in place, will ensure the risk is managed to a tolerable level.	Please describe the controls and procedures that you have, or plan to put, in place.	Risk Register established and regularly reviewed and updated by key personnel. All identified risks within the risk register have associated mitigation measures in place. Risk reports are presented to Chief Officers', P&A and Partnership Board. Internal/External Audit annual audit process/exercise conducted.	Compliant	

4	You should have effective controls and procedures in place to manage the risks in delivering services through contracted parties and/or other partners, where applicable.	Please describe the controls and procedures that you have in place.	SEStran Governance Scheme, Service Level Agreements, Audit, staff monitoring of contracts/contractor management, Data Protection Policy, Information Security Policy, Records Management Plan. Regular reports presented to P&A and Partnership Board.	Compliant
5	Has the monitoring process applied to funding/operating agreements identified any problems that could have an impact on the Annual Accounts?	Please describe the arrangements you have in place, including an overview of the monitoring process and frequency of reporting, and summarise any problems that have been identified.	Compliance/Conditions of Grant statements submitted to Scottish Government annually. SLAs in place with CEC (Financial/Insurance/Secretary*/Clerking*), Falkirk Council (HR) and Anderson Strathern LLP (Legal). Full monitoring framework in place, including internal monthly staff management meetings, quarterly reports to Chief Officers', P&A and Partnership Board. *Currently being updated.	No
6	You must review the Partnership's risk management, internal controls and procedures and their effectiveness regularly.	Please describe how these are reviewed, by whom and how often.	Risk Management process – refer to Item 2 and 3 above. Review framework established and regular reports presented to P&A and Partnership Board. Timetable for Review: Governance Scheme (Secretary/Partnership Director/Legal Advisers) – Every second year (reviewed Aug 2017) HR Policies (HR Advisers/Partnership Director) – Annually Anti-Fraud and Corruption Policy (Treasurer) – Every second year (Review due)	Compliant

7	Did the last review of the Partnership's internal control environment identify any weaknesses that could have an impact on the Annual Accounts.	Please include the date of last review, whether any weaknesses were identified and, if so, how these have been or will be addressed	Internal Audit work for 16/17 completed with no areas of weakness identified. Annual Internal Audit Review 17/18 is in the process of being finalised and draft report has identified the following risks: 1. Medium – Governance Scheme – Contingency and succession planning 2. Low – Future funding The Management response is being drafted and all actions are expected to be completed by end of June 18.	No	
8	Your business continuity plans and arrangements should mitigate the business continuity risks facing the Partnership's essential activities.	Please detail the plans and arrangements you have in place and explain how and when these are reviewed and reported.	Business Continuity Plan – the plan outlines the process used by SEStran to identify risk, threats and vulnerabilities that could impact on continued operations and provides a framework for building resilience and capability for an effective response. Reviewed annually or in the event of any significant changes.	Compliant	
9	Your risk management arrangements should adequately identify the risk(s) of any actual or prospective legal action being taken against the Partnership, or any matter which may actively lead to legal dispute with the Partnership.	Please outline the arrangements you have in place.	SEStran Legal Advisers and Secretary fully engaged in the risk reporting process and governance procedures and they provide support as per the terms of contract.	Compliant	
10	You must have adequate arrangements in place to identify any matters which give rise to a significant risk of reputational damage to the Partnership.	Please describe the arrangements you have in place.	The Business Continuity Plan, Information Security Policy, Governance Scheme, Records Management Plan, Data Protection Policy and Risk Framework all provide a structure for reviewing/monitoring any risks to organisational reputation and action taken as appropriate. SEStran are working towards Cyber Essentials Plus accreditation by Oct 2018.	Compliant	

Performance	Guidance notes	Response and reference to evidence	Assessment	Improvement actions
<p>11 Where performance monitoring identifies inadequate service delivery or poor value for money, you must have arrangements in place for reporting to your senior management team and/or the Partnership Board.</p>	<p>Please describe your performance monitoring arrangements, including frequency of reporting, and provide detail of any such reports during the reporting period.</p>	<p>Financial/Treasury Management/Projects reports are presented quarterly to Chief Officers', P&A and the Partnership Board. Internal/External Audit undertaken annually. Monthly management meetings, includes budget planning/monitoring. Business Plan sets out strategic objectives and KPIs which are reported to P&A and Partnership Board.</p>	<p>Compliant</p>	
<p>12 You should have arrangements in place to implement and monitor improvement measures to address any service delivery or performance problems.</p>	<p>Please describe the arrangements you have in place, give details of improvement measures introduced during the reporting period and outline any outstanding issues.</p>	<p>Regular budget/projects monitoring meetings at management level and with Accountant. Reporting against KPIs identified in Business Plan implemented.</p>	<p>Compliant</p>	
<p>13 You must have appropriate arrangements in place for recording, monitoring and managing customer service complaints and customer satisfaction.</p>	<p>Please describe the arrangements you have in place and how these are monitored, reviewed and reported.</p>	<p>Quarterly monitoring of KPIs. Complaints Policy. Customer helpdesk in place for RTP1 system. Business Plan KPI. Staff are trained to deal with enquiries from the public.</p>	<p>Compliant</p>	
<p>Policies and regulatory requirements</p>	<p>Guidance notes</p>	<p>Response and reference to evidence</p>	<p>Assessment</p>	<p>Improvement actions</p>
<p>14 You must have arrangements in place to ensure staff are made aware of and fully understand the implications of relevant existing and new Partnership policies.</p>	<p>Please describe the arrangements you have in place.</p>	<p>Staff induction for all new employees. Staff training planned for 2018 to include GDPR and cyber security. Staff are consulted about new/revised policies before being presented to the Board and circulated as final thereafter.</p>	<p>Compliant</p>	

			Discussions at team meetings, through appraisal process and available on sharepoint site.		
15	You should have procedures in place to monitor staff compliance with relevant conduct policies and procedures eg. employee code of conduct, anti-bribery, whistleblowing.	Please describe the procedures that are in place eg. recording gifts and hospitality, recording conflicts of interest, bringing whistleblowing issues to the attention of senior management, etc.	Hospitality/Gift Register. Anti-Bribery Policy/procedures. Whistle blowing policy. Information Security Policy. Terms and Conditions of Employment Acceptable Use Policies. Disciplinary and Grievance procedures.	Compliant	
16	You should have arrangements in place to ensure all staff are aware of their responsibilities under information governance legislation e.g. Data Protection Act 1998 and Freedom of Information (Scotland) Act 2002.	Please describe the arrangements you have in place and how these are monitored and reported.	Staff Induction for new employees. Records Management Plan and associated policies. Data Protection policy revised in line with GDPR and approved by Board. Staff training planned by end May 2018.	Compliant	
17	All your staff should be aware of their responsibilities under relevant health and safety policies and procedures.	Please describe the procedures you have in place to ensure all staff are made aware of and fully understand their responsibilities in relation to existing policies, and new policies when these are introduced, eg. health and safety, fire safety, first-aid and emergency procedures, stress, accident/incident and work related ill health reporting, asbestos, water safety.	All staff receive induction, have access to policies on sharepoint and the website. Staff attend weekly team meetings, where they receive briefings as required. All staff have 1:1 meetings and go through a training and development exercise annually. There is a MOU/MOTO with the Landlord (Scottish Government) to look after the building to required legislative standards. Regular meetings with the Landlord, including quarterly H&S meetings. Policies are reviewed by H&S adviser.	Compliant	

		Policies are reviewed and reported to P&A Committee.	
18	Your organisation should have adequate training, procedures and controls in place to ensure that all areas operate in compliance with all applicable health and safety laws and regulations.	Please describe the arrangements in place and explain how you monitor compliance.	Scottish Government, as Landlord, has responsibility for the building. SEStran has relevant H&S policies/procedures in place. Policies available to all staff. H&S advice provided by Falkirk Council.
19	You should have competencies, processes and controls in place to ensure that all areas of your organisation, and any other areas of responsibility, operate in compliance with all applicable health and safety laws and regulations.	Please describe the arrangements you have in place and how these are monitored, reviewed and reported.	Scottish Government in their role as Landlord, have responsibility for the building. General Office Risk Assessment completed and H&S advice is provided by Falkirk Council. Qtrly H&S meetings with landlord and staff training provided.
20	Your organisation should have effective arrangements in place to ensure there is full compliance with Scottish, UK and EU legislation and regulations.	Please describe the arrangements you have in place, including risk assessment, monitoring and compliance with statutory reporting requirements.	SEStran has the following arrangements: Governance Scheme, Treasury Management SLA, Internal/External Audit. Legal Adviser/Secretary to Partnership. First Level Controller appointed for EU projects.
Financial Control	Guidance notes	Response and reference to evidence	Assessment
21	You must ensure that the operation of financial controls is effective in ensuring the valid authorisation of financial transactions and maintenance of accurate accounting records.	Please describe your financial controls.	Compliant
		Controls in place include: Financial Rules, Contract and Regular Standing Orders, Corporate Procurement Policy (Within Governance Scheme), SLAs for Treasury Management, Limits of Authority and Purchase Card Policy.	Improvement actions

			Regular budget monitoring meetings with key staff with quarterly reports presented to Chief Officers', P&A and Partnership Board.		
22	You should be confident that the arrangements you have in place to monitor expenditure/budget variances would identify control problems or variances that could have an effect on the Annual Accounts.	Please give details of the arrangements you have in place and if any control problems or variances have been identified.	Regular reporting and monitoring of expenditure and budgets, including management meetings and meetings with accountants. Quarterly finance/treasury reports to Chief Officers', P&A and Partnership Board. Any variances are managed.	Compliant	
23	You must have arrangements in place to ensure all material commitments and contingent liabilities (i.e. undertakings, past transactions or events resulting in future financial liabilities) are notified to the Treasurer or Chief Financial Officer.	Please describe the arrangements you have in place and provide details of any such notifications to the Treasurer/Chief Finance Officer.	As above.	Compliant	
24	You should ensure arrangements are in place to protect assets against theft, loss and unauthorised use and identify any significant losses.	Please describe the arrangements you have in place and if there have been any significant losses please detail these and outline any corrective action that has been, or will be, taken.	Asset register in place and is reviewed annually. Assets are insured via CEC Insurance Services (SLA in place) annually. SEStran are located within Scottish Government premises which operates under robust 24-hour security procedures. Server/Data cabinets contained within restricted access secure data rooms.	Compliant	

		<p>Information Security and Records Management Plans in place. The Partnership has undergone pre-assessment for cyber essentials accreditation and expect to be awarded CE Plus by Oct 2018.</p>		
<p>25</p> <p>You should have arrangements in place to review the adequacy of insurance provision and its adequacy in covering the risk of loss to the Partnership.</p>	<p>Please describe the arrangements you have in place including the frequency of review and date of last review.</p>	<p>Annual review carried out in conjunction with CEC Insurance Services Team. The policy runs from October to September annually. Services provided under SLA.</p>	<p>Compliant</p>	
<p>26</p> <p>You must have arrangements in place that would identify any internal control, risk management or asset valuation problems that could affect the Annual Accounts.</p>	<p>Please describe the arrangements you have in place and detail any problems that have been identified.</p>	<p>Assets are recorded and reviewed by Accountants and included in Annual Accounts. Asset register has been completed.</p>	<p>Compliant</p>	
<p>Workforce Control Requirements</p>	<p>Guidance notes</p>	<p>Response and reference to evidence</p>	<p>Assessment</p>	<p>Improvement actions</p>
<p>27</p> <p>You must have robust controls in place to ensure that statutory workforce requirements are met, eg. disclosure checks, statutory registration and qualification, European Working Time Directive, right to work in the UK and National Minimum Wage.</p>	<p>Please describe the arrangements you have in place.</p>	<p>All employees are subject to Baseline Personnel Security Standard (BPSS) clearance. SEStran is a Living Wage Employer. All working arrangements follow national and EU legislation, similar to Local Authority conditions.</p>	<p>Compliant</p>	

Change and Project Management Requirements		Guidance notes	Response and reference to evidence	Assessment	Improvement actions
28	All projects/programmes must have clear business justification and appropriate governance in place to support delivery.	Please describe the arrangements you have in place.	Projects and programmes are scrutinised by P&A and approved by the Partnership Board. All in accordance with the published annual Business Plan, approved by the Board and subject to KPIs.	Compliant	
29	You must have effective controls in place to track delivery progress, take corrective action (if required), ensure ongoing viability and to formally close projects.	Please outline the arrangements you have in place.	Projects are monitored by project managers and Head of Programmes against contract requirements. Corrective action is undertaken as required and conditions of contract are applied.	Compliant	
Commercial and Contract Management Requirements		Guidance notes	Response and reference to evidence	Assessment	Improvement actions
30	You must have arrangements in place to ensure that all goods, services and works are procured and contracts managed in compliance with relevant legislation, policies and procedures.	Please describe the arrangements you have in place.	Arrangements are set out under the Governance Scheme. Public Contracts Scotland portal used, unless specialist goods/services required and ad-hoc advice obtained from Legal Advisers, SG and CEC procurement. SEStran have been able to utilise SG Framework contracts for a number of goods and services procured.	Compliant	
National Agency Inspection Reports		Guidance notes	Response and reference to evidence	Assessment	Improvement actions

31	Where reports relating to the Partnership have been published during the year has there been anything within the reports that could impact on the signing of the Annual Governance Statement?	This question requires a Yes/No response rather than an assessment score. Please also list any reports published during the year.	Annual Report Business Plan Audit Plans(Internal/External) Unaudited/Audited Accounts Report to Those Charged with Governance Revenue Budget Finance Officers Report Treasury Management Activity	Internal Audit, External Audit Reports	Guidance notes	Response and reference to evidence	Assessment	32	Have there been any internal audit, external audit or review reports published during the year that have highlighted high, medium or significant control deficiencies?	This question requires a Yes/No response rather than an assessment score. Please also list the reports published during the year and highlight any that have flagged high, medium or significant control deficiencies.	No	33	You should have arrangements in place to ensure all recommendations from these reports have been (or are being) implemented and that this is monitored effectively.	Please describe your implementation, monitoring and reporting arrangements and provide detail of any recommendations that are outstanding at the end of the reporting period.	Regular meetings with Internal and External Auditors to monitor progress and report on actions undertaken. SEStran management reviews carried out following audit reports and actions implemented/progressed as required.	Outstanding issues from previous years	Guidance notes	Response and reference to evidence	Assessment	34	You should ensure that all outstanding issues or recommendations arising from this exercise, commissioned reviews, Partnership reports and other initiatives in previous years been addressed satisfactorily.	Please detail how any outstanding issues or recommendations are being addressed.	There are no outstanding issues.	Additional information	Guidance notes	Response and reference to evidence	Assessment	Additional information	Guidance notes	Response and reference to evidence	Assessment	Additional information	Guidance notes	Response and reference to evidence	Assessment	Additional information	Guidance notes	Response and reference to evidence	Assessment	Additional information	Guidance notes	Response and reference to evidence	Assessment
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35	<p>Apart from the topics raised above, have there been any significant control problems or other matters affecting the Partnership to an extent that should be considered when signing the Annual Governance Statement?</p>	<p>This question requires a Yes/No response rather than an assessment score. Please provide details if there are any significant control problems or other matters.</p>	<p>The Partnership Director has been absent for 5 months to date. Powers have been delegated to Head of Programmes. The Chair is authorising all expenditure above £2k.</p>	<p>No (not significant)</p>	<p>Internal Audit have identified a related procedural issue, which will require an amendment to the Governance Scheme. This will be completed for Board Approval early in 18/19.</p>
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Reviewed by		Role	Internal Audit	Date
Reviewed by		Role	Democracy, Governance and Resilience Senior Manger	Date

South East of Scotland Transport Partnership

Annual Governance Statement 2017/18

1. Scope of responsibility

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

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

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

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

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

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

2. The Partnership's governance framework

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

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

- Focusing on the purpose of the Partnership and on outcomes for the community, and creating and implementing a vision for the local area;
- Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- Promoting values for the Partnership and demonstrating the values of good governance through upholding high standards of conduct and behaviour;

- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- Developing the capacity and capability of members and officers to be effective;
- Engaging with local people and other stakeholders to ensure robust public accountability.

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

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

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

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

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

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

4. Review of effectiveness

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

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

- the work of the Internal Audit and Chief Internal Auditor's Annual opinion on the adequacy and effectiveness of the Partnership's control environment and governance and risk management frameworks;
- the Partnership Director's Certificate of Assurance on internal control;
- the operation and monitoring of controls by Partnership managers;
- the External Auditors in their Annual Audit Letter and other reports; and
- other inspection agencies comments and reports.

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

- **The Partnership Board** provides strategic leadership, determines policy aims and objectives and takes executive decisions not delegated to officers. It provides political accountability for the Partnership’s performance.
- **The Performance and Audit Committee** demonstrates the Partnership’s commitment to the principles of good governance. It scrutinises the running of the Partnership and suggests improvements.
- **Internal Audit** provides an independent and objective assurance service to the Partnership by completing one review in each financial year that is focused on the adequacy and effectiveness of controls established to manage the Partnership’s key risks.
- **The External Auditor’s Annual Audit Report** is considered by the Partnership Board and the Performance and Audit Committee along with the output from other external audits and inspections.
- **The risk management system** requires that risks are regularly reviewed by the Performance and Audit Committee and the Board. This ensures that actions are taken to effectively manage the Partnership’s highest risks.
- **The Legal Officer** is responsible to the Partnership for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with.

5. Certification

In compliance with accounting practice, the Treasurer has provided the Partnership Director with a statement on the adequacy and effectiveness of the Partnership’s internal financial control system for the year ended 31st March 2018. It is the Treasurer’s opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Partnership’s internal control system.

During the year the Internal Audit completed one review that focused on the Partnership’s key risks; considered the status any open Internal Audit findings; and reviewed the schedule supporting this annual governance statement. This resulted in an ‘amber’ rated internal audit opinion, reflecting that the Partnership’s control environment and governance and risk management frameworks are generally adequate, with our assessment towards the low end of this category.

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

Chairperson of Partnership Board: _____ Date: _____

Acting Partnership Director: _____ Date: _____
 JIM GRIEVE

Treasurer: _____ Date: _____
 HUGH DUNN

South East Scotland Transport Partnership

Statement on the system of internal financial control for the year ended 31st March 2018

1. This statement is given in respect of the statement of accounts for South East Scotland Transport Partnership (the Partnership). I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated.
2. The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded and that material errors or irregularities are either prevented or would be detected within a timely period.
3. The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability. The system is maintained and developed by the Partnership's management and includes:
 - comprehensive budgeting systems;
 - regular reviews of periodic reports that measure financial performance against forecasts;
 - targets against which financial and operational performance can be assessed;
 - preparation of regular financial reports that compare expenditure with plans and forecasts;
 - clearly defined capital expenditure guidelines; and
 - as appropriate, formal project management disciplines.
4. The Internal Audit function is provided by the City of Edinburgh Council's Internal Audit Section. The Section operates in accordance with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government and is required to comply with Public Sector Internal Audit Standards (PSIAS). During 2017/18, Internal Audit did not conform with PSIAS requirements in two instances, but the Chief Internal Auditor has noted that the specific instances of non-conformance had no direct impact on the quality of the internal audit reviews completed for SEStran. The Section's annual programme is based on formal assessments of risk and audit needs in line with the agreed audit strategy. Where necessary, the Chief Internal Auditor reports directly to the Treasurer, Members and employees of the Partnership. The Chief Internal Auditor has provided me with an Annual Opinion that contains her view on the adequacy and effectiveness of the control environment.
5. My review of the effectiveness of the system of internal financial control is informed by:
 - the Partnership Director's Assurance Certificate on internal controls;
 - the work of managers within the Partnership;
 - the work of the Internal Auditors, and
 - the External Auditors in their Annual Audit Letter and other reports.
6. Having reviewed the above, it is my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Partnership's internal control system.

Hugh Dunn CPFA
Treasurer

Unaudited Annual Accounts 2017/18

1. INTRODUCTION

- 1.1 The purpose of this report is to present the unaudited Annual Accounts for the year ended 31 March 2018.

2. MAIN REPORT

- 2.1 The unaudited Annual Accounts are submitted to the Partnership in accordance with the Local Authority Accounts (Scotland) Regulations 2014. The accounts are subject to audit and the audited Annual Accounts, incorporating the Auditor's report, will be presented to the Performance and Audit Committee and Partnership Board in due course.
- 2.2 The Treasurer's opinion on the effectiveness of the Partnership's system of internal financial control is provided within the Annual Governance Statement on pages 6 to 8. The Treasurer's opinion is informed by the work of Internal Audit and managers in the Partnership.
- 2.3 The Management Commentary is on pages 2 to 4 of the Annual Accounts and this highlights key aspect of financial performance during the year.

3. RECOMMENDATIONS

- 3.1 It is recommended that the Performance and Audit Committee:
- (i) note the unaudited Annual Accounts for 2017/18 and refer the Unaudited Accounts to the Partnership Board for review;
 - (ii) notes that the audited Annual Accounts, incorporating the Auditor's report, will be presented to the Performance and Audit Committee and Partnership Board in due course.

Hugh Dunn
Treasurer
June 2018

Appendices

Unaudited Annual Accounts 2017/18

Contact/tel/e-mail

Iain Shaw: 0131 469 3117 iain.shaw@edinburgh.gov.uk

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

**The South East of Scotland
Transport Partnership
(SESTRAN)**

**Unaudited
Annual Accounts**

2017/2018

The South East of Scotland Transport Partnership (SESTRAN)

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The South East of Scotland Transport Partnership (SESTRAN)

Management Commentary

1. Basis of Accounts

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

As a result of the 'Telling the Story' review of the presentation of local authority financial statements in 2015, an Expenditure and Funding Analysis statement is included at Note 2 on Page 19. An explanation of the nature and purpose of the statement is also included.

2. Statutory Background

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

3. Corporate Strategy

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

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

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

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

SEStran's Vision Statement is as follows:

“A regional transport system that provides all citizens of South East Scotland with a genuine choice of transport which fulfils their needs and provides travel opportunities for work and leisure on a sustainable basis.”

4. Risks and Uncertainties

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

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

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

5. Results for the Year

The Partnership is required to present its financial performance as a Comprehensive Income and Expenditure Statement. This can be seen on page 12.

The South East of Scotland Transport Partnership (SESTRAN)

Management Commentary (Cont.)

5. Results for the Year (cont.)

However, to show the net position of the Partnership and to allow comparison with the approved revenue budget, it is necessary to adjust the expenditure shown in the Comprehensive Income and Expenditure Statement to take account of a number of items where the statutory accounting requirements differ from the management accounting practice of the Partnership. These adjustments are detailed in Note 2.

The approved revenue budget of the Partnership in 2017/18 was £1.327m. A comparison of the outturn position with the revised budget is summarised below:

	Revised Budget	Outturn	Variance
	£'000	£'000	£'000
Core Service	487	444	(43)
Revenue Projects	500	656	156
RTPI Project	339	498	159
Interest	1	0	(1)
Total Expenditure 2017/18	1,327	1,598	271
Government Grant	(782)	(782)	0
Constituent Council Requisitions	(190)	(174)	16
Other Income - Revenue Projects	(195)	(374)	(179)
Other Income - RTPI Project	(160)	(267)	(107)
Interest Received	0	(1)	(1)
Total Income 2017/18	(1,327)	(1,598)	(271)

The Partnership incurred core service expenditure of £0.444m which was £43,000 below the revised Core Service revenue budget. This underspend mainly reflected reduced expenditure on non-staff costs.

The Partnership incurred expenditure of £0.656m on revenue projects. Expenditure was £0.156m over budget, funded by additional income of £0.179m sourced during 2017/18. Overall, the net Revenue Projects budget was £23,000 below budget. The main favourable variance arose on the Sustainable and Active Travel grants programme. Expenditure of £0.498m on the Real-Time Passenger Information (RTPI) project was funded principally by income of £0.267m from bus operators, European Regional Development Fund and underspends on the Core and Revenue projects budgets. During 2017/18, the Partnership spent £177,000 on operational equipment for the regional real-time bus passenger travel information system.

Overall the Partnership had a net underspend of £16,000.

Non Financial Results

- The Regional Cycle Network Grant Scheme (RCNGS) delivered three projects in the financial year. The Partnership funded Edinburgh and the Lothians Greenspace Trust to upgrade the surface of a 700 metre stretch of the Water of Leith Walkway between Currie and Balerno. Funding was also given to East Lothian Council to provide lighting for a section of shared use path and to create a feasibility study looking at sustainable transport options in Musselburgh and its neighbouring local authorities, Edinburgh and Midlothian.
- During 2017/18, the Partnership developed a regional e-bike programme using combined grant funding. Phase One of the project development included sourcing potential sites for community hubs, developing partnerships and procuring equipment.
- SHARE-North funding was used to support an electric vehicle programme at Edinburgh College. Data logging devices were fitted to each electric vehicle in the project and new charging infrastructure was installed on campus.

The South East of Scotland Transport Partnership (SESTRAN)

Management Commentary (Cont.)

5. Results for the Year (Cont.)

Non Financial Results (cont.)

- Three test phases of Social Car were implemented. Phase 1 saw the initial testing of the application. In phase 2, several test scenarios were run through the Regional Transport Model to understand the potential impacts that the Social Car application could have on the transport network. Phase 3 involved 'real world' testing in partnership with Queen Margaret University staff and students.
- The Thistle Assistance Card has now been adopted by all Regional Transport Partnerships across Scotland.
- The Partnership continued to commit to its Equalities Outcomes 2017-2021, through continuing engagement with equalities organisations - Young Scot, Changing the Chemistry, Stonewall and Equate Scotland.

6. Future Developments

During 2018/19, the Partnership intends to expand the Go-eBike Scheme, using Partnership revenue funds and, potentially, further external funding.

A key requirement for the RTPi scheme is to reestablish a need to continue to deliver live bus times to digital screens, following changes in bus operator usage of Bustracker SEStran.

In view of the available level of funding, the challenge to deliver the full Regional Transport Strategy (RTS) continues. It remains the Partnership's intention to carry out a full re-write of the RTS, but the Partnership considers it prudent to await the outcome of Scottish Government decisions as regards the future of Regional Transport Partnerships and regional spatial plans, before making that commitment.

It is considered appropriate to adopt a going concern basis for the preparation of the Annual accounts.

Chair of Partnership Board: GORDON EDGAR _____ Date signed: _____

Partnership Director: GEORGE ECKTON _____ Date signed: _____

Treasurer: HUGH DUNN, CPFA _____ Date signed: _____

The South East of Scotland Transport Partnership (SESTRAN)

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Partnership's Responsibilities

The Partnership is required:

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

Chair of Partnership

Board:

GORDON EDGAR

Date signed:

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Partnership's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing the Annual Accounts, the Treasurer has:

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

The Treasurer has also:

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

I certify that the Annual Accounts give a true and fair view of the financial position of the Partnership at the reporting date and the transactions of the Partnership for the year ended 31st March 2018.

Treasurer:

HUGH DUNN, CPFA

Date signed:

The South East of Scotland Transport Partnership (SESTRAN)

ANNUAL GOVERNANCE STATEMENT 2017/18

1. Scope of Responsibility

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

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

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

The Partnership has approved and adopted a Local Code of Corporate Governance which is consistent with appropriate corporate governance principles and reflects the requirements of the "Delivering Good Governance in Local Government: Framework (2016)" and is supported by detailed evidence of compliance, which is regularly reviewed.

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

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

2. The Partnership's Governance Framework

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

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

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

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

The South East of Scotland Transport Partnership (SESTRAN)

ANNUAL GOVERNANCE STATEMENT 2017/18 (cont.)

2. The Partnership's Governance Framework (continued)

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

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

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

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

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

4. Review of Effectiveness

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

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

- the work of Internal Audit and the Chief Internal Auditor's Annual Opinion on the adequacy and effectiveness of the Partnership's control environment, governance and risk management frameworks;
- the Partnership Director's Certificate of Assurance on internal control;
- the operation and monitoring of controls by Partnership managers;
- the External Auditors in their Annual Audit Letter and other reports; and
- other inspection agencies comments and reports.

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

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

The South East of Scotland Transport Partnership (SESTRAN)

ANNUAL GOVERNANCE STATEMENT 2017/18 (cont.)

4. Review of Effectiveness (continued)

- **Internal Audit** provides an independent and objective assurance service to the Partnership, by completing one review in each financial year that is focused on the adequacy and effectiveness of controls established to manage the Partnership’s key risks;
- **The External Auditor’s Annual Audit Report** is considered by the Partnership Board and the Performance and Audit Committee, along with the output from other external audits and inspections;
- **The risk management system** requires that risks are regularly reviewed by the Performance and Audit Committee and the Board. This ensures that actions are taken to effectively manage the Partnership’s highest risks;
- **The Legal Officer** is responsible to the Partnership for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with.

5. Certification

In compliance with accounting practice, the Treasurer has provided the Partnership Director with a statement on the adequacy and effectiveness of the Partnership’s internal financial control system for the year ended 31st March 2018. It is the Treasurer’s opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Partnership’s internal control system.

During the year, Internal Audit completed one review that focused on the Partnership’s key risks, considered the status of any open Internal Audit findings and reviewed the schedule supporting this Annual Governance Statement. This resulted in an ‘amber’ rated internal audit opinion, reflecting that the Partnership’s control environment and governance and risk management frameworks are generally adequate, with our assessment towards the low end of this category.

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

Chair of Partnership Board:	GORDON EDGAR	_____	Date signed:	_____
Partnership Director:	GEORGE ECKTON	_____	Date signed:	_____
Treasurer:	HUGH DUNN, CPFA	_____	Date signed:	_____

The South East of Scotland Transport Partnership (SESTRAN)

REMUNERATION REPORT

1. Remuneration Policy for Senior Employees

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

2. Remuneration for Senior Councillors

The Partnership does not provide any remuneration to senior councillors.
Expenses paid to Board members are detailed in note 19 to the annual accounts.

3. Management of Remuneration Arrangements

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

4. Officers Remuneration

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

Remuneration Bands	2017/18	2016/17
£50,000 - £54,999	0	1
£55,000 - £59,999	1	0
£60,000 - £64,999	0	1
£75,000 - £79,999	1	0

5. Senior Employees Remuneration

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

Name and Post Title	Salary, Fees and Allowances £'000	Total Remuneration 2017/18 £'000	Total Remuneration 2016/17 £'000
Alex Macaulay - Partnership Director (to 30/4/16) *	0	0	8
George Eckton - Partnership Director (from 1/6/16) *	76	76	62
Jim Grieve - Partnership Director duties (from 8/12/17) **	18	18	n/a
	94	94	70

* full time equivalent 2016/17 salaries being Alex Macaulay (£90,216) & George Eckton (£75,000)

** full time equivalent 2017/18 salary - Jim Grieve (£57,164)

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

6. Senior Employees Pension Entitlement

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

Name and Post Title	In-year pension contributions			Accrued pension benefits	
	2017/18 £'000	2016/17 £'000		As at 31 March 2018 £'000	Difference from 31 March 2017 £'000
Alex Macaulay - Partnership Director (to 30/4/16)	0	2	Pension	n/a	n/a
			Lump Sum	n/a	n/a
George Eckton - Partnership Director (from 1/6/16)	18	14	Pension	17	2
			Lump Sum	16	0
	18	16			

The senior employees shown in table above are members of the Local Government Pension Scheme (LGPS).

The South East of Scotland Transport Partnership (SESTRAN)

REMUNERATION REPORT (cont.)

6. Senior Employees Pension Entitlement (cont.)

THE LGPS is a final salary pension scheme.

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

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

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

The tiers and members contributions rates for 2017-18 are as follows:

On earnings up to and including £20,700 (5.5%); on earnings above £20,700 and up to £25,300 (7.25%); on earnings above £25,300 and up to £34,700 (8.5%); on earnings above £34,700 and up to £46,300 (9.5%) and on earnings above £46,300 (12%).

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

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

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

7. Exit Packages

Exit packages include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs.

There was no payment of any Exit Packages in 2017-18.

All information disclosed in the tables at paragraphs 4, 5 and 6 in this Remuneration Report will be audited.

The other sections of the Remuneration Report have been reviewed by the appointed auditor to ensure that they are consistent with the annual accounts.

Chair of Partnership
Board:

GORDON EDGAR _____

Date signed: _____

Partnership Director:

GEORGE ECKTON _____

Date signed: _____

The South East of Scotland Transport Partnership (SESTRAN)

MOVEMENT IN RESERVES STATEMENT

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

2016/17 - Previous Year Year Comparative

	Usable Reserves		Unusable Reserves	Total Partnership Reserves
	General Fund Balance	Total Usable Reserves		
	£'000	£'000	£'000	£'000
Opening Balances at 1 April 2016	0	0	1,430	1,430
Total Comprehensive Expenditure and Income	(1,285)	(1,285)	(107)	(1,392)
Adjustments between accounting basis & funding basis under regulations (Note 7)	1,285	1,285	(1,285)	0
Increase/Decrease in 2016/17	0	0	(1,392)	(1,392)
Balance at 31 March 2017 carried forward	0	0	38	38

2017/18 - Current Financial Year

	Usable Reserves		Unusable Reserves	Total Partnership Reserves
	General Fund Balance	Total Usable Reserves		
	£'000	£'000	£'000	£'000
Opening Balances at 1 April 2017	0	0	38	38
Total Comprehensive Expenditure and Income	39	39	(358)	(319)
Adjustments between accounting basis & funding basis under regulations (Note 7)	(39)	(39)	39	0
Increase/Decrease in 2017/18	0	0	(319)	(319)
Balance at 31 March 2018 carried forward	0	0	(281)	(281)

The South East of Scotland Transport Partnership (SESTRAN)

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT 2017/18

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

2016/17				2017/18		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Services	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
1,814	(2)	1,812	Core	573	0	573
915	(516)	399	Projects	977	(641)	336
2,729	(518)	2,211	Cost Of Services	1,550	(641)	909
61	(54)	7	Financing & Investment Income (Note 9)	58	(50)	8
0	(933)	(933)	Taxation and Non-Specific Grant Income (Note 10)	0	(956)	(956)
2,790	(1,505)	1,285	(Surplus) or Deficit on Provision of Services	1,608	(1,647)	(39)
			Other Comprehensive Income and Expenditure			
0	0	0	Change in Demographic Assumptions	0	(12)	(12)
405	0	405	Change in Financial Assumptions	0	(113)	(113)
0	0	0	Other Experience	499	0	499
0	(298)	(298)	Expected Return on Assets	0	(16)	(16)
405	(298)	107	Total Other Comprehensive Income and Expenditure	499	(141)	358
3,195	(1,803)	1,392	Total Comprehensive Income and Expenditure	2,107	(1,788)	319

The South East of Scotland Transport Partnership (SESTRAN)

BALANCE SHEET

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

31 March 2017 £'000		Notes	31 March 2018 £'000
351	Property, plant and equipment	11	422
351	Long term assets		422
422	Short-term debtors	13	464
(12)	Provision for Bad Debts	14	0
76	Cash and cash equivalents	15	700
486	Current assets		1,164
(93)	Contributions and Grants Received in Advance		(27)
(399)	Short-term creditors	16	(1,144)
(492)	Current liabilities		(1,171)
(307)	Other long-term liabilities (Pensions)	18	(696)
(307)	Long-term liabilities		(696)
38	Net assets/ (liabilities)		(281)
	Financed by:		
0	Usable reserves	17	0
38	Unusable reserves	18	(281)
38	Total reserves		(281)

The unaudited financial statements were authorised for issue on the 22nd June 2018.

Treasurer: HUGH DUNN, CPFA

Date signed: _____

The South East of Scotland Transport Partnership (SESTRAN)

CASH FLOW STATEMENT

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

31 March 2017 £'000	31 March 2017 £'000		31 March 2018 £'000	31 March 2018 £'000
		OPERATING ACTIVITIES		
(1,551)		Government Grants	(782)	
(200)		Constituent Council Requisitions	(190)	
(1)		Interest paid/ (received)	0	
(520)		Other receipts from operating activities	(354)	
	(2,272)	Cash inflows generated from operating activities		(1,326)
384		Cash paid to and on behalf of employees	310	
1,838		Cash paid to suppliers of goods and services	392	
	2,222	Cash outflows generated from operating activities		702
	(50)	Net cash flows from operating activities		(624)
		INVESTING ACTIVITIES		
15		Purchase of property, plant and equipment	0	
	15	Net cash flows from investing activities		0
		FINANCING ACTIVITIES		
0		Other receipts from financing activities	0	
	0	Net cash flows from financing activities		0
	(35)	Net(increase)/ decrease in cash and cash equivalents		(624)
	41	Cash and cash equivalents at the beginning of the reporting period		76
	76	Cash and cash equivalents at the end of the reporting period (Note 15)		700

The South East of Scotland Transport Partnership (SESTRAN)

1. STATEMENT OF ACCOUNTING POLICIES

1.1 Accounting Policies

The Annual Accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) based Code of Practice 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 have been 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 has been prepared on an accruals basis in accordance with the Code of Practice. Amounts estimated to be due to or from the Partnership, which are still outstanding at the year end, are included in the accounts. Government Grants have been accounted for on an accruals basis.

1.4 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 has not identified 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 South East of Scotland Transport Partnership (SESTRAN)

1. STATEMENT OF ACCOUNTING POLICIES (Cont.)

1.7 Employee Benefits (contd.)

Pensions (contd.)

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

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

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

Accruals of Holiday Leave

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

1.8 Non Current Assets

a) Intangible Assets

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

b) Property, Plant and Equipment

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

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

Recognition:

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

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

The South East of Scotland Transport Partnership (SESTRAN)

1. STATEMENT OF ACCOUNTING POLICIES (Cont.)

1.9 Government Grants and Other Contributions

● Revenue

Revenue grants and other contributions have been 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 have been 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 have been incurred.

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

1.11 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.

The South East of Scotland Transport Partnership (SESTRAN)

1. STATEMENT OF ACCOUNTING POLICIES (Cont.)

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 have been 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.

The South East of Scotland Transport Partnership (SESTRAN)

2. EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources by the Partnership in comparison with those resources consumed or earned by the Partnership in accordance with general accounting practice. It also shows how this expenditure is allocated for decision making purposes between service areas. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement (CIES) (see page 12).

Expenditure and Funding Analysis

	Net Expenditure Chargeable to the General Fund £'000	Adjustments £'000	Net Expenditure in the CIES £'000
2017/18			
Core	443	130	573
Projects	513	(177)	336
Net Cost of Services	956	(47)	909
Other Income and Expenditure			
Government grant	(782)	0	(782)
Constituent council requisitions	(174)	0	(174)
Net pension interest cost	0	8	8
(Surplus) or deficit on the provision of services	0	(39)	(39)
	Net Expenditure Chargeable to the General Fund £'000	Adjustments £'000	Net Expenditure in the CIES £'000
2016/17			
Core	456	1,357	1,813
Projects	478	(79)	399
Net Cost of Services	934	1,278	2,212
Other Income and Expenditure			
Government grant	(782)	0	(782)
Constituent council requisitions	(151)	0	(151)
Interest paid	(1)	0	(1)
Net pension interest cost	0	7	7
(Surplus) or deficit on the provision of services	0	1,285	1,285

The South East of Scotland Transport Partnership (SESTRAN)

2. EXPENDITURE AND FUNDING ANALYSIS (Cont.)

Expenditure and Funding Analysis (contd)

2.1 Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts:

	Adjusts. For Capital Purposes £'000	Net Change for Pensions Adjusts. £'000	Other Differences £'000	Total Statutory Adjusts. £'000
2017/18				
Core	106	23	1	130
Projects	(177)	0	0	(177)
Net Cost of Services	(71)	23	1	(47)
Other Income and Expenditure				
Government Grant	0	0	0	0
Constituent council requisitions	0	0	0	0
Interest paid	0	0	0	0
Net pension interest cost	0	8	0	8
(Surplus) or deficit on the provision of services	(71)	31	1	(39)
	Adjusts. For Capital Purposes £'000	Net Change for Pensions Adjusts. £'000	Other Differences £'000	Total Statutory Adjusts. £'000
2016/17				
Core	1,349	4	4	1,357
Projects	(79)	0	0	(79)
Net Cost of Services	1,270	4	4	1,278
Other Income and Expenditure				
Government Grant	0	0	0	0
Constituent council requisitions	0	0	0	0
Interest paid	0	0	0	0
Net pension interest cost	0	7	0	7
(Surplus) or deficit on the provision of services	1,270	11	4	1,285

- Adjustments for capital purposes include the removal of depreciation and impairment costs, and the inclusion of capital funded from current revenue.
- Net changes for pensions adjustment relates to the adjustment made for the removal of IAS19 Employee Benefits pension related expenditure and income with the pension contributions.
- Other differences relate to the reversal of the value of entitlement to accrued leave.

The South East of Scotland Transport Partnership (SESTRAN)

2. EXPENDITURE AND FUNDING ANALYSIS (Cont.)

2.2 Segmental Analysis of Income included in Expenditure and Funding Analysis

	Core £'000	Projects £'000	Total £'000
2017/18			
Expenditure			
Employee expenses	248	4	252
Other service expenses	195	1,150	1,345
Total Expenditure	443	1,154	1,597
Income			
Revenues from external customers	0	0	0
Government grants and other contribs.	0	(641)	(641)
Total Income	0	(641)	(641)
Net Cost of Services	443	513	956
2016/17			
Expenditure			
Employee expenses	241	12	253
Other service expenses	216	983	1,199
Total Expenditure	457	995	1,452
Income			
Revenues from external customers	(1)	(52)	(53)
Government grants and other contribs.		(465)	(465)
Total Income	(1)	(517)	(518)
Net Cost of Services	456	478	934

The South East of Scotland Transport Partnership (SESTRAN)

2. EXPENDITURE AND FUNDING ANALYSIS (Cont.)

2.3 Expenditure and Income Analysed by Nature

The Partnership's expenditure and income, as set out within the Comprehensive Income and Expenditure Statement is analysed as follows:

	31st March 2018 £'000	31st March 2017 £'000
Expenditure		
Employee expenses	277	261
Other service expenses	1,168	1,104
Depreciation, amortisation and impairment	106	1,364
Interest payments	58	61
Total Expenditure	1,609	2,790
Income		
Fees, charges and other service income	0	(53)
Interest and investment income	(51)	(54)
Income from constituent Councils	(174)	(151)
Government grants and other contributions	(1,423)	(1,247)
Total Income	(1,648)	(1,505)
(Surplus) or Deficit on the Provision of Services	(39)	1,285

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

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2018/19 Code. For 2017/18 the following accounting policy changes that need to be reported relate to:

- IFRS 9 Financial Instruments;
- IFRS 15 Revenue from Contracts with Customers including amendments to IFRS 15 Clarifications to IFRS 15 Revenue from Contracts with Customers;
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses, and
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative.

The Code does not anticipate that the above amendments will have a material impact on the information provided in the Partnership's Annual Accounts.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

The critical judgements made in the Annual Accounts are:

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

The South East of Scotland Transport Partnership (SESTRAN)

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

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

The items in the Partnership's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forth coming financial year are:

5.1 Pension Liabilities

Uncertainties

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

Effect if Actual Result Differs from Assumptions

Formal actuarial valuations are carried out every three years. Each employer's assets and liabilities are calculated on a detailed basis, using individual member data, for cash contribution setting purposes. The formal valuations for Scottish Local Government Pension Scheme funds were concluded by 31 March 2018. The accounting balance sheet position at 31 March 2018, and the projected charge for 2018/19, is therefore based on this new roll forward from the 2017 formal valuation. This differs to the balance sheet position at 31 March 2017 and the charge for 2017/18, which was based on a roll forward from the 2014 formal valuation. This 'step change' can lead to sizeable asset and liability 'remeasurement experience' items in the reconciliation of the Balance Sheet from 31 March 2017 to 31 March 2018.

The following table shows the sensitivity of the results to the changes in the assumptions used to measure the scheme liabilities. Approximate percentage changes and monetary values are shown:

	Approximate % increase to Defined Benefit Obligation %	Approximate monetary amount £000
0.5% decrease in Real Discount Rate	12%	310
0.5% increase in the Salary Increase Rate	3%	90
0.5% increase in the Pension Increase Rate	8%	212

6. EVENTS AFTER THE BALANCE SHEET DATE

The Unaudited Annual Accounts were authorised for issue on 22 June 2018. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There were no events which took place after 31st March 2018 which would materially affect the 2017/18 Annual Accounts.

The South East of Scotland Transport Partnership (SESTRAN)

7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

2017/18	Usable Reserves	Unusable Reserves			
	General Fund Balance	Capital Adjustment Account	Accumulated Absence Account	Pension Reserve	Movement in Unusable Reserve
	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)					
Charges for depreciation and revaluation of non-current assets	106	(106)			(106)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement (CIES)					
Contributions credited to the CIES that have been applied to capital financing	(177)	177			177
Adjustments primarily involving the Pensions Reserve					
Reversal of items relating to retirement benefits debited or credited to the CIES	84			(84)	(84)
Employer's pension contributions and direct payments to pensioners payable in the year	(53)			53	53
Adjustments primarily involving the Accumulated Absence Account					
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1		(1)		(1)
Total Adjustments	(39)	71	(1)	(31)	39

The South East of Scotland Transport Partnership (SESTRAN)

7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

(Cont.)

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

2016/17	Usable Reserves		Unusable Reserves		
	General Fund Balance	Capital Adjustment Account	Accumulated Absence Account	Pension Reserve	Movement in Unusable Reserve
	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)					
Charges for depreciation and impairment of non-current assets	1,364	(1,364)			(1,364)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement (CIES)					
Contributions credited to the CIES that have been applied to capital financing	(94)	94			94
Adjustments primarily involving the Pensions Reserve					
Reversal of items relating to retirement benefits debited or credited to the CIES	63			(63)	(63)
Employer's pension contributions and direct payments to pensioners payable in the year	(52)			52	52
Adjustments primarily involving the Accumulated Absence Account					
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	4		(4)		(4)
Total Adjustments	1,285	(1,270)	(4)	(11)	(1,285)

The South East of Scotland Transport Partnership (SESTRAN)

8. TRANSFERS TO/FROM EARMARKED RESERVES

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

9. FINANCING AND INVESTMENT INCOME

	2017/18 £'000	2016/17 £'000
Interest income on plan assets	(50)	(54)
Pensions interest cost	58	61
	<hr/> 8	<hr/> 7

10. TAXATION AND NON SPECIFIC GRANT INCOMES

	2017/18 £'000	2016/17 £'000
Government Grant	(782)	(782)
Constituent Council Requisitions	(174)	(151)
	<hr/> (956)	<hr/> (933)

The South East of Scotland Transport Partnership (SESTRAN)

11. PROPERTY, PLANT AND EQUIPMENT

11.1 Movements on balances:

Movements in 2017/18

Cost or Valuation	Vehicles Plant and Equipment £'000	Assets Under Construction £'000	Property Plant and Equipment £'000
At 1st April 2017	534	79	613
Additions	256	(79)	177
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	(12)	(12)
At 31st March 2018	<u>790</u>	<u>(12)</u>	<u>778</u>
Accumulated Depreciation			
At 1st April 2017	(262)	0	(262)
Depreciation charge	(94)	0	(94)
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	0
At 31st March 2018	<u>(356)</u>	<u>0</u>	<u>(356)</u>
Net Book Value			
At 31st March 2018	<u><u>434</u></u>	<u><u>(12)</u></u>	<u><u>422</u></u>

The South East of Scotland Transport Partnership (SESTRAN)

11. PROPERTY, PLANT AND EQUIPMENT (Cont.)

11.2 Movements on balances:

Comparative Movements in 2016/17

Cost or Valuation	Vehicles Plant and Equipment £'000	Assets Under Construction £'000	Total Property Plant and Equipment £'000
At 1st April 2016	2,437	0	2,437
Additions	15	79	94
Impairment increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,918)	0	(1,918)
At 31st March 2017	<u>534</u>	<u>79</u>	<u>613</u>
Accumulated Depreciation			
At 1st April 2016	(816)	0	(816)
Depreciation charge	(64)	0	(64)
Depreciation written out to the Surplus/Deficit on the Provision of Services	618	0	618
At 31st March 2017	<u>(262)</u>	<u>0</u>	<u>(262)</u>
Net Book Value			
At 31st March 2017	<u><u>272</u></u>	<u><u>79</u></u>	<u><u>351</u></u>

11.3 Depreciation

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

- Vehicles, plant and equipment: 4 - 5 years

The Partnership provides depreciation on its Property, Plant and Equipment from the month when it comes into use.

11.4 Capital Commitments

Through the Sustainable Travel programme, the Partnership anticipates providing a sum of £150,000 to match a Scottish Government grant of a similar sum to provide more electric bike hubs throughout the SEStran Region. This will expand further on SEStran's investment in sustainable transport, undertaken in 2017/18. At the date of the balance sheet, this expenditure was not legally committed.

The South East of Scotland Transport Partnership (SESTRAN)

12. FINANCIAL INSTRUMENTS

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

	Long-term		Current	
	31st March 2018 £'000	31st March 2017 £'000	31st March 2018 £'000	31st March 2017 £'000
Investments				
Loans and receivables	0	0	898	344
Borrowings				
Financial liabilities at amortised cost	0	0	976	331

12.2 Fair Values of Assets and Liabilities

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

The fair values calculated are as follows:

Financial Liabilities	31 March 2018		31 March 2017	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Trade creditors	976	976	331	331

Financial Assets	31 March 2018		31 March 2017	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Loans and receivables	890	890	160	160
Trade debtors	8	8	184	184
	898	898	344	344

13. DEBTORS

	31st March 2018 £'000	31st March 2017 £'000
Debtors:		
Central government bodies	1	0
Other local authorities	11	0
HM Customs and Excise - VAT	49	15
Other entities and individuals	403	407
	464	422

The South East of Scotland Transport Partnership (SESTRAN)

14. PROVISION FOR BAD DEBTS

	31st March 2018 £'000	31st March 2017 £'000
Cost or Valuation		
Opening Balance	(12)	0
Provision made during year	0	(12)
Amounts used during the year	0	0
Unused amounts reversed during the year	12	0
Closing Balance	<u>0</u>	<u>(12)</u>

15. CASH AND CASH EQUIVALENTS

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

	31st March 2018 £'000	31st March 2017 £'000
Bank accounts	700	76
	<u>700</u>	<u>76</u>

16. CREDITORS

	31st March 2018 £'000	31st March 2017 £'000
Central government bodies	(4)	0
Other local authorities	(134)	(77)
Other entities and individuals	(998)	(316)
Employee costs	(8)	(6)
	<u>(1,144)</u>	<u>(399)</u>

17. USABLE RESERVES

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

The South East of Scotland Transport Partnership (SESTRAN)

18. UNUSABLE RESERVES

	31st March 2018 £'000	31st March 2017 £'000
18.1 Capital Adjustment Account	422	351
18.2 Pension Reserve	(696)	(307)
18.3 Accumulated Absence Account	(7)	(6)
	(281)	38

18.1 Capital Adjustment Account

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

	2017/18 £'000	2016/17 £'000
Balance at 1st April	351	1,621
Reversal of items related to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
· Charges for depreciation and impairment of non-current assets	(94)	(1,364)
· Charges for revaluation of non-current assets	(12)	0
Net written out amount of the cost of non-current assets consumed in year	245	257
Capital financing applied in the year:		
· Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	177	94
Balance at 31st March	422	351

18.2 Pension Reserve

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

The South East of Scotland Transport Partnership (SESTRAN)

18. UNUSABLE RESERVES (Cont.)

18.2 Pension Reserve (Contd.)

	2017/18 £'000	2016/17 £'000
Balance at 1st April	(307)	(189)
Remeasurements of the net defined benefit liability / (asset)	(358)	(107)
Reversals of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.	(84)	(63)
Employer's pension contributions and direct payments to pensioners payable in the year.	53	52
Balance at 31st March	<u>(696)</u>	<u>(307)</u>

18.3 Accumulated Absence Account

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

	2017/18 £'000	2016/17 £'000
Balance at 1st April	(6)	(2)
Settlement or cancellation of accrual made at the end of the preceding year	6	2
Amounts accrued at the end of the current year	(7)	(6)
Balance at 31st March	<u>(7)</u>	<u>(6)</u>

19. MEMBERS EXPENSES

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

	2017/18 £'000	2016/17 £'000
Expenses	<u>1</u>	<u>1</u>
	<u>1</u>	<u>1</u>

The South East of Scotland Transport Partnership (SESTRAN)

20. EXTERNAL AUDIT COSTS

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

	2017/18 £'000	2016/17 £'000
Fees payable in respect of:		
<ul style="list-style-type: none"> external audit services carried out by the appointed auditor for the year 	11	10
	11	10

21. GRANT INCOME

The Partnership credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/18:

	2017/18 £'000	2016/17 £'000
Credited to Taxation and Non Specific Grant Income		
Scottish Government - Revenue Grant	(782)	(782)
Constituent Council Requisitions (Note 22.3)	(172)	(151)
	(954)	(933)
Credited to Services		
EU Grant - CHUMS	0	(6)
EU Grant - Social Car	(58)	(26)
EU Grant - Regio Mob	(81)	(36)
EU Grant - Sharenorth	(53)	(11)
EU Grant - RTPi	(82)	(32)
EU Grant - Surflogh	(6)	0
Contribution - City of Edinburgh Council	0	(4)
Contribution - East Lothian Council	(2)	0
Contribution - Fife Council	0	(1)
Contribution - Scottish Borders Council	(3)	(1)
Contribution - West Lothian Council	(1)	0
Contribution - HITRANS	(3)	(2)
Contribution - NESTRANS	(1)	(3)
Contribution - SUSTRANS	(118)	(83)
Contribution - SWESTRANS	(1)	0
Contribution - TACTRAN	(3)	0
Contribution - ZETRANS	(1)	0
	(413)	(205)

The South East of Scotland Transport Partnership (SESTRAN)

22. RELATED PARTIES

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

22.1 Scottish Government

The Partnership receives grant-in-aid revenue funding through the Scottish Government. Grants received from the Scottish Government are set out in the subjective analysis in Note 21.

22.2 Members

Members of the Partnership have direct control over the Partnership's financial and operating policies. The total of members' expenses paid by the Partnership in 2017-18 is shown in Note 19.

22.3 Other Parties

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

	2017/18 £'000	2016/17 £'000
• Revenue Expenditure - Support Services		
City of Edinburgh Council - Financial Services/ Clerking	33	23
Falkirk Council - HR Services	2	2
Fife Council - Clerking/ Legal Services	11	27
	<hr/> 46	<hr/> 52
• Revenue Expenditure - Other		
City of Edinburgh Council	0	9
City of York Council	12	12
East Lothian Council	60	4
Edinburgh and Lothians Greenspace Trust	59	86
Falkirk Council	17	0
Midlothian Council	25	25
Scottish Borders Council	0	5
Scottish Government	17	17
West Lothian Council	0	2
	<hr/> 190	<hr/> 160

The South East of Scotland Transport Partnership (SESTRAN)

22. RELATED PARTIES (Cont.)

22.3 Other Parties (contd.)

	2017/18 £'000	2016/17 £'000
• Revenue Income - Requisitions		
Clackmannanshire Council	(6)	(5)
East Lothian Council	(11)	(10)
City of Edinburgh Council	(56)	(49)
Falkirk Council	(18)	(15)
Fife Council	(41)	(36)
Midlothian Council	(10)	(8)
Scottish Borders Council	(12)	(11)
West Lothian Council	(20)	(17)
	<u>(174)</u>	<u>(151)</u>
• Revenue Income - Interest on Revenue Balances		
City of Edinburgh Council	(1)	(1)
	<u>(1)</u>	<u>(1)</u>
• Revenue Income - Other		
Scottish Government	(1)	0
Constituent Councils	(49)	(87)
City of Edinburgh Council	0	(4)
East Lothian Council	(2)	0
Fife Council	0	(1)
Network Rail	(3)	0
NHS Fife	(1)	0
Scottish Borders Council	(3)	(1)
West Lothian Council	(1)	0
	<u>(60)</u>	<u>(93)</u>

The South East of Scotland Transport Partnership (SESTRAN)

22. RELATED PARTIES (Cont.)

22.3 Other Parties (contd.)

The following represents amounts due to/ (from) the Partnership at 31 March 2018, with its related parties.

CREDITORS	2017/18	2016/17
	£'000	£'000
• Creditors - Related Parties (Revenue Grants)		
City of Edinburgh Council	0	(4)
East Lothian Council	(60)	(5)
Falkirk Council	(17)	0
Midlothian Council	(25)	(25)
Scottish Borders Council	0	(5)
	<u>(102)</u>	<u>(39)</u>
• Creditors - Related Parties (Other)		
City of Edinburgh Council	(30)	(25)
Edinburgh and Lothians Greenspace Trust	(40)	(86)
Falkirk Council	(2)	(2)
Fife Council		(14)
Constituent Councils	(18)	(49)
Scottish Government	(4)	0
	<u>(94)</u>	<u>(176)</u>
• Creditors - Other Parties	<u>(975)</u>	<u>(277)</u>
Total Creditors	<u>(1,171)</u>	<u>(492)</u>
DEBTORS		
• Debtors - Related Parties (Revenue Grants/ Other)		
Fife Council	7	0
Network Rail	3	0
NHS Fife	1	0
Scottish Borders Council	2	1
Scottish Government	1	0
Strathclyde Partnership for Transport	1	0
West Lothian Council	0	0
	<u>15</u>	<u>1</u>
• Debtors - Other Parties	<u>449</u>	<u>421</u>
Total Debtors	<u>464</u>	<u>422</u>

The South East of Scotland Transport Partnership (SESTRAN)

23. LEASES

Operating Leases

From 8th February 2016 the Partnership took occupancy of Area 3D (Bridge) in Victoria Quay, Edinburgh under the terms of a Memorandum of Terms of Occupation with Scottish Government, which forms part of the Civil Estates Occupancy Agreement (CEOA).

The Partnership is permitted to occupy the space from 8th February 2016 to 7th February 2019 (the Prescribed Term) and so on until ended by either party giving notice under the terms of the CEOA. Both parties will, upon provision of not less than 1 year's prior written notice, have the ability to break this agreement.

The Partnership's contract with MOBIUS Networks for the leasing of SIM cards for the RTPI project, which enable buses to be tracked live on the system, continues into 2018/19. Due to a bus operator's (First Scotland Ltd) decision to move to new ticket machines and its own RTPI system, effective from June 2018, the number of leased SIM cards will be reduced to ten, being those required for fixed signs in Fife. This will lead to a reduced cost. The Partnership has the option to terminate the lease under no penalty if at least six months notice is given.

The Partnership's expenditure on lease payments during 2017/18 was £67,000 (2016/17 £69,000)

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

	2017/18 £'000	2016/17 £'000
• Not later than 1 year	22	40
• Later than 1 year not later than 5 years	0	0
• Later than 5 years	0	0
	<hr/>	<hr/>
	22	40
	<hr/>	<hr/>

The Partnership has no other material operational leases.

24. DEFINED BENEFIT PENSION SCHEMES

24.1 Participation in Pension Schemes

As part of the terms and conditions of employment of its staff, the Partnership makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until the employees retire, the Partnership has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement. As explained in Accounting Policy 1.7, the Partnership is an admitted body to the Local Government Pension Scheme (LGPS) which is administered by the Lothian Pension Fund.

The Partnership participates in:

- A funded defined benefit final salary scheme. This means that the Partnership and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- An arrangement for the award of discretionary post retirement benefits upon early retirement - this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

The South East of Scotland Transport Partnership (SESTRAN)

24. DEFINED BENEFIT PENSION SCHEMES (Cont.)

24.2 Transactions Relating to Post-employment Benefits

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

	2017/18 £000	2017/18 £000	2016/17 £000	2016/17 £000
Comprehensive Income and Expenditure Statement				
<i>Cost of services:</i>				
Service cost, comprising:				
Current service costs	76		56	
Past service costs	<u>0</u>		<u>0</u>	
		76		56
<i>Financing and investment income:</i>				
Net interest expense		<u>8</u>		<u>7</u>
Total post employee benefit charged to the surplus on the provision of services		84		63
<i>Other post-employment benefits charges to the Comprehensive Income / Expenditure Statement</i>				
Remeasurement of the net defined liability, comprising:				
Return on plan assets, excluding the amount included in the net interest expense above	(16)		(298)	
Actuarial gains and (losses) arising on changes in financial assumptions	(113)		405	
Actuarial gains and (losses) arising on changes in demographic assumptions	(12)		0	
Other experience	<u>499</u>		<u>0</u>	
		<u>358</u>		<u>107</u>
Total post-employment benefits charged to the Comprehensive Income / Expenditure Statement		<u>442</u>		<u>170</u>
Movement in Reserves Statement				
Reversal of net charges made to the surplus on the provision of services for post-employment benefits in accordance with the Code.		<u>(389)</u>		<u>(118)</u>
Actual amount charged against the General Fund Balance for pensions in the year:				
Employer's contributions payable to the scheme		<u>53</u>		<u>52</u>
		<u>53</u>		<u>52</u>

The South East of Scotland Transport Partnership (SESTRAN)

24. DEFINED BENEFIT PENSION SCHEMES (Cont.)

24.3 Pension Assets and Liabilities Recognised in the Balance Sheet

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

	2017/18 £'000	2016/17 £'000
Fair value of employer assets	1,982	1,913
Present value of funded liabilities	(2,678)	(2,220)
Present value of unfunded liabilities	0	0
	<hr/>	<hr/>
Net liability arising from defined benefit obligation	(696)	(307)
	<hr/>	<hr/>

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

	2017/18 £'000	2016/17 £'000
Opening fair value of scheme assets	1,913	1,551
Interest income	50	54
Remeasurement gain / (loss):		
Return on plan assets, excluding the amount included in the net interest expense	16	298
Contributions from employer	53	52
Contributions from employees into the scheme	17	15
Benefits paid	(67)	(57)
Unfunded benefits paid		
	<hr/>	<hr/>
Closing fair value of scheme assets	1,982	1,913
	<hr/>	<hr/>

Reconciliation of Present Value of the Scheme Liabilities

	2017/18 £'000	2016/17 £'000
Present value of funded liabilities	(2,220)	(1,740)
Present value of unfunded liabilities	0	0
	<hr/>	<hr/>
Opening balance at 1st April	(2,220)	(1,740)
Current service cost	(76)	(56)
Interest cost	(58)	(61)
Contributions from employees into the scheme	(17)	(15)
Remeasurement gain / (loss):		
Change in demographic assumptions	12	0
Change in financial assumptions	113	(405)
Other experience	(499)	0
Past service cost	0	0
Benefits paid	67	57
Unfunded benefits paid	0	0
	<hr/>	<hr/>
Closing balance at 31st March	(2,678)	(2,220)
	<hr/>	<hr/>

The South East of Scotland Transport Partnership (SESTRAN)

24. DEFINED BENEFIT PENSION SCHEMES (Cont.)

24.5 Fair Value of Employer Assets

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

	2017/18		2016/17	
	£'000	%	£'000	%
Equity Securities:				
Consumer *	272	14	287	15
Manufacturing *	295	15	290	15
Energy and Utilities *	124	6	142	7
Financial Institutions *	176	9	134	7
Health and Care *	97	5	112	6
Information technology *	121	6	95	5
Other	125	6	132	7
Sub-total Equity Securities	1,210		1,192	
Debt Securities:				
Corporate Bonds (investment grade) *	0	0	0	0
Corporate Bonds (non-investment grade)	39	2	0	0
UK Government *	192	10	192	10
Other *	0	0	4	0
Sub-total Debt Securities	231		196	
Private Equity:				
All *	6	0	2	0
All	30	2	60	3
Sub-total Private Equity	36		62	
Real Estate:				
UK Property	127	6	129	7
Overseas Property	2	0	0	0
Sub-total Real Estate	129		129	
Investment Funds and Unit Trusts:				
Equities *	19	1		
Bonds *			28	2
Commodities *			6	0
Infrastructure	235	12	171	9
Other	4	0	41	2
Sub-total Investment Funds and Unit Trusts	258		246	
Derivatives:				
Foreign Exchange *	1	0	0	0
Sub-total Derivatives	1		0	
Cash and Cash Equivalents				
All *	117	6	89	5
Sub-total Cash and Cash Equivalents	117		89	
Total Fair Value of Employer Assets	1,982		1,914	

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

The South East of Scotland Transport Partnership (SESTRAN)

24. DEFINED BENEFIT PENSION SCHEMES (Cont.)

24.6 Basis for Estimating Assets and Liabilities

Hymans Robertson, the independent actuaries to Lothian Pension Fund, have advised that the financial assumptions used to calculate the components of the pension expense for the year ended 31 March 2018 were those from the beginning of the year (i.e. 31 March 2017) and have not been changed during the year.

The principal assumptions used by the actuary in the calculations are:

Investment returns

- Actual returns for the period from 31 March 2017 to 31 January 2018 3.2%
- Estimated returns for the period from 1 April 2017 to 31 March 2018 (0.3%)

	2017/18	2016/17
Mortality assumptions - longevity at 65 for current pensioners:		
· Men	21.7 years	22.1 years
· Women	24.3 years	23.7 years
Mortality assumptions - longevity at 65 for future pensioners:		
· Men	24.7 years	24.2 years
· Women	27.5 years	26.3 years
Pension increase rate	2.4%	2.4%
Salary increase rate (see below)	4.1%	4.4%
Discount rate	2.7%	2.6%

Estimation of defined benefit obligations is sensitive to the actuarial assumptions set out above. In order to quantify the impact of a change in the financial assumptions used, the Actuary has calculated and compared the value of the scheme liabilities as at 31 March 2018 on varying bases. The approach taken by the Actuary is consistent with that adopted to derive the IAS19 figures.

The principal demographic assumption is the longevity assumption (i.e. member life expectancy). For sensitivity purposes, the Fund's Actuary has estimated that a one year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 3-5%. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages)

Change in assumptions at 31 March 2018	Approximate % Increase to Employer	Approximate Monetary Amount £'000
0.5% decrease in Real Discount Rate	12.0%	310
0.5% increase in the Salary Increase Rate	3.0%	90
0.5% increase in the Pension Increase Rate	8.0%	212

The South East of Scotland Transport Partnership (SESTRAN)

24. DEFINED BENEFIT PENSION SCHEMES (Cont.)

24.7 Analysis of projected amount to be charged to profit or loss for the period to 31 March 2019

	Assets £000	Obligations £000	Net (liability) / asset £000	% of pay
Projected current service cost	0	(81)	(81)	(35.6%)
Past service cost including curtailments	0	0	0	0.0%
Effect of settlements	0	0	0	0.0%
Total Service Cost	<u>0</u>	<u>(81)</u>	<u>(81)</u>	<u>(35.6%)</u>
Interest income on plan assets	54	0	54	23.6%
Interest cost on defined benefit obligation	0	(73)	(73)	(31.9%)
Total Net Interest Cost	<u>54</u>	<u>(73)</u>	<u>(19)</u>	<u>(8.3%)</u>
Total included in Profit or Loss	<u>54</u>	<u>(154)</u>	<u>(100)</u>	<u>(43.9%)</u>

SESTRAN's estimated contribution to Lothian Pension Fund for 2018/19 is £54,000.

25. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

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

Credit risk

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

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

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

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

The South East of Scotland Transport Partnership (SESTRAN)

25. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Cont.)

Liquidity risk

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

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

Refinancing risk

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

As such, the Partnership has no refinancing risk on its liabilities.

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

Market risk

Interest rate risk

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

For instance, a rise in variable and fixed interest rates would have the following effects:

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

The Partnership currently has no borrowings. Changes in interest receivable on variable rate investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance.

However, all investments currently have a maturity of less than one year and the fair value has therefore been approximated by the outstanding principal.

The Partnership's surplus funds are held with the City of Edinburgh Council.

The Council's Treasury Management Team continue to monitor market and forecast interest rates during the year and adjust investment policies accordingly.

Price risk

The Partnership does not invest in equity shares.

Foreign Exchange risk

As at 31 March 2018, the Partnership had financial assets of £108,000 subject to foreign exchange risk.

The foreign exchange loss or gain on these financial assets cannot be determined until 2018/19, when the Partnership is in receipt of the related grant income from the European Regional Development Fund.

The Partnership has no financial liabilities denominated in foreign currencies.

ANNUAL TREASURY REPORT 2017/18

1 Purpose of report

The purpose of this report is to provide an Annual Treasury Report for the financial year 2017/18.

2 Summary

The Partnership has adopted the CIPFA Code of Practice on Treasury Management in the Public Sector, and under the code, an Annual Report on Treasury Management must be submitted to the Partnership after the end of each financial year.

3 Investment Out-turn 2017/18

3.1 The Partnership’s Investment Strategy has been to maintain 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 and for financial year 2017/18 is calculated in accordance with the withdrawn Local Authority (Scotland) Accounts Advisory Committee’s (LASAAC) Guidance Note 2 on Interest on Revenue Balances (IoRB). In line with recent short term interest rates, the investment return continues to be small, but the Board gains security from its counterparty exposure being to the City of Edinburgh Council. Net end of month balances for the financial year were:

	£
Opening Balance	159,905.84
30 April 2017	177,001.86
31 May 2017	204,157.32
30 June 2017	328,878.40
31 July 2017	353,669.27
31 August 2017	454,246.87
30 September 2017	441,639.82
31 October 2017	473,123.77
30 November 2017	421,718.98
31 December 2017	416,970.42
31 January 2018	106,998.57
28 February 2018	-134,092.74
31 March 2018	-60,916.43

3.2 Interest is calculated on the average monthly balance. The interest rate applied was 0.223%, giving an interest amount of £600.03 payable to the Partnership.

3.3 The Annual Treasury report 2017/18 is presented to the Partnership’s Performance and Audit Committee, in terms of the Committee’s remit to review financial information to be presented to the Partnership.

4 Recommendations

- 4.1 It is recommended that the Performance and Audit Committee notes the Annual Report for 2017/18.

HUGH DUNN
Treasurer

Appendix None

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

Risk Framework

1. INTRODUCTION

1.1 The purpose of this report is to provide the Committee with its six monthly update on the risk register, which is an integral part of SEStran's Risk Management Framework.

2. BACKGROUND

2.1 SEStran has been using a Risk Register to record, report and evaluate risks within the organisation since May 2008. All risks are reviewed regularly by the relevant staff and Appendix 1 to this report is the latest version of the SEStran Risk Register, highlighting the key risks.

3. RECOMMENDATIONS

3.1 The Committee are asked to note the contents of the report and Risk Register.

Angela Chambers
Business Manager
 June 2018

Appendix 1: SEStran Risk Register

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

Risk Number	Risk Detail	Risk Category	Gross Risk Assessment					Planned Response/Mitigation	Net Risk Assessment					Risk After Mitigation	Date and Owner		
			Probability	Impact	Risk Score	Probability	Impact		Risk Score								
R001	Policy Appraisal: Poor Quality Lack of consultation	Strategic	1	Remote	3	Moderate	3	Low	Advised by Government of relevant policy changes and Partnership Director regularly horizon scanning for further policies and responds accordingly. New consultative forums also enable greater visibility and integration of local policies into regional strategy.	1	Remote	2	Minor	2	Low	Low. Partnership staff also continue to monitor their networks for relevant policy discussions.	June 2018 Partnership Director
R002	Project Appraisal and Delivery: Incomplete or of poor quality Late Delivery	Reputational	2	Unlikely	4	Major	8	Medium	Monthly monitoring and management intervention by the project officer and over-seen by the Head of Programmes. Key regional projects such as RTPI has regular communication with key clients and service providers, including standing quarterly stakeholder meetings.	2	Unlikely	3	Moderate	6	Low	Low. Regular monitoring and management/project team meetings provides all across the organisation with a clear view of progress and expenditure against budget.	June 2018 Head of Programmes
R003	Digital/IT: Server failure Comms failure: phones Website	System and Technology	3	Possible	4	Major	12	Medium	SEStran has an up-to-date Management Plan for Business Continuity. Website has a maintenance contract as does RTPI system. Both proactively managed by third parties.	3	Possible	2	Minor	6	Low	Low. Contracted IT consultants deliver IT services. Website contract includes security updates. Robust Information Security Policy in place with regular monitoring reports. GDPR compliant and progressing Cyber Essentials Accreditation.	June 2018 Business Manager
R004	Reputation: Regard by the public and stakeholders. Negative or inaccurate media coverage leading to misrepresentation of SEStran position	Reputational	3	Possible	3	Moderate	9	Medium	Good relationships with media. Quick response to negative or inaccurate coverage. Proactive placement of copy. Agreed broad media positions. Availability of Spokesperson - Senior staff only. No unauthorised media statements.	3	Possible	2	Minor	6	Low	Work ongoing to deliver a new brand for the Partnership. Partnership staff continue to promote and advocate activities via speaking, writing or wider networking	June 2018 Partnership Director

R005	Statutory Duties: Failure to adhere to duties described in legislation and related documentation	Legal and Regulatory	1	Remote	4	Major	4	Low	Audit approved systems of governance in place. External and internal audits carried out.	1	Remote	2	Minor	2	Low	Low. Regular monitoring and programming of statutory duties is undertaken by the Partnership Director, Head of Programmes and Business Manager. Audited by third parties.	June 2018 Partnership Director
R006 6.0	Financial: Significant deviation from budgeted spend	Financial	2	Unlikely	3	Moderate	6	Low	The Partnership's Financial Rules do not permit the Partnership's spending (whether revenue or capital) to exceed its available budget. Budget and spend is monitored on a monthly basis by SEStran officers, using financial information provided by City of Edinburgh Council (CEC) through the Partnership's Financial Services Service Level Agreement with CEC and supported by qualified accounting staff of CEC. Action is taken by Partnership officers to develop alternative savings measures, including options for development of contingency arrangements, if required and subject to approval by the Partnership. The Partnership's Financial Rules require reporting of financial performances to the Partnership Board on a quarterly basis.	1	Remote	2	Minor	2	Low	Low. In October 2017, the Scottish Government commenced consultation to give consideration to RTPs being given powers to of carry forward of expenditure across financial years.	June 2018 Partnership Director
6.1	Pay awards: Provision for a pay award of up to 3% in 2018/19 based on alignment with SG pay policy. Each 1% increase equates to an increase in £3,400	Financial	4	Probable	1	Insignificant	4	Low	Alignment with Scottish Local Government pay policy	4	Probable	1	Insignificant	4	Low	Tolerate	June 2018 Partnership Director
6.2	Staff recharges - EU projects: There is a risk that opportunities for additional funding through income for EU projects may reduce.	Financial	5	Highly Probable	3	Moderate	15	High	Any shortfall in employee recharges will be managed through corresponding reductions in Projects Budget expenditure. EU projects represent a low percentage of the budget.	4	Probable	2	Minor	8	Medium	Medium: Other funding sources will continue to be pursued.	June 2018 Partnership Director

6.3	Inflation: There is a risk that the approved budget does not adequately cover price inflation.	Financial	5	Highly Probable	1	Insignificant	5	Low	When setting the revenue budget, allowance was made for specific price inflation and budgets adjusted in line with current cost forecasts.	5	Highly Probable	1	Insignificant	5	Low	Tolerate	June 2018 Partnership Director
6.4	Delays in payment of external grants results in additional short-term borrowing costs.	Financial	3	Possible	2	Minor	6	Low	SEStran grant claims for projects are submitted in compliance with grant funding requirements to ensure minimal delay in payment. Ongoing monitoring of cash flow is undertaken to manage exposure to additional short-term borrowing costs.	3	Possible	1	Insignificant	3	Low	Low: Grant submission procedures in place, along with financial planning.	June 2018 Partnership Director
6.5	Sources of additional income to the Partnership may become constrained in the current economic climate and/or due to changes in operating arrangements.	Financial	4	Probable	3	Moderate	12	Medium	Active Travel funding a high priority for Government with funds consistently available to bid for. Revenue budget for 2018/19 developed to take account of most likely level of external income in 2018/19.	4	Probable	3	Moderate	12	Medium	Tolerate: Adapt expenditure accordingly	June 2018 Partnership Director
6.6	Funding reductions: Future reductions in funding from Scottish Government and/or council requisitions.	Financial	3	Possible	4	Major	12	Medium	Scottish Government and constituent council funding is confirmed for 2018/19. A financial planning report for 2019/20 will be presented to the Partnership Board in Autumn 2018. Subject to decision by the Partnership Board, the draft budget for 2019/20 will then be prepared, based on anticipated funding for Scottish Government grant and council requisitions. The Partnership will continue to source and develop external funding.	3	Possible	4	Major	12	Medium	Tolerate: Manage organisation in accordance with available funding but ability of organisation to deliver RTS objectives will inevitably be dictated by available funding.	June 2018 Partnership Director
6.7	The deficit on the staff pension fund could lead to increases in the employers pension contribution	Financial	3	Possible	3	Moderate	9	Medium	The Partnership continues to benefit from Lothian Pension Fund's contribution stability mechanism as part of the Fund's strategy to manage potential volatility in employer contribution rates. Following the Lothian Pension Fund Triennial Actuarial Review of 2017, proposed Partnership contribution rates have been advised until 2020/21	2	Unlikely	3	Moderate	6	Low	Tolerate	June 2018 Partnership Director

6.8	Current staffing levels cannot be maintained due to funding constraints and the Partnership incurs staff release costs	Financial	3	Possible	3	Moderate	9	Medium	The Partnership Director continues to seek additional sources of funding for activities aligned to the Partnership's objectives to supplement resources	3	Possible	2	Minor	6	Low	Low: Other funding sources will continue to be pursued.	June 2018 Partnership Director
R007	HR: Pension Liabilities Redundancy Contingency Inappropriate Behaviour Staffing/Incapacity	People	3	Possible	3	Moderate	9	Medium	SLA in place with Falkirk Council to provide specialist HR advice as required and is under regular review. Legal advice is provided, when required, through a framework contract, which is in place until 2019.	1	Remote	2	Minor	2	Low	Tolerate	June 2018 Partnership Director
R008	Corporate: Removal of RTPs as part of the review of the National Transport Strategy.	Strategic	4	Probable	4	Major	16	High	RTPs jointly lobbying Transport Minister. SEStran is engaged in the NTS2 review, representing all RTPs on the NTS2 Review Board and has sought and received assurances around retention of functions and undertakings transfer from Scottish Ministers.	4	Probable	4	Major	16	High	High: Tolerate and seek to influence outcomes at every opportunity	June 2018 Partnership Director
R009	EU Exit: Impact on learning and funding	Financial	5	Highly Probable	3	Moderate	15	High	The Partnership has sought to engage in as many relevant EU projects and funds as it can whilst UK authorities are allowed to access these funds. This should mitigate the short-term impact of any EU Exit negotiated and implemented.	5	Highly Probable	3	Moderate	15	High	High: The risk remains high as there is significant uncertainty around the medium (3-5year) horizon for access to funds. Opportunity for renewed collaborative working with EU following Brexit to be explored.	June 2018 Head of Programmes
R010	Governance: Senior Officer absence Succession Planning Business Continuity	People	3	Possible	3	Moderate	9	Medium	Ensure Governance Scheme contains adequate provision. Staff structure in place and Head of Programmes assigned delegated powers in Directors absence. Business Continuity Plan in place.	3	Possible	3	Moderate	9	Medium	Tolerate	June 2018 Partnership Director
R011	Third party Service Level Agreements: Failure or inadequacy of service	People	2	Unlikely	2	Minor	4	Low	Service Level Agreements in place for Financial Services, HR, Legal and Insurance services. Reviewed annually by senior officers. Subject to independent audit scrutiny.	2	Unlikely	2	Minor	4	Low	Tolerate	June 2018 Partnership Director

Likelihood		Severity		Risk Score	At Risk
1	Remote	1	Insignificant	1	System and Technology
2	Unlikely	2	Minor	2	Reputational
3	Possible	3	Moderate	3	Strategic
4	Probable	4	Major	4	Financial
5	Highly Probable	5	Catastrophic	5	Governance
				6	Specific Operational
				8	External
				9	Legal and Regulatory
				10	People
				12	Physical
				15	
				16	
				20	
				25	

Impact				
Descriptor	Score	Health and Safety Impact	Impact on Service and Reputation	Financial Impact
Insignificant	1	No injury or no apparent injury.	No impact on service or reputation. Complaint unlikely, litigation risk remote.	Loss/costs up to £5000.
Minor	2	Minor injury (First Aid on Site)	Slight impact on service and/or reputation. Complaint possible. Litigation possible.	Loss/costs between £5000 and £50,000.
Moderate	3	Reportable injury	Some service disruption. Potential for adverse publicity, avoidable with careful handling. Complaint expected. Litigation probable.	Loss/costs between £50,000 and £500,000
Major	4	Major injury (reportable) or permanent incapacity	Service disrupted. Adverse publicity not avoidable (local media). Complaint expected. Litigation expected.	Loss/costs between £500,000 and
Catastrophic	5	Death	Service interrupted for significant time. Adverse publicity not avoidable (national media interest.) Major litigation expected. Resignation of senior management/directors.	Theft/loss over £5,000,000

Impact					
Catastrophic	5	10	15	20	25
Major	4	8	12	16	20
Moderate	3	6	9	12	15
Minor	2	4	6	8	10
Insignificant	1	2	3	4	5
Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

Likelihood		
Descriptor	Score	Example
Remote	1	May only occur in exceptional circumstances.
Unlikely	2	Expected to occur in a few circumstances.
Possible	3	Expected to occur in some circumstances.
Probable	4	Expected to occur in many circumstances.
Highly Probable	5	Expected to occur frequently and in most circumstances.

Maintain existing measures in place.
Review control measures. Even if the risk is low, there may be things that can be done to bring the risk rating down to minimal.
Improve control measures. If the Rating Action Band is greater than 3 or 4 then a review of the existing safety/control measures needs to be done, where additional
Improve control measures immediately and consider stopping work activity until risk is reduced.

Cyber Resilience

1. INTRODUCTION

- 1.1 This report provides the Committee with an update on the Cyber Resilience project.

2. BACKGROUND

- 2.1 Reports were brought to previous meetings of the Performance & Audit Committee and Partnership Board detailing the requirements of the Scottish Government (SG) Cyber Security Public Sector Action Plan.
- 2.2 One of the key actions required was to carry out an initial pre-assessment to determine the cyber security posture of the Partnership by March 2018, and to carry out the remedial actions required to attain Cyber Essentials or Cyber Essentials PLUS accreditation by October 2018.

3. PROGRESS

- 3.1 SG awarded SEStran a grant award of £1000 for the completion of the cyber essentials pre-assessment. Three approved suppliers were approached and quotations obtained and the successful company, Quorum Cyber Security Ltd were chosen to undertake the pre-assessment.
- 3.2 The first objective was to define an acceptable scope for accreditation, the second, was to complete a mock audit of the defined scope to ascertain any control gaps and identify the remediation activities required to achieve accreditation.
- 3.3 The mock audit was conducted on 21st March 2018 and the outcome signified that SEStran is in an excellent position to gain Cyber Essentials certification, with very little remedial work required. In almost all areas, appropriate controls are in place and the organisation's approach to cyber security is appropriate to the risks being faced.

4. ACCREDITATION LEVEL

- 4.1 Quorum Security have recommended that the Partnership pursues Cyber Essentials PLUS, which is the level of accreditation recommended by SG. This level requires testing/assessment of the IT provisions, rather than being awarded by means of a self-assessment questionnaire and provides a higher level assurance.
- 4.2 The cost of pursuing Cyber Essentials PLUS is £2200 and can be contained within this year's budget.

5. RECOMMENDATIONS

- 5.1 The Committee are asked to approve that Cyber Essentials PLUS accreditation is pursued, and;
- 5.2 Note that the final assessment and accreditation will be completed by October 2018.

Angela Chambers
Business Manager
June 2018

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