

**2021/22 Annual Audit Report to members of South East of Scotland Transport Partnership and the Controller of Audit**

**1. Introduction**

- 1.1** The Annual Audit Report summarises the findings arising from the Partnership's 2021/22 external audit.

**2. Main Report**

- 2.1** The unaudited Annual Accounts were noted by the Partnership at its meeting on 17th June 2022 and submitted to the appointed external auditor – Azets Audit Services.
- 2.2** There are no qualifications to the audit certificate. The Auditor's opinion states that the financial statements present a true and fair view of the Partnership as at 31st March 2022 and its income and expenditure for the year then ended.
- 2.3** The key messages are presented on pages 3 to 6 of the Auditors report.
- 2.4** The Performance and Audit Committee reviewed the Annual Audit report at its' rescheduled meeting on 13th September 2022.

**3 Recommendations**

- 3.1** It is recommended that the Partnership note the Annual Audit Report to members of South East of Scotland Transport Partnership and the Controller of Audit.

**Hugh Dunn**

Treasurer

14<sup>th</sup> September 2022

**Appendix**      Annual Audit Report to members of South East of Scotland Transport Partnership and the Controller of Audit

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Policy Implications	There are no policy implications arising as a result of this report.
Financial Implications	There are no financial implications arising following issue of an unqualified Audit certificate.
Equalities Implications	There are no equality implications arising as a result of this report.
Climate Change Implications	There are no climate change implications arising as a result of this report.



# South East of Scotland Transport Partnership

2021/22 Annual Audit Report to members of South East of Scotland Transport Partnership and the Controller of Audit

September 2022



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# Key messages

This report concludes our audit of the South East of Scotland Transport Partnership (“the Partnership”) for 2021/22.

This section summarises the key findings and conclusions from our audit.

## Financial statements audit

<b>Audit opinion</b>	<p>The Partnership's annual accounts for the year ended 31 March 2022 were considered by the Performance and Audit Committee on 13 September 2022 and are due to be approved by the Partnership on 23 September 2022.</p> <p>We report unqualified opinions within our independent auditor's report.</p>
<b>Key findings on audit risks and other matters</b>	<p>We have obtained adequate evidence in relation to the key audit risks identified in our audit plan.</p> <p>We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.</p> <p>The accounting policies used to prepare the financial statements are considered appropriate.</p> <p>All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.</p> <p>The Partnership had appropriate administrative processes in place to prepare the annual accounts and the required supporting working papers</p>
<b>Audit adjustments</b>	<p>We identified one adjustment to the unaudited annual accounts, with no impact on the financial position of the Partnership.</p> <p>We also identified disclosure and presentational adjustments during our audit, which have been reflected in the final set of financial statements.</p>
<b>Accounting systems and internal controls</b>	<p>We have applied a risk-based methodology to the audit. This approach requires us to document, evaluate and assess the Partnership's processes and internal controls relating to the financial reporting process.</p> <p>Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we have included these in this report. No material weaknesses or significant deficiencies were noted.</p>

## Wider scope audit

Our annual audit work in respect of our wider scope audit responsibilities was restricted to:

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

Our conclusions and key observations are set out below:

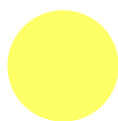


### Annual Governance Statement

We are satisfied that the Annual Governance Statement for the year to 31 March 2022 is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

The Partnership has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in the Partnership's accounting internal control systems throughout the year.

### Auditor judgement



No major weaknesses in arrangements but scope for improvement exists

Pace and depth of improvement are adequate

Risks exist to achievement of operational objectives



### Financial Sustainability

Three-year financial plans have been developed and approved by the Partnership. This presents a balanced budget across all three years, assuming Scottish Government funding and council requisitions will remain at the same level as 2021/22 and will remain at this level over the three year period.

With Scottish Government grant funding and council requisitions remaining the same level, representing a reduction in real terms, the Partnership relies on external funding to ensure a balanced position. The Partnership continues to explore opportunities to increase external funding levels over the medium term.

As at 31 March 2022, the Partnership held an unallocated general fund reserve of £104,000, which is significantly above the minimum level of £31,000 required by the Reserves Policy. This has arisen from underspends against the 2021/22 core budget due to increased staff cost recharges to EU projects and reduced costs reflecting ongoing working from home arrangements. The Partnership is due to consider how these reserves can be utilised at the meeting in September 2022.

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Development of the Regional Transport Strategy has progressed throughout 2021/22, with a final version due to be considered by the Partnership in September 2022. Subsequently, the strategy will be presented to Scottish Ministers for their approval and then published. We are satisfied that SEStran has taken appropriate steps to ensure stakeholders' views and statutory responsibilities have been considered throughout the process.

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### Definition

Our wider scope audit involves consideration of the Partnership's arrangements as they relate to financial sustainability. We have used the following grading to provide an overall assessment of the arrangements in place.



# Introduction



We carried out our audit in accordance with Audit Scotland's  
Code of Audit Practice and maintained auditor independence

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## Scope

1. This report summarises the findings from our 2021/22 audit of the South East of Scotland Transport Partnership (“the Partnership”).
2. We outlined the scope of our audit in our External Audit Plan, which we presented to the Partnership at the outset of our audit. The core elements of our work include:
  - an audit of the 2021/22 annual accounts and related matters;
  - consideration of the wider dimensions of public audit work, as set out in Exhibit 1; and
  - any other work requested by Audit Scotland.

### Exhibit 1: Audit dimensions within the Code of Audit Practice



## Responsibilities

3. The Partnership is responsible for preparing annual accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
4. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.
5. This is the final year of our audit appointment under the current audit arrangements. We would like to thank all management and staff at both the Partnership and City of Edinburgh Council for their co-operation and assistance during our appointment period.

## Auditor independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remain independent and our objectivity has not been compromised in any way.
8. We set out in Appendix 1 our assessment and confirmation of independence.

## Openness and transparency

11. This report will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Adding value through the audit

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

## Feedback

10. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of the audit team.

# Annual accounts audit

The Partnership's annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

## Overall conclusion

12. The annual accounts were considered by the Performance and Audit Committee on 13 September 2022 and are due to be approved by the Partnership on 23 September 2022. Our independent auditor's report is unqualified.

### Administrative processes

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

## Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	<p>We conduct our audit in accordance with applicable law and International Standards on Auditing.</p> <p>Our findings / conclusions to inform our opinion are set out in this section of our annual report.</p>	We have issued unqualified audit opinions.
Going concern basis of accounting	<p>In the public sector when assessing whether the going concern basis of accounting is appropriate, the anticipated provision of the services is more relevant to the assessment than the continued existence of a particular public body.</p> <p>We assess whether there are plans to discontinue or privatise the Partnership's functions.</p> <p>Our wider scope audit work considers the financial sustainability of the Partnership.</p>	<p>As at 31 March 2022, the Partnership reported a net liability position of £0.259million. This includes the net pension liability of £0.580million. In the Partnership's opinion, the organisation will be able to continue for the foreseeable future. The Partnership has adequate budget to meet the ongoing employer contributions required by Lothian Pension Fund.</p> <p>We reviewed the financial forecasts for 2022/23. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the</p>

Opinion	Basis for opinion	Conclusions
		<p>Partnership will continue to operate for at least 12 months from the signing date.</p> <p>Our audit opinion is unqualified in this respect.</p>
<p>Opinions prescribed by the Accounts Commission on:</p> <ul style="list-style-type: none"> <li>• Management Commentary</li> <li>• Annual Governance Statement</li> <li>• Remuneration Report</li> </ul>	<p>We read all the statutory information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.</p> <p>We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with;</p> <ul style="list-style-type: none"> <li>• Statutory guidance issued under the Local Government in Scotland Act 2003 (Management Commentary);</li> <li>• The Delivering Good Governance in Local Government: Framework (Annual Governance Statement); and</li> <li>• The Local Authority Accounts (Scotland) Regulations 2014 (Remuneration Report).</li> </ul>	<p>The statutory other information contains no material misstatements or inconsistencies with the financial statements.</p> <p>We have concluded that:</p> <ul style="list-style-type: none"> <li>• The management commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003.</li> <li>• The information given in the annual governance statement is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance framework.</li> <li>• the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.</li> </ul>

Opinion	Basis for opinion	Conclusions
Matters reported by exception	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> <li>adequate accounting records have not been kept; or</li> <li>the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or</li> <li>we have not received all the information and explanations we require for our audit.</li> </ul>	We have no matters to report.

## An overview of the scope of our audit

14. The scope of our audit was detailed in our External Audit Plan, which was presented to the Partnership in March 2022. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Partnership. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.
15. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.
16. In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a

reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the significant accounting systems, substantive procedures and detailed analytical procedures.

## Significant risk areas

17. Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.
18. The significant risk areas described in the table below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual

accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual accounts is not modified with respect to any of the risks described below.

## Significant risk areas

### 1. Management override

#### Significant risk description

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

#### How the scope of our audit responded to the significant risk

##### Key judgement

There is the potential for management to use their judgement to influence the financial statements as well as the potential to override controls for specific transactions.

##### Audit procedures

- Review of the Partnership's accounting records and audit testing on transactions.
- Adoption of data analytics techniques in carrying out testing.
- Review of judgements and assumptions made in determining accounting estimates as set out in the financial statements to determine whether they are indicative of potential bias. This included a retrospective review of the prior year estimates against the current year estimates.

#### Key observations

We have not identified any indication of management override in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

## Significant risk areas

### 2. Revenue recognition

#### Significant risk description

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

#### How the scope of our audit responded to the significant risk

##### Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end. However, we do not deem this risk to be present in requisitions received from the constituent local authorities or Scottish Government grant funding due to a lack of incentive and opportunity to manipulate those transactions.

##### Audit procedures

- Evaluate the significant revenue streams and review the controls in place over accounting for revenue.
- Consideration of the Partnership's key areas of revenue and obtain evidence that revenue is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.

#### Key observations

At the planning stage of our audit we concluded that the revenue recognition risk was present in all revenue streams except for requisitions from constituent local authorities and Scottish Government grant funding. Our conclusion remained the same throughout the audit.

Based on the work performed, we have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that it is fairly stated in the financial statements.



## Significant risk areas

### 3. Expenditure recognition

#### Significant risk description

As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.

#### How the scope of our audit responded to the significant risk

##### Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals around the year end.

##### Audit procedures

- Evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. (Payroll is subject to separate tailored testing).
- Consideration of the Partnership's key areas of expenditure and obtain evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.
- Review of accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

#### Key observations

We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements.

## Significant risk areas

### 4. Pension assumptions (significant accounting estimate)

#### Significant risk description

An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under IAS 19 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate.

#### How the scope of our audit responded to the significant risk

##### Key judgements

A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation and mortality rates) can have a material impact on the pension asset/liability.

##### Audit procedures

- Review of the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate.
- Review the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data.
- Agree the disclosures in the financial statements to information provided by the actuary.
- Consider the competence, capability and objectiveness of the management expert in line with ISA (UK) 500 Audit Evidence.

#### Key observations

We reviewed the reasonableness of those assumptions used in the calculation against other local government pension fund actuaries and other observable data, with no issues identified. In addition, we reviewed the information in the actuarial report for completeness and accuracy against the published pension fund data.

We have considered the competence, capability and objectivity of the actuary in line with the requirements of ISA (UK) 500 'Audit Evidence'. From this review we did not identify any items which gave us cause for concern over the suitability of the actuary.

## Other risk factors

### Impact of COVID-19 on the annual accounts

19. COVID-19 presented unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. In response to the pandemic we identified potential areas of

increased risk of material misstatement to the financial statements and/or our audit opinion. Our conclusions are set out in the following table:

Area considered	Description	Conclusion
Access to audit evidence	Our audit this year has been carried out remotely. As a consequence, we identified a risk that access to and provision of sufficient, appropriate audit evidence in support of our audit opinion may be impacted by the inherent nature of carrying out our audit remotely.	<p>We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.</p> <p>We have stayed in close contact with Partnership and City of Edinburgh Council colleagues to ensure all relevant issues are satisfactorily addressed.</p>

## Estimates and judgements

20. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.
21. As part of the planning and fieldwork stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements. Consideration was given to pension assumptions, depreciation,

and accruals. Other than pension assumptions, we have not determined the accounting estimates to be significant. We revisited our assessment during the completion stages of our audit and concluded that our assessment remained appropriate.

22. Our audit work consisted of reviewing these key areas for any indication of bias and assessing whether the judgements used by management are reasonable. We have summarised our assessment of this below, categorised between Prudent, Balanced and Optimistic.

## Estimates and judgements

### Pension assumptions

Balanced

An actuarial estimate of the pension fund asset/liability is calculated on an annual basis and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience.

We have considered the competence, capability and objectivity of the actuary in line with the requirements of ISA (UK) 500 'Audit Evidence'. From this review we did not identify any items which gave us cause for concern over the suitability of the actuary.

We reviewed the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data, with no issues identified. In addition, we reviewed the information in the actuarial report for completeness and accuracy against the published pension fund data.

The Partnership has disclosed in its annual accounts a sensitivity analysis to help users of the annual accounts understand the judgements management have made about the sources of estimation uncertainty.

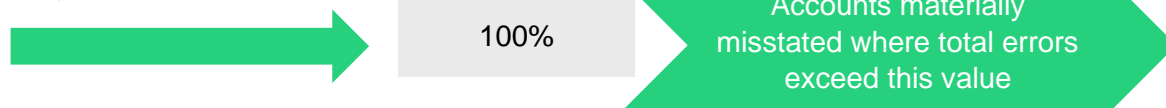
## Materiality

23. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.
24. Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to the Partnership and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.
25. Our initial assessment of materiality for the Partnership's financial statements was £23,000. On receipt of the unaudited annual accounts, we reassessed materiality and updated it to £35,000. We consider that our updated assessment has remained appropriate throughout our audit.

## Materiality

### Overall materiality

£35,000



### Performance materiality

£26,000



### Trivial threshold

£1,750



### Materiality

Our assessment is made with reference to the Partnership's gross expenditure. We consider this to be the principal consideration for the users of the annual accounts when assessing financial performance.

Our assessment of materiality equates to approximately 1.5% of gross expenditure as disclosed in the 2021/22 unaudited annual accounts.

In performing our audit we apply a lower level of materiality to the audit of the Remuneration Report. Our materiality is set at £5,000.

### Performance materiality

Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.

Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.

### Trivial misstatements

Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

## Audit differences

26. We identified one audit adjustment, as detailed at appendix 1, with a net impact of nil on the financial position of the Partnership.
27. In 2020/21, the Partnership purchased bus passenger transport equipment on behalf of two constituent councils, using the Partnership's existing Framework contract for bus passenger equipment. The value of the equipment was £46,000. As the equipment was awaiting deployment at 31st March 2021, the equipment was accounted for as Property, Plant and Equipment - Assets Under Construction. During 2021/22, it was established that ownership of the assets was vested with the two constituent councils, with full recovery of cost by the Partnership.
28. A prior year restatement of £46,000 has been made to Property, Plant and Equipment - Assets Under Construction. A corresponding adjustment was made to the deficit on provision of services in the Comprehensive Income and Expenditure Statement.
29. Our audit adjustment reflects the Partnership's purchase of bus passenger transport equipment on behalf of constituent councils in 2021/22. These transactions have been removed from the Partnership's financial statements (as the Partnership is acting as an intermediary) and disclosed in the notes.
30. We also identified some disclosure or presentational adjustments during our audit, which have been reflected in the final set of accounts.

## Internal controls

31. As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Partnership. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

Area	Assessment	Comment
Control and process environment	<b>Satisfactory</b>	We consider the control environment within the entity to be satisfactory.
Quality of supporting schedules	<b>Satisfactory</b>	The supporting schedules received during the course of the fieldwork were of a high standard and sufficient for our audit purposes.
Responses to audit queries	<b>Satisfactory</b>	Management and City of Edinburgh Council responses to our audit queries were appropriate and received on a timely basis.

## Other communications

### Accounting policies, presentation and disclosures

32. Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by the Partnership.
33. The accounting policies, which are disclosed in the annual accounts, are considered appropriate.
34. There are no significant financial statements disclosures that we consider should be brought to the attention of the Partnership. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
35. Overall we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate.

not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.

37. Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

### Non-compliance with laws and regulations

38. As part of our standard audit testing, we have reviewed the laws and regulations impacting the Partnership. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations that would necessitate a provision or contingent liability.

### The Local Authority Accounts (Scotland) Regulations 2014

39. As part of our audit we reviewed the Partnership's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with

### Fraud and suspected fraud

36. We have previously discussed the risk of fraud with management. We have

respect to regulations 8 to 10<sup>1</sup> as they relate to the annual accounts.

40. Overall we concluded that appropriate arrangements are in place to comply with these Regulations.

### Written representations

41. We will present a letter of representation to the Treasurer to sign at the same time as the annual accounts are approved.

### Related parties

42. We are not aware of any related party transactions which have not been disclosed.

### Confirmations from third parties

43. All requested third party confirmations in respect of bank and legal confirmations have been received.

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<sup>1</sup> Regulations 8 to 10 relate to the preparation and publication of unaudited accounts, notice of public

right to inspect and object to the accounts and consideration and signing of the audited accounts.



## Wider scope

Following consideration of the size, nature and risks of the Partnership, the application of the full wider scope audit is judged by us not to be appropriate. Our annual audit work on the wider scope has therefore been restricted to:

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

## Wider scope conclusions



### Governance Statement

We are satisfied that the Annual Governance Statement for the year to 31 March 2022 is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

The Partnership has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in the Partnership's accounting internal control systems throughout the year.

### Auditor judgement



No major weaknesses in arrangements but scope for improvement exists

Pace and depth of improvement are adequate

Risks exist to achievement of operational objectives



### Financial Sustainability

Three-year financial plans have been developed and approved by the Partnership. This presents a balanced budget across all three years, assuming Scottish Government funding and council requisitions will remain at the same level as 2021/22 and will remain at this level over the three year period.

With Scottish Government grant funding and council requisitions remaining the same level, representing a reduction in real terms, the Partnership relies on external funding to ensure a balanced position. The Partnership continues to explore opportunities to increase external funding levels over the medium term.

As at 31 March 2022, the Partnership held an unallocated general fund reserve of £104,000, which is significantly above the minimum level of £31,000 required by the Reserves Policy. This has arisen from underspends against the 2021/22 core budget due to increased staff cost recharges to EU projects and reduced costs reflecting ongoing working from home arrangements. The Partnership is due to consider how these reserves can be utilised at the meeting in September 2022.

Development of the Regional Transport Strategy has progressed throughout 2021/22, with a final version due to be considered by the Partnership in September 2022. Subsequently, the strategy will be presented to Scottish Ministers for their approval and then published. We are satisfied that SEStran has taken appropriate steps to ensure stakeholders' views and statutory responsibilities have been considered throughout the process.

## Our approach to the wider scope audit

44. Our approach to the wider scope audit (as set out in our 2021/22 External Audit Plan) builds on our understanding of the Partnership which we developed from previous years, along with discussions with management and review of minutes and key strategy documents.
45. During our audit we also considered the Partnership's arrangements as they relate to the best value theme of fairness and equality.
46. Overall we concluded that the Partnership has appropriate arrangements in place as noted below

### Fairness and Equalities

The Partnership published its Equality Outcomes 2021-2025 and Mainstreaming Report in April 2021. This outlined progress made in mainstreaming equality and set new equality outcomes for the period 2021-25. Performance measures have been set for each outcome which will be monitored throughout the period. The next progress report is due by April 2023.

Equality impact assessments have been completed to underpin the development of the new Regional Transport Strategy. The Scottish Government's National Transport Strategy targets reducing inequalities as one of the four central priorities. The work undertaken by SEStran looked to identify key equalities issues to inform the content of the new Regional Transport Strategy.



## Annual Governance statement

**Our audit opinion considers whether the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016) and is consistent with the financial statements.**

47. We are satisfied that the Annual Governance Statement for the year to 31 March 2022 is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).
48. From our audit work we have concluded that the Partnership has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in the Partnership's accounting and internal control systems.
49. The Treasurer has confirmed that in his opinion, reasonable assurance can be placed upon the adequacy and effectiveness of the Partnership's internal control system.
50. The Partnership's internal audit function is provided by City of Edinburgh Council's internal audit service. We have taken cognisance of the work of internal audit in forming our opinion on the appropriateness of the disclosures in the Annual Governance Statement.

### Governance arrangements

51. Governance arrangements have continued as normal throughout the period, with Partnership and Committee meetings held remotely.

52. The accounting and internal control system has continued to operate effectively during remote working, with no significant changes in controls.
53. The Partnership received and considered all standing items in 2021/22 including regular budget monitoring reports, performance information and updates on ongoing activity.
54. We are satisfied that the Partnership received sufficient and timely information throughout the period to support effective scrutiny, challenge and decision making.

### Scottish Local Government Elections

55. The recent local government elections has resulted in significant changes to the Partnership's membership, with 17 out of the 20 elected members being newly appointed.
56. The new Partnership members are due to receive the relevant training in September 2022. The training will be aligned to the Scottish Government's On Board training guide.



## Financial sustainability

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

### Significant audit risk

57. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities

### Financial sustainability

The Partnership approved an Indicative Financial Plan 2022-2025 in December 2021. This presents a balanced budget across all three years, assuming Scottish Government funding and council requisitions will remain at the same level as 2021/22 and will remain at this level over the three year period. The achievement of a balanced financial outturn depends upon continued tight control and monitoring of income and expenditure. The 2022/23 revenue budget will be presented to the Partnership in March 2022, including an update on the General Fund reserve position as per the Reserves Policy.

With Scottish Government grant funding and council requisitions remaining at the same level, representing a reduction in real terms, the Partnership relies on external funding to ensure a balanced position. However, with European Union projects ending over the next two years, funding will reduce from £106,000 in 2021/22 to nil by 2023/24. The Partnership do not see this as a significant risk to its financial sustainability but are looking into arrangements to succeed those existing funding streams and has identified the need to increase funding levels as a key objective within its Business Plan 2021/22 to 2023/24.

The development of the new Regional Transport Strategy (RTS) has been a key area of focus in 2021/22, with the draft RTS due to be considered by the Partnership in March 2022 and subsequently shared with Scottish Government for approval. The RTS will set out a clear framework for how transport and mobility will be provided, developed and improved in the South East of Scotland region, whilst meeting aspirations for a sustainable and economically active growth area over and beyond the next 10 years. As a key driver for service delivery in the medium to long term, it is essential that SEStran has appropriate financial plans in place to support the delivery of this strategy in a sustainable manner.

*Noted in the 2021/22 External Audit Plan*

58. Our detailed findings on the Partnership's financial framework for achieving medium term financial sustainability are set out below.

## Medium term financial planning

59. In March 2022 the Partnership approved a revenue budget of £1.526million for 2022/23 (2021/22: £1.472million) and indicative financial plans for 2023/24 and 2024/25.
60. The budget assumes a balanced position each year with no plans to utilise or increase the unallocated general fund reserve. The Partnership

was assured that, based on the forecasted 2021/22 position, an adequate unallocated reserve could be maintained, but that confirmation of this position would be presented to the Partnership in September 2022, based on the audited position for 2021/22.

61. All three years are based on the Partnership continuing to receive £782,000 grant from the Scottish Government, £190,000 from constituent council requisitions and the balance met from external funding.

### Exhibit 2: Medium term financial plan 2022/23 – 2024/25

	2022/23	2023/24	2024/25
	£'000	£'000	£'000
<b>Budgeted expenditure</b>	<b>1,526</b>	<b>1,337</b>	<b>1,311</b>
External funding	554	365	339
Scottish Government	782	782	782
Council requisition	190	190	190
<b>Total funding</b>	<b>1,526</b>	<b>1,337</b>	<b>1,311</b>

**Source:** Revenue Budget 2022/23 and Indicative Financial Plan 2023/24 to 2024/25 – presented to the Partnership March 2022

62. Key assumptions made in developing the 2022/23 budget and indicative financial plans include;
- Additional EU project income and expenditure with net impact of additional costs of £104,000;
  - An increase in staff recharges to EU projects in 2022/23 review of EU projects;
  - estimated Pension Fund strain costs of £10,000 based on an actuarial assessment of the difference between anticipated annual salary cost increases assumed in the 2020 actuarial valuation and actual salary cost increases; and
  - Other assumptions required to reflect project extensions and slippage in current activity.

## External funding

63. With Scottish Government grant funding and council requisitions remaining at the same level, representing a reduction in real terms, the Partnership relies on external funding to ensure a balanced position. External income is anticipated to fund 36% of indicative expenditure in 2022/23.
64. SEStran identified the need to increase external funding levels over the medium term as a key objective in its 2021/22 Business Plan. The 2022/23 budget forecasts funding of £554,000, an increase of £170,000 compared to the previous indicative financial plans. This is due to the extensions of a number of EU funded projects to June 2023 and additional funding of £212,000 received in 2021/22 for the GO SEStran project to develop Mobility as a Service and Demand Responsive Transport pilots
65. SEStran continues to reflect on ways to diversify its funding opportunities. For example, an increase in support levels from Transport Scotland for active travel network development presents an opportunity to further enhance funding and delivery of active travel objectives, which SEStran is continuing to explore.

## Reserves position

66. Since 2019/20, the enactment of provisions within the Transport (Scotland) Act 2019 allows Regional Transport Partnerships (RTP's) to manage year-end finances by enabling them to hold a balance of funds.
67. As at 31 March 2022, the Partnership held a general fund balance of £161,000 (31 March 2021: £134,000),

of which £58,000 is earmarked to meet slippage on project delivery from 2021/22 to 2022/23. The remaining balance of £104,000 is unallocated (31 March 2021: £29,000). This has arisen from underspends against the 2021/22 core budget due to increased staff cost recharges to EU projects and reduced costs reflecting ongoing working from home arrangements.

68. The Partnership's Reserves Policy outlines a minimum unallocated general reserve fund of 5% of the approved annual core revenue budget to mitigate core revenue budget risks. This equates to £31,000.
69. Whilst we are satisfied that the Partnership's reserves position as at 31 March 2022 (an unallocated general fund reserve of £104,000) is in compliance with the policy, this has only been achieved through unplanned underspends in year. As highlighted in our 2020/21 Annual Audit Report, the Partnership had set a balanced budget for 2021/22 and there was no strategy in place to build up this level of reserves.
70. The Partnership should continue to reflect on its strategy to maintain, utilise or further build up their unallocated general fund reserve as part of their annual budgeting process to ensure this remains sufficient.
71. The audited reserves position will be presented to the Partnership in September 2022 for a decision on how these will be applied in 2022/23 onwards.

## Strategic Planning

72. The current SEStran Business Plan 2021-22 to 2023-24 was approved in June 2021. This outlines the



- Partnership's strategic objectives and planned activities which have been structured under five core strategic themes;
- Accessibility;
  - Environment;
  - Economy;
  - Safety and health; and
  - Governance and partnership working
73. The development of the new Regional Transport Strategy (RTS) has remained a key area of focus in 2021/22. The RTS Case for Change was published on the SEStran website in June 2021, outlining the latest understanding of the problems and issues faced in the SEStran region, travel behaviour changes which have arisen since the onset of COVID-19, and the potential options to address these.
74. To support SEStran's statutory responsibilities, a Case for Change Equalities Duties Report and Strategic Environmental Assessment (SEA) Environmental Report were also published. These documents, along with the Case for Change Report were subject to a four-week consultation period, ending in July 2021.
75. Having identified the problems to be addressed and the associated options to address these, SEStran completed an options appraisal, assessing these against the Scottish Transport Appraisal Guidance criteria and strategic objectives. 62 options were selected and collated into themes as the foundation for creating the draft RTS.
76. A special Partnership meeting was held in October 2021 to progress this work. The Partnership agreed on 12 Regional Mobility Themes and developed policies and associated actions for each one. The draft RTS consists of 74 policies which provide a framework that aligns to the National Transport Strategy.
77. Statutory assessments of the RTS have been completed, including an environmental report and an Equalities Impact Assessment report. As the RTS is high-level in nature, further assessments will need to be completed for specific initiatives.
78. The RTS and statutory assessments were published for consultation between November 2021 and February 2022. SEStran received 109 responses and as a result made changes to the structure, format and some areas of content. The most significant change is a commitment to publish a Programmed Investment Plan which will provide clarity and a regional overview of the proposed schemes and their status.
79. An updated RTS was presented to the Partnership in March 2022. However, in response to concerns raised by Scottish Borders Council over the RTS' consideration of rural issues, final approval of the strategy has been delayed and an updated document will be presented to the Partnership in September 2022.
80. We are satisfied that SEStran has taken the necessary steps to ensure the RTS takes appropriate cognisance of stakeholders' views, environmental issues, equalities duties, and the challenges currently faced within the SEStran region.



## Financial performance in 2021/22

81. The Comprehensive Income and Expenditure Statement for 2021/22 shows that the Partnership spent £2.156million on the delivery of services, resulting in an accounting deficit of £155,000 (2020/21: restated accounting deficit of £117,000).
82. The accounting deficit includes certain elements of income and expenditure that need to be accounted for to comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the 2021/22 Code), and which are subsequently adjusted to show their impact on reserves.
83. Taking account of these adjustments, the Partnership reported a surplus of £27,000 (2020/21: deficit of £55,000), which has been recognised against the general fund.

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## Appendix 1: Respective responsibilities of the Partnership and the Auditor

The Code of Audit Practice (2016) sets out the responsibilities of the Partnership and the auditor and are detailed below.

### Partnership responsibilities

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

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

Area	Partnership responsibilities
<b>Corporate governance</b>	<p>The Partnership is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p>
<b>Financial statements.</b>	<p>The Partnership has responsibility for:</p> <ul style="list-style-type: none"><li>• preparing financial statements which give a true and fair view of its financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;</li><li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures;</li><li>• maintaining proper accounting records; and</li><li>• preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also address the longer term financial sustainability of the Partnership.</li></ul> <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the entity and its financial performance, including providing adequate</p>

Area	Partnership responsibilities
	<p>disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.</p> <p>The Partnership is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<b>Standards of conduct for prevention and detection of fraud and error</b>	<p>The Partnership is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.</p>
<b>Financial position</b>	<p>The Partnership is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• Plans to deal with uncertainty in the medium and long term; and</li> <li>• The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>
<b>Best value</b>	<p>The Partnership has a specific responsibility to ensure that arrangements have been made to secure best value. They are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p>

## Auditor responsibilities

Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK), professional requirements and best practice. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on the financial statements;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports;
- notify the Controller of Audit when circumstances indicate that a statutory report may be required; and
- demonstrate compliance with the wider scope of public audit.

### Wider scope of audit

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

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

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

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

## Best Value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

Our work in respect of the Partnership's best value arrangements has been integrated into our audit approach, including our work on the wider scope dimensions.

## Independence

In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements there are no further matters to bring to the attention of the Partnership in relation to our integrity, objectivity and independence.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

### Audit and non-audit services

The total fees charged to the Partnership for the provision of services in 2021/22 (with prior year comparators) is as follows:

	Current year	Prior year
	£	£
Audit of South East of Scotland Transport Partnership (Auditor remuneration)	9,090	8,900
<b>Total audit</b>	<b>9,090</b>	<b>8,900</b>
Non-audit services	-	-
<b>Total fees</b>	<b>9,090</b>	<b>8,900</b>

FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. No non-audit services were provided to the Partnership.

### Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. The audit quality arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an [Audit Quality Framework](#).

The most recent audit quality report which covers our work at the Partnership since appointment can be found at <https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202122>

## Appendix 2: Adjusted and unadjusted errors identified during the audit

### Corrected misstatements

No	Detail	Assets	Liabilities	Reserves	CIES
		Dr / (Cr)	Dr / (Cr)	Dr / (Cr)	Dr / (Cr)
		£'000	£'000	£'000	£'000
1.	Removal of agency income from related expenditure				Gross income: 216  Gross expenditure (216)
Net impact on (income) / expenditure per audited accounts					-
Net liabilities per the unaudited accounts					(259)
Total audit adjustments					-
Net liabilities per audited accounts					(259)

### Uncorrected misstatements

We did not identify any uncorrected misstatements during our audit of the annual accounts.

### Disclosure amendments

No	Detail
1	Annual Governance Statement – additional narrative to reflect on changes to the Partnership membership and confirmation that governance arrangements have been in operation up to the date of signing
2	Reordering of notes such that the accounting policies are immediately followed by commentary on accounting standards issued but not yet adopted, critical judgements in applying the accounting policies, assumptions made about major sources of estimation uncertainty and events after the balance sheet date
3	Note 22 – Related Parties – separately identifying agency transactions

## Appendix 3: Follow up of prior year recommendations

There were no prior year recommendations to note.



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