KPMG

cutting through complexity

Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee

Annual audit report to the Members of Strathclyde Partnership for Transport and the Controller of Audit For the year ended 31 March 2016

23 August 2016

Contents

About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the *Code*").

This report is for the benefit of Strathclyde Partnership for Transport ("SPT") and Strathclyde Concessionary Travel Scheme Joint Committee ("SCTS") and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introduction and responsibilities section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Andy Shaw, who is the engagement leader for our services to SPT and SCTS, telephone 0131 527 6673 email: andrew.shaw@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6720 or email to alex.sanderson@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Executive summary

Executive summary

Audit conclusions

🟢	■ We propose to issue unqualified audit opinions on the financial statements of Strathclyde Partnership for Transport ("SPT") and Strathclyde Concessionary Travel Scheme Joint Committee ("SCTS"), together for the purposes of this report, "the Partnership", following receipt of management representation letters.	Page 12

Financial position

🟢	■ SPT achieved a break even position in 2015-16. After non-cash adjustments and a transfer to the subway fund of £10.6 million, it reported a surplus on the provision of services of £10.5 million. This compares to a budgeted transfer to the subway fund of of £9.2 million. SPT had net assets of £179.1 million as at 31 March 2016.	
🟢	■ SCTS reported a surplus of £26,000 in 2015-16, compared to a break even budget after a transfer to reserves of £224,000. Net assets were £1.7 million.	
🟢	■ The SPT 2016-17 budget is to break even after a transfer to the subway fund of £8.3 million. The SCTS budget is to break even after a transfer from reserves of £71,000, leaving a reserves balance of £1.6 million. Longer term financial budgets are indicative only, due to future cost pressures and uncertainty over local authority funding levels.	Page 6 - 10
🟢	■ We agree with management's assumption that the Partnership is a going concern, given the agreed funding in place for 2016-17 and future funding expectations.	

Financial statements and related reports

🟢	■ We have concluded satisfactorily in respect of each of the significant risks and audit focus areas identified in the audit strategy and plan document. We concur with management's accounting treatment and judgments. We have no matters to highlight in respect of: adjusted or unadjusted audit differences; independence; and changes to management representations.	Page 12 - 18

Wider scope

🟢	■ We considered the wider scope audit dimensions and concluded positively in respect of financial management, value for money and governance and transparency.	Page 23 - 26
🟡	■ We note risks in relation to financial sustainability due to the uncertainty or future funding and difficulty this causes for long term financial planning.	Page 25

Executive summary

Scope and responsibilities

Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of SPT and SCTS under part VII of the Local Government (Scotland) Act 1973 (“the Act”). The period of appointment is 2011-12 to 2015-16, inclusive.

Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the Partnership and the Controller of Audit. The scope and nature of our audit were set out in our audit strategy document which was presented to the Audit and Standards Committee at the outset of our audit.

The Code sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance.

Accountable officer responsibilities

The Code sets out SPT’s responsibilities in respect of:

- preparation of financial statements that show a true and fair view;
- systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- financial position; and
- Best Value.

Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code. Appendix five sets out how we have met each of the responsibilities set out in the Code.

Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems.

Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist.

Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of International Standard on Auditing (UK and Ireland) (‘ISA’) 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This annual audit report to members and our presentation to the Audit and Standards Committee, together with previous reports to the Audit and Standards Committee throughout the year, discharges the requirements of ISA 260.

Financial position

Financial position

Overview

Subway modernisation

The subway modernisation programme is in its fifth year and is a large scale, multi-year project supported by the Scottish Government. The overall subway modernisation programme is underpinned by five work streams comprising; rolling stock and signalling, infrastructure, ticketing, stations and human resources. During 2015-16 the upgrades to Buchanan Street and St Enoch stations were completed and the stations were revalued resulting in a net revaluation gain of £0.3 million being recognised. Work on Govan station began in 2015-16 but has not been completed. An impairment of £1 million was made against the finishes component.

In March 2016 a significant milestone was achieved in the subway modernisation programme, with the awarding of the contract for the replacement of the rolling stock, signalling and control system, control room and associated equipment. The total value of this contract is approximately £200 million, spanning over five years. No expenditure was incurred against the contract in 2015-16, with the first instalment paid in June 2016.

The contribution to the subway modernisation fund in 2015-16 was £10.6 million, however £17 million was drawn down to fund modernisation expenditure.

Fastlink

SPT works in support of NHS Greater Glasgow and Clyde and Glasgow City Council regarding transport to the new Queen Elizabeth University Hospital and Royal Hospital for Sick Children complex. The project is largely complete, with only the city centre routes remaining. The project had an approved budget of £10 million for 2015-16, and £9.1 million was spent in the year.

Bus operations

The Partnership approved a net revenue budget of £17.5 million for bus operations for 2015-16. Actual net expenditure was £16.4 million. The primary variance was due to additional bus operations income as a result of additional funding received from Glasgow City Council in respect of bus services for Queen Elizabeth University Hospital.

Financial position: comprehensive income and expenditure statement

SPT achieved a break even position in 2015-16. After non-cash movements and the transfer to the subway fund, this resulted in a surplus of £10.5 million in 2015-16, compared to £4.1 million in the year to 31 March 2015. This is after a contribution to the subway modernisation fund £10.6 million in 2015-16, an increase from £10.4 million in 2014-15. The table below summarises the comprehensive income and expenditure statement for 2015-16.

Comprehensive income and expenditure statement

	2015-16 £000	2014-15 £000	Variance £000
Total income	89,176	92,817	(3,641)
Total expenditure	(85,052)	(88,067)	3,015
Net transfer from / (to) subway fund	6,383	(693)	7,076
Surplus	**10,507**	**4,057**	**6,450**
Upward valuation of non-current assets	1,830	1,964	(134)
Actuarial gains / (losses) on pension assets and liabilities	12,604	(6,344)	18,948
Other comprehensive income and (expenditure)	(1,739)	(1,561)	(178)
Total comprehensive income and (expenditure)	**23,202**	**(1,884)**	**25,086**

Source: KPMG analysis of SPT's annual accounts 2015-16.

The movement in the outturn for 2015-16 was primarily as a result of:

- an increase in bus operations income of £906,000 for hospital bus services, a decrease in subway income of £315,000 due to lower patronage in 2015-16 and a decrease in other income of £1.1 million due to one off income received in respect of the Commonwealth Games in 2014-15;

Financial position (continued)

- a decrease in government grant income of £5.2 million, offset by an increase in local authority requisitions of £7.1 million released from the subway fund;
- £1.7 million greater financing and investment income from the revaluation of investment property and an increase in rental income;
- a decrease in staff costs of £209,000 as a result of lower staff numbers, vacant posts through the year and fewer exit packages paid in 2015-16 compared to 2014-15; and
- a decrease in financing costs, including depreciation and impairment, of £5.2 million.

The significant increase in total comprehensive income and expenditure is largely as a result of actuarial gains on pension assets and liabilities of £12.6 million in 2015-16 compared to losses of £6.3 million in the previous year.

Financial position: balance sheet

SPT's net asset position increased by £23.2 million in 2015-16 to £179.1 million. The increase in net assets was impacted by a decrease in the defined benefit pension scheme liability of £10 million. This fall is in line with local government pension scheme movements across most of the Scottish schemes.

Fixed assets increased by £20.1 million as a result of fixed asset additions of £33.1 million, offset by depreciation of £10.6 million and revaluation decreases of £1.8 million, as well as disposals of £0.02 million.

SPT's closing cash balance for 2015-16 was £54.8 million, £8.2 million higher than 2014-15. Short term debtors decreased by £21.3 million, however £21.1 million of the prior year figure was in relation to the redemption of the maintenance bond that was a one-off item in 2014-15.

The closing balance for receipts in advance was £24.6 million, split between short and long term creditors as £14.8 million and £9.8 million respectively. Although a contribution was made to the subway fund of £10.6 million, £17 million was drawn down for capital funding. This compares to 2014-15 where a contribution of £10.4 million was made and £9.7 million was drawn down. The net decrease in the subway fund is indicative of the progression of the subway modernisation project and is expected to continue into future years.

Financial position: capital

The capital programme progressed well in the year, with £54.6 million capital spend. However, this was against an original budget of £78.4 million. The capital programme compared to budget is shown in below.

Capital programme

	Actual 2015-16 £000	Budget 2015-16 £000	Variance £000
Subway modernisation	11,861	28,500	(16,639)
Subway infrastructure	11,113	11,900	(787)
Fastlink	9,145	15,900	(6,755)
Local Authority grants	11,633	13,631	(1,998)
Bus operations	4,158	3,110	1,048
Subway operations	279	820	(541)
Other	6,406	4,580	1,826
Total	**54,595**	**78,441**	**(23,846)**

Source: P13 capital monitoring report.

Whilst the capital programme was underspent in the year, it was largely due to re-profiling of capital spend between financial years, with a number of budget adjustments approved during the year. Amendments of £16.7 million were made to the subway modernisation budget, bringing it down to £11.8 million. These reductions were primarily as a result of the first milestone payment for the purchase of the new rolling stock being made in early 2016-17 rather than late 2015-16 as originally budgeted.

The approved budget for the Fastlink core scheme decreased by £5.9 million, reducing the budget to £10 million. This is a result of lower than anticipated project design and implementation costs in 2015-16. Work on the Fastlink project will continue into 2016-17 to complete the city centre part of the project.

Financial position (continued)

Financial plans 2016-17 and beyond

The 2016-17 budget was approved by the Partnership on 4 March 2016 and included an indicative budget for 2017-18. Local authority requisitions and Scottish Government direct funding were agreed to remain at the level set in 2010-11, being £38.4 million for 2016-17 and there is no budgeted draw on reserves to fund revenue expenditure. The 2017-18 budget is in outline format and work is required to balance the budget. Due to the timing and nature of the 2016-17 settlement, further dialogue is required with partners to agree requisitions and identify cost savings.

The budgeted contribution to the subway fund in 2016-17 is £8.3 million, a decrease of £0.927 million from the 2015-16 budget. This is primarily due to a budgeted increase in subway operations costs of £1.7 million. These additional costs are primarily split between staff costs, fleet enhancements and third party payments as subway costs increase as the existing assets age prior to replacement.

Agency services related to school transport and bus stops and shelter maintenance are carried out by SPT on behalf of councils, based on the services requested by each council. The total cost of the services is fully funded by the relevant council. The total budget for the services in 2016-17 is £28.3 million, a decrease from the 2015-16 budget of £28.9 million.

The capital programme for 2016-17 to 2018-19 including the 2016-17 capital budget was also approved. The general capital grant award for 2016-17 is £16 million, approximately 30% less than expected. There was a re-profiling of subway modernisation capital grant funding. Of the expected 2016-17 funding of £45 million, £20 million has been made available in 2016-17 and the remaining £25 million has been re-profiled to future years.

The 2016-17 subway modernisation and infrastructure budget of £54.1 million is to be funded through £26 million from grant funding, a capital grant release of £13.4 million and a contribution from the subway fund of £14.8 million. This is an increase of £31.1 million from 2015-16 actual spend. This is due to the increase in activity from 2016-17 as a result of the commencement of rolling stock, signalling and control system, control room and associated equipment replacement.

2016-17 capital expenditure is budgeted to be £72.4 million for category 1 programmes and £17.9 million for category 2 programmes. Available funding for category 1 projects is £71 million, including a £14.8 million contribution from the subway fund. The capital budget for 2015-16 compared to 2016-17 is shown below:

Capital budget

	2015-16 £000	**2016-17 £000**
Capital budget	**78,441**	**72,435**
Funded by:		
Scottish Government capital grant	15,900	10,000
Subway modernisation grant	6,000	26,000
Contribution from subway fund	27,800	14,750
Fastlink fund	10,540	5,000
ERDF grant	360	-
Other capital grants	317	70
Transfer from unapplied capital grants	9,500	13,350
Capital funded from revenue	2,000	1,800
Variance	**6,024**	**1,465**

Source: Partnership committee budget papers 4 March 2016.

SPT regularly plans a higher level of capital expenditure relative to available funding to allow for flexibility in the capital programme.

The Fastlink project is budgeted at £5 million in 2016-17, a decrease of £4.1 million from the 2015-16 actual spend.

General capital expenditure is budgeted as £13.3 million, funded primarily from the general capital grant with a £1.8 million revenue contribution. This results in a projected variance of £1.5 million.

Financial position (continued)
SCTS

Financial position: SCTS

The Strathclyde Concessionary Travel Scheme ("SCTS") covers the twelve local authorities in the Partnership area. The cost of the Scheme is mainly funded by requisitions from the constituent local authorities together with planned utilisation of reserves.

STCS budgeted a break even position, after a transfer from reserves of £224,000. The final outturn position was a transfer to reserves of £26,000. This is an increase from £21,000 in 2014-15. Net assets increased in the year from £1.6 million to £1.7 million.

Local authority requisitions remained in line with budget and prior years, as have employee costs and interest received. There was an underspend representing a reduction in amounts being reimbursed to ferry operators and savings generated through the introduction of the Road Equivalent Tariff.

Comprehensive income and expenditure statement

	2015-16 £000	2014-15 £000	Variance £000
Payments to operators	(3,923)	(3,948)	25
Administration costs	(331)	(316)	(15)
Interest received	22	27	(5)
Net operating expenditure	(4,232)	(4,237)	0
Funded by:			
Local authority requisitions	4,258	4,258	0
Transfer from reserves	-	-	-
Surplus	**26**	**21**	5

Source: KPMG analysis of SCTS's annual accounts 2015-16.

2016-17 budget

The budget for 2016-17 estimates £4.3 million net operating expenditure, funded primarily by requisition income from the constituent local authorities with a £71,000 utilisation of reserves.

The budget reflects forecast patronage and revised operator reimbursement levels based on 2015-16 actuals and scheme trends. The budget also takes account of savings through the Road Equivalent Tariff, the subway suspension in Summer 2016 and the impact of the Queen Street tunnel improvement project. It was designed to maintain the overall scheme within levels affordable to the constituent local authorities together with prudent use of accumulated reserves, however SCTS has no control over the fare levels set by operators or patronage.

Revenue budget

	2015-16 budget £000	2016-17 budget £000	Variance £000
Payments to operators	(4,188)	(4,016)	172
Administration costs	(319)	(333)	(15)
Interest received	25	(20)	(5)
Net operating expenditure	(4,481)	(4,329)	(152)
Funded by:			
Local authority requisitions	4,258	4,258	0
Transfer from reserves	224	71	152
Surplus	0	0	0

Source: KPMG analysis of SCTS's budget 2015-16 and 2016-17.

Financial position (continued)

Going concern

SPT had net assets of £179.1 million as at 31 March 2016 (*2014-15: £155.9 million*) and SCTS had net assets of £1.7 million (*2014-15 £1.6 million).* The net assets position is supported by a high value of property, plant and equipment, with no borrowings and a relatively low pensions liability comparative to other local government bodies. SPT benefitted from a decrease in the pensions liability in 2015-16.

The budgets show that SPT and SCTS are forecast to operate within available funds for 2016-17, with a small contribution from reserves for SCTS. The most significant capital expenditure for SPT in 2016-17 is the rolling stock signalling and control system, control room and associated equipment replacement contract. Whilst the total value of the contract is approximately £200 million, this is spread over five and a half years with £30 million due for payment during 2016-17. SPT has a sufficient level of confirmed capital grants and reserves to fund this payment.

Management considers it appropriate to adopt a going concern basis for the preparation of the financial statements. The main sources of funding are government grants, funding from constituent local authorities, and subway generated income. Government grants and local authority requisitions are agreed in advance of 2016-17 and therefore there is reasonable certainty over these sources of income.

We are satisfied that it is appropriate for the Partnership to prepare the financial statements under the going concern assumption.

Conclusion

The Partnership has maintained a strong financial position for 2015-16. Both SPT and SCTS maintained a net assets position and made a surplus in the year. Both entities have performed ahead of budget, and £10.6 million was transferred to the subway fund in SPT in line with plans.

We are content that the going concern assumption is appropriate for the Partnership, in light of the matters set out above.

Financial statements and related reports

Financial statements and related reports

Audit conclusions

Audit opinion

Our audit work is complete subject to receipt of management representation letters and update of subsequent events. Following approval of the annual accounts by the Partnership we intend to issue an unqualified opinion on the truth and fairness of the state of the Partnership's affairs as at 31 March 2016, and of the Partnership's surplus for the year then ended. There are no matters identified on which we are required to report by exception.

Financial reporting framework, legislation and other reporting requirements

The Partnership is required to prepare its financial statements in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 ("the Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the financial statements have been prepared in accordance with the Code and relevant legislation.

Statutory reports

We have not identified any circumstances to notify the Controller of Audit that indicate a statutory report may be required.

Other communications

We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.

Audit misstatements

There were no audit adjustments required to the draft annual accounts and there are no unadjusted audit differences.

Written representations

There are no changes to the standard representations required for our audit from last year.

Materiality

We summarised our approach to materiality in our audit strategy document. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that planning materiality for 2015-16 of £1.88 million for SPT and £85,000 for SCTS (both 2% of income) remain appropriate. We report all misstatements greater than £90,000 for SPT and £4,000 for SCTS.

Forming our opinions and conclusions

In gathering the evidence for the above opinions and conclusions we:

- performed controls testing and substantive procedures to ensure that key risks to the annual accounts have been covered;
- communicated with the audit and assurance manager and reviewed internal audit reports as issued to the Audit and Standards committee to ensure all key risk areas which may be viewed to have an impact on the annual accounts have been considered;
- reviewed estimates and accounting judgements made by management and considered for appropriateness;
- considered the potential effect of fraud on the annual accounts through discussions with senior management and internal audit to gain a better understanding of the work performed in relation to prevention and detection of fraud; and
- attended Audit and Standards Committee meetings to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

Financial statements preparation

High quality working papers and draft financial statements were provided at the start of the audit fieldwork on 31 May 2016. This included the management commentary, remuneration report and governance statement. We appreciate that key judgments were discussed with KPMG in advance of the year end, as in previous years. This approach enables a more efficient audit as we can consider areas of audit risk in advance of the audit fieldwork.

Significant risks and other focus areas in relation to the audit of the financial statements

We summarise below the risks of material misstatement as reported within the audit strategy. We set out the key audit procedures to address those risks and our findings from those procedures, in order that the audit and standards committee may better understand the process by which we arrived at our audit opinion.

Significant risks:

- management override of controls fraud risk;

Other focus areas:

- recognition of income and expenditure;
- property, plant and equipment;
- transport infrastructure assets; and
- retirement benefits.

We identified one additional focus area in the course of our audit in relation to an ongoing legal claim.

We have no changes to the risk or our approach to addressing the assumed ISA risk of fraud in management override of controls. We do not have findings to bring to your attention in relation to these matters. No control overrides were identified.

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
Recognition of income and expenditure Professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk. The Partnership receives significant income in the form of requisitions from the constituent local authorities, Scottish Government grants and operating income associated with the subway and bus stations. As grants and requisitions are agreed in advance of the year, with adjustments requiring formal approval, we do not regard the risk of fraud from this revenue recognition as significant. Other sources of income are from subway, buses and rental income. These revenues are prescribed by specific regulations or are recognised on a cash basis without credit terms (i.e. subway revenue). This minimises the level of judgement required in revenue recognition by management and we do not regard the risk of fraud from this revenue recognition as significant. There is a risk that expenditure is not recognised appropriately, in the correct period, or in line with the Code. This includes expenditure in the following areas: ■ third party payments to bus operators; ■ employee costs; and ■ depreciation and impairments.	■ We performed controls testing over revenue monitoring reports, third party payments to bus operators and employee costs and found them to be operating effectively. ■ We compared expenditure against budget and prior year, and sought explanations and supporting documentation for unexpected movements. ■ We performed cut-off testing to verify that expenditure and associated creditors were recorded in the correct accounting period. We agreed sample year-end associated creditors and accruals to supporting documentation. ■ We developed expectations of employee costs and depreciation and compared against actual costs recorded. We considered impairments as part of our property, plant and equipment testing; further information is provided on the next page. ■ We agreed grant income to supporting documentation including grant offer letters. ■ We compared other income against budget and developed an expectation of subway income and compared this against actual income recorded.	We found that controls around income and expenditure are operating effectively. We are satisfied that income and expenditure is recognised appropriately, in the correct financial year and in line with the Code.

Financial statements and related reports

Other focus areas (continued)

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
Property, plant and equipment There are a number of capital projects ongoing, the most significant of which being the subway modernisation programme. There is a delivery risk associated with this project which would inhibit the realisation of the Partnership's strategy. There is also a risk to the financial statements relating to the recognition of expenditure and the valuation of the assets that have been subsequently recognised.	■ We reviewed management's approach to the calculation of impairments for stations upgraded under the subway modernisation programme and underlying assumptions. ■ We agreed the valuation of assets to the independent valuer's reports and confirmed that management had adopted a similar approach to prior years. ■ We agreed significant additions and disposals to supporting documentation.	We are satisfied that: ■ the impairment of the Govan station upgrade is appropriately recognised, and the approach is consistent with prior years; ■ the valuation of St Enoch and Buchanan Street stations are appropriately recognised and are in line with the independent valuer's reports. Previous estimated impairments made against these stations were correctly reversed to take the stations to their original values prior to accounting for the revaluation; and ■ additions and disposals are recognised correctly and relate to the 2015-16 financial year.
Transport infrastructure assets The 2016-17 Code will adopt requirements of the Code on transport infrastructure assets ("the transport code"), which requires measurement of these assets on a depreciated replacement cost basis. This will represent a change in accounting policy from 1 April 2016. Local authorities are advised to have implemented a robust project plan through 2015-16 to ensure preparedness for the requirements of the 2016-17 Code.	■ We met with management to discuss the requirements of the transport code and assess management's understanding and preparatory work. ■ We reviewed the fixed asset register for any assets that may be covered by the transport code.	We are satisfied with management's assessment that the Partnership does not own transport infrastructure assets that will fall within the scope of the transport code and therefore the requirements of the transport code will not have a significant impact on the 2016-17 financial statements. Infrastructure assets owned by the Partnership include subway tracks and tunnels which are not covered by the transport code.

Financial statements and related reports

Other focus areas (continued)

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
Retirement benefit obligations The Partnership accounts for its participation in the Strathclyde Pension Fund in accordance with IAS 19 *Retirement Benefits*, using a valuation report prepared by actuarial consultants. The Partnership's actuaries use membership data and a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive the anticipated future liabilities back to the year end date and assumptions on future salary increases. IAS 19 requires the discount rate to be set by reference to yields on high quality (i.e. AA) corporate bonds of equivalent term to the liabilities. The calculation of the pension liability is inherently judgemental.	Our work consisted of: ■ KPMG specialists reviewing the financial assumptions underlying actuarial calculations and comparison to our central benchmarks, the results of which are outlined on page 33; ■ testing of scheme assets and rolled-forward liabilities; ■ testing of the level of contributions used by the actuary to those actually paid during the year; ■ testing of membership data used by the actuary to data from the Partnership; and ■ agreeing actuarial reports to financial statement disclosures.	We are satisfied that the retirement benefit obligation: ■ is correctly stated in the balance sheet as at 31 March 2016; ■ has been accounted for and disclosed correctly in line with IAS19 *Retirement benefits*; and ■ assumptions used in calculating this estimate and management's judgements are appropriate and within the acceptable KPMG range. We set out further information in respect of the defined benefit obligation on pages 33. The liability decreased by £10 million compared to 2014-15, due to an increase in discount rate and an increase in the long-term expected rate of return of assets in the scheme.
Legal claim We identified an additional audit focus area during our audit in relation to an ongoing legal claim. Management has engaged lawyers to defend the claim and consider its merits to be limited. However there is a risk of outflow of economic benefit. A contingent liability is disclosed in the financial statements.	■ We discussed with management the background to the claim, its assessment of the merits of the claim and its reasoning for disclosing a contingent liability in the financial statements. ■ We reviewed documentation from SPT's lawyers to assess the merits of the claim and the appropriate treatment in the financial statements. ■ We considered provisions made for legal costs in respect of the claim.	We concur that there is no probable outflow of economic benefit in respect of the claim and a provision is not appropriate. We concur with the disclosure in the financial statements.

Financial statements and related reports

Management reporting in financial statements

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
Management commentary	The Local Authority Accounts (Scotland) Regulations 2014 requires the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements. The requirements are outlined in the Local Government finance circular 5/2015. The management commentary was included within the unaudited financial statements. This outlines the performance overview and the future plans and developments in line with the Partnership's priorities.	We are satisfied that the information contained within the management commentary is consistent with the financial statements. We reviewed the contents of the management commentary against the guidance contained in the Local Government finance circular 5/2015 and are content with the proposed report.
Remuneration report	The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.	We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made. Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.
Annual governance statement	The statement for 2015-16 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the Partnership's governance framework, internal controls, the work of audit and assurance, and risk management arrangements and analyses the efficiency and effectiveness of these elements of the framework.	We consider the governance framework and annual governance statement to be appropriate for the Partnership and that the governance statement is in accordance with guidance and reflects our understanding of the organisation.

SCTS

In line with our audit strategy, the audit of SCTS identified the recognition of income and expenditure as an audit focus area. No significant risks or further audit focus areas were identified during the course of our audit. Our conclusion against the audit focus area is set out below. We did not identify control deficiencies or audit misstatements for SCTS. The financial positon and future plans of SCTS are outlined on page nine.

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
Recognition of income and expenditure Professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk. SCTS receives income in the form of requisitions from the constituent local authorities. As this income is agreed in advance of the year, with adjustments requiring formal approval, we do not regard the risk of fraud from this revenue recognition as significant.	■ We considered significant elements of income and agreed the funding received to Council requisitions and bank statements. ■ We performed testing of controls over journal entries and substantively tested journal entries related to income.	We found that controls around income and expenditure are operating effectively. We are satisfied that income and expenditure has been recognised appropriately, in the correct financial year and in line with the Code.

Financial statements and related reports

Qualitative aspects and future developments

Qualitative aspects

ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

We consider the accounting policies adopted by the Partnership to be appropriate, and there have been no changes to adopted accounting policies in the year. There are no significant accounting practices which depart from what is acceptable under IFRS or the Code.

Significant accounting estimates relate to the present value of defined benefit obligations and impairment of non current assets. For defined benefit obligations, the estimate is calculated under IAS 19 (as calculated by the Partnership's actuary, Hymans Robertson) using agreed financial assumptions. We found the assumptions and accounting for pensions to be appropriate, as discussed on page 33. Non current asset impairment is calculated using revaluation data from previous stations to estimate the likely value of fixtures and fittings. We confirmed this was in line with prior years, as discussed on page 15. We did not identify indications of management bias.

Financial statement disclosures were considered against requirements of the Code, relevant legislation and IFRS. No departures from these requirements were identified.

Future accounting and audit developments

From 2016-17 the Code will adopt requirements of the Code on transport infrastructure assets ("the transport code"), which requires measurement of these assets on a depreciated replacement cost basis. As outlined on page 15, we do not anticipate that this will have a significant impact for the Partnership.

The 2016-17 Code also includes a new requirement for an expenditure and funding analysis, as well as revised formats for the comprehensive income and expenditure statement and movement in reserves statement. The expenditure and funding analysis provides a reconciliation of the statutory adjustments between the financial position on a funding basis and the surplus or deficit on the provision of services. The management commentary should refer to the outturn provided in the expenditure and funding analysis. The comprehensive income and expenditure statement line items have been amended to require authorities to present the service analysis on the basis of the organisational structure under which they operate. Bodies are therefore not required to follow the service expenditure analysis in the *Service expenditure reporting code of practice (SeRCOP).*

ISA (UK & Ireland) 700 and 720 have been revised for accounting periods beginning on or after 17 June 2016. These revise the requirements for the structure and content of the independent auditor's report. Audit Scotland is considering whether to early adopt the standards for 2016-17.

Wider scope

Wider scope

Audit dimensions introduction

Introduction

The Code frames the wider scope of our audit in terms of four audit dimensions; financial management, financial sustainability, governance and transparency and value for money. At the centre of these dimensions is Best Value.

It remains the responsibility of the audited body to ensure that they have proper arrangements in place across each of these audit dimensions. These arrangements should be appropriate to the nature of the audited body and the services and functions that it has been created to deliver. We review and come to a conclusion on these proper arrangements.

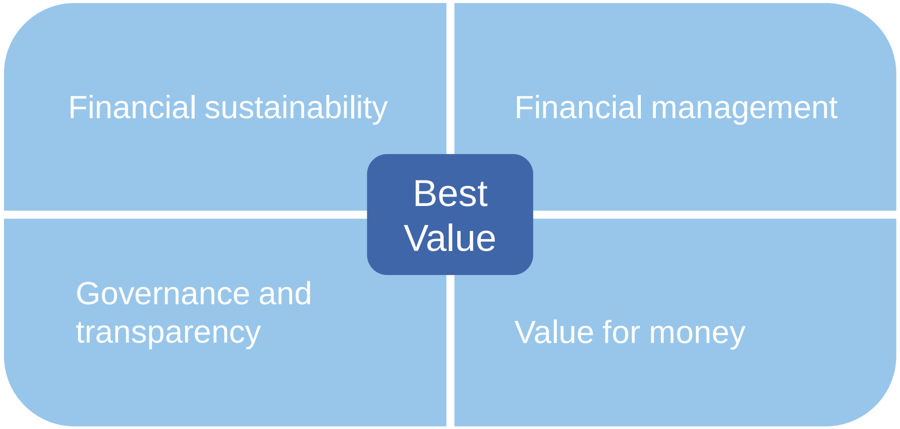
During our work on the audit dimensions we have considered the work carried out by internal audit and other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the Code.

Audit work and conclusions

We summarise over the next few pages the work we have undertaken in the year to obtain assurances over the arrangements in place for each audit dimension and our conclusions on the effectiveness and appropriateness of these arrangements.

The next page sets out those risks we identified during our audit planning stage, any emerging risks during the course of audit work and our overall conclusion on each audit dimension.

Where we have found arrangements to not be effective or are absent we have provided further narrative on the following pages and recommendations for improvement. Where we have found the arrangements to be generally effective and operating as expected we have identified this in the conclusions we have formed.



Financial sustainability

Financial management

Best Value

Governance and transparency

Value for money

Wider scope

Audit dimensions risk map and conclusions

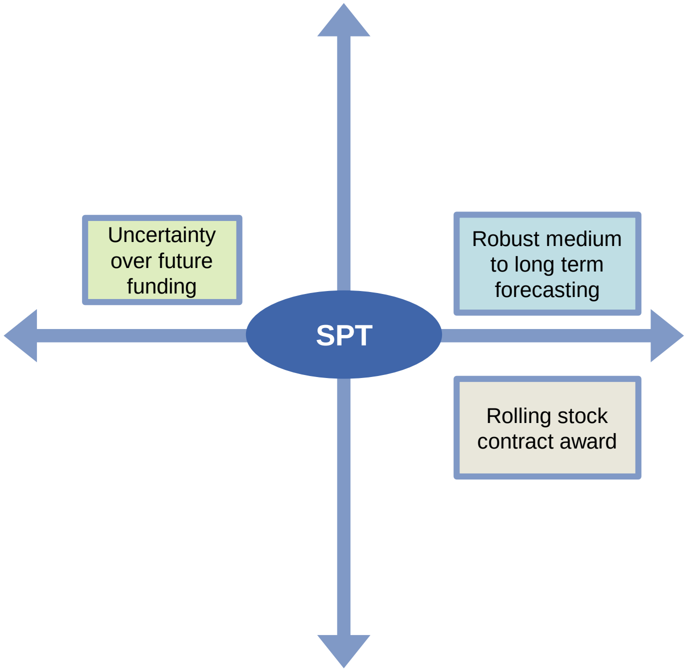
Financial sustainability (Page 25)

A revenue and capital budget for 2016-17 is in place, together with indicative figures for 2017-18. However financial sustainability is an area which management continues to monitor. Further work is required over longer term financial planning to ensure the Partnership can appropriately mitigate risks over funding uncertainty and meet the expectations of Partner local authorities.

Governance and transparency (Page 26)

The Partnership has sound and well-established governance arrangements that ensure effective scrutiny, challenge and transparency on decision making.

Risk registers are regularly updated and scrutinised and there is adequate internal audit coverage of key risk areas.



☐ Risks identified during our audit planning procedures

☐ Emerging risks identified during the course of our audit

Financial management (Page 23)

The Partnership's finance department has appropriate financial capacity for current operations. Sound budgetary processes are supported by a strong internal control environment, and no significant control deficiencies were identified. This is supported by regular reporting and scrutiny by senior management and Partnership members.

Management is engaged in the NFI process and there are controls in place for the prevention and detection of fraud.

Value for money (Page 25)

The Partnership strives to achieve value for money and effective procurement controls are in place to help achieve this. No exceptions were found in our testing of new contracts.

The Partnership considers value for money through workforce planning, including detailed long term staff cost forecasting for the subway modernisation programme.

Wider scope

Financial management

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

Our conclusion on page 22 is derived from the following audit tests, carried to determine the effectiveness of the financial management arrangements. This included:

- *Assessing the budget setting and monitoring processes within the Partnership.* We found these to be robust, with regular accurate reporting and scrutiny by senior management and the Audit and Standards Committee.
- *Consideration of the finance function and financial capacity within the Partnership.* We noted that the financial processes are efficient and effective, and there is adequate support from the Assistant Chief Executive (Business Support). Finance team members have appropriate skills, capacity and capability to support the Partnership and effectively manage and monitor the Partnership's finances.
- *Reviewing the Partnership's financial regulations.* The financial regulations are available to all staff online, as part of the governance manual. These are updated regularly and we found them to be comprehensive.

We are also required to provide specific conclusions on the areas opposite, which relate to financial management and support our overall conclusion on this wider scope area.

Internal controls

Management is responsible for designing and implementing appropriate internal control systems to ensure a true and fair view of operations within the financial statements. Details of controls tested were reported to those charged with governance in our interim audit report. No significant recommendations were raised.

A summary of the completion of prior year audit recommendations is provided at appendix four. Two 'grade three' (minor) recommendations were raised in 2014-15; both of which have now been completed. No additional control recommendations were raised in 2015-16.

Conclusion: Internal controls we tested over risk management, financial, operational and compliance systems and procedures that are designed, implemented and operating effectively.

National Fraud Initiative

The National Fraud Initiative ("NFI") is a data matching exercise which compares electronic data within and between participating bodies in Scotland to prevent and detect fraud. This exercise runs every two years and provides a secure website for bodies and auditors to use for uploading data and monitoring matches.

We submitted a return to Audit Scotland summarising our conclusions on the Partnership's participation in NFI. The questionnaire covered reporting of NFI progress and outcomes, recording of results of investigations in the NFI system, action taken for alleged fraud cases and the overall engagement of the Partnership with NFI.

Conclusion: The return concluded that the Partnership discussed and reported relevant feedback and responded effectively and efficiently to outcomes, utilising resources appropriately to respond to the outcomes. No alleged or actual fraud was identified through NFI. All outcomes had been investigated and closed in the NFI system.

Wider scope

Financial management (continued)

Arrangements for the prevention and detection of fraud and error

Testing over the processes to prevent and detect fraud and error included:

Review of policies (fraud prevention policy and response plan) against best practice guidance and examples. The Partnership's policies were found to be in line with relevant guidance.

Consideration of the accessibility of policies to staff and board members and if the policies had been implemented effectively. The policies and processes tested are readily available to staff and had been implemented effectively.

Consideration of the work of the audit and assurance team in the prevention and detection of fraud.

Conclusion: The Partnership has appropriate arrangements to prevent and detect fraud. The audit and assurance team takes an active role in fraud prevention and detection.

Standards of conduct and the prevention and detection of corruption

Testing over the processes to prevent and detect corruption included:

Review of policies (codes of conduct for staff and Partnership members, the whistleblowing policy and registers of interests) against best practice guidance and examples. The Partnership's policies were found to be in line with relevant guidance

Consideration of the accessibility of policies to staff and board members and if the policies had been implemented effectively. The policies and processes tested are readily available to staff and had been implemented effectively.

Testing of completeness of registers of interests of senior staff and board members. Registers of interests for senior management were found to be complete however two Partnership members registers' of interest were not available. We are aware that management provided register of interest templates during the appointment and induction procedures, and that reminders were repeatedly given for these to be completed. From review of Partnership and committee minutes there have been no declarations of interest in response to the standard declarations request. There is therefore no indication that these members hold any interests, however all members should complete a register of interests.

Recommendation one

Review of reporting arrangements for conflicts of interests and whether these had been followed. Conflicts of interest are a standing agenda item for committees to ensure appropriate reporting.

Conclusion: The Partnership has appropriate arrangements to prevent and detect inappropriate conduct and corruption.

Wider scope

Financial sustainability and value for money

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

In considering financial sustainability of the Partnership we performed the following work:

- *Reviewing the financial position of the Partnership as at 31 March 2016 and future budgets and forecasts*; we provide commentary on the financial position on pages six to ten.
- *Reviewing financial forecasting, financial strategies and key risks over financial sustainability.* The 2016-17 budget was approved by Partnership in March 2016. This included a capital programme for 2016-17 to 2018-19, including the 2016-17 capital budget. Funding from local authorities is agreed annually but has remained in line with the level set in 2010-11. The budget include draft figures for 2017-18, however it is difficult to finalise a longer term forecast due to funding cuts and cost pressures. The funding profile for the modernisation programme is received upfront from the Scottish Government to enable the Partnership to meet commitments as they fall due.

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

We consider value for money and Best Value throughout our testing. Some of the areas where we had a specific focus on value for money and Best Value are:

- *Reviewing the procurement policy and performing controls testing over the procurement of goods and services.* No exceptions were found through our testing and the procurement policy was found to be in line with best practice. We tested a sample of tenders awarded in the year, including the awarding of the rolling stock contract, to verify they had been evaluated and approved appropriately and found no exceptions. Our work did not extend to the detail of the tenders or technical specification, being a review of adherence to value for money principles. The tendering process provides evidence of scrutiny for value for money in the use of resources.
- *Reviewing how the Partnership has streamlined its services.* Workforce planning was considered as part of the returns made to Audit Scotland. The Partnership shows consideration of the current staffing levels and have robust planning procedures for the short term, as well as longer term forecasting and succession planning for the subway modernisation programme.

Wider scope

Governance and transparency

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

In considering governance and transparency we performed the following work:

- *Reviewing the organisational structure, reporting lines and level of scrutiny within the Partnership.* The Partnership demonstrates effective scrutiny, challenge and transparency on decision making through various levels of committee reporting reviewed. Decisions are transparent as actions are documented within detailed board minutes which are available to key stakeholders. There is a high level of transparency through the Partnership's website, which includes minutes and papers for all committee meetings. Members' and senior officers' expenses are scrutinised by the Audit and Standards Committee and are reported online.
- *Reviewing financial and performance reporting within the organisational structure.* Reporting is of high quality, accurate and transparent. Financial reporting is presented to the Strategy and Programmes Committee on a regular basis, including analysis of both revenue and capital. Reports are sufficiently detailed, giving narrative explanations to key movements from budget. Details of any changes to capital programmes is also given to allow these to be scrutinised and approved by the committee.
- *Reading the annual governance statement;* as discussed on page 17.
- *Consideration of scrutiny over key risks* The corporate risk register is updated regularly by management and scrutinised and approved by the Audit and Standards Committee at each meeting to ensure it is up to date. For the subway modernisation project, individual risks for each part of the project are identified by the project manager and included in risk registers. Significant programme level risks are considered by the Subway Modernisation Board on a regular basis.

We are required to provide specific conclusions on the following areas which relate to governance and transparency and support our overall conclusion on this audit dimension.

Corporate governance

We updated our understanding of the governance framework and documented this through our overall assessment of the Partnership's risk and control environment. This included testing entity wide controls, including risk management, operational and compliance controls, as reported in the interim management report.

Conclusion: Governance controls were found to be operating effectively and we consider the governance framework to be appropriate for the Partnership.

Internal audit

We considered the activities of internal audit against the requirements of Public Sector Internal Audit Standards ('PSIAS'), focusing our review on the public sector requirements of the attribute and performance standards contained within PSIAS. We updated the review we undertook in 2014-15, which included a review of the internal audit charter, reporting lines, independence, objectivity and proficiency and the range of work carried out by internal audit. We also considered the requirements of International Standard on Auditing 610 *(Considering the Work of Internal Audit)*.

We reviewed assurance reports and conclusions, and through discussion obtained its views of risks of fraud within the Partnership.

Conclusion: We apply the audit and assurance team's work to inform our procedures, where relevant. The review of assurance reports and conclusions did not indicate additional risks and there was no impact on our planned substantive testing.

Wider scope

Local follow up work

In November 2013 the Accounts Commission and Auditor General for Scotland published a report on Scotland's public sector workforce. The report highlighted a number of key messages on workforce changes across Scotland in the public sector and made a number of recommendations to the Scottish Government a number of recommendations to the Scottish Government, central government bodies, the NHS, COSLA and local authorities.

We performed follow up work on the report, and submitted a return to Audit Scotland summarising our findings and conclusions. This work covered the following key issues:

- Planning: The majority of workforce planning is undertaken using a master staffing spreadsheet, which includes each post in the organisation. In the long term, focus has been on the impact of subway modernisation on workforce and financial planning. Succession planning for subway modernisation includes skills analysis to determine both who can perform technical roles, and who would be able to step up to management positions. The previous HR manager has taken on a new role within subway modernisation, and she is responsible for succession planning. Succession planning is not formally completed for the rest of the organisation but is performed on an ad hoc basis.
- Service delivery: Each workforce change programme is scrutinised and approved by the Personnel Committee, including the objectives contained therein and the impact on the workforce.
- Partnership working: Partnership working with local authority partners is a common feature of SPT's work. The capital programme involves significant investment in capital projects in conjunction with local authorities. Many of these projects are designed and/or delivered jointly.
- Challenge and scrutiny: Each workforce change programme is scrutinised and approved by the senior management team (Strategy Group) and by the Personnel Committee. The rolling nature of workforce plans as part of the annual budget setting and review process means that the efficacy of such plans is regularly evaluated. The departmental level workforce planning process is currently under review to ensure sufficient detail is given in workforce plans, without causing excessive work for small teams.
- Reporting: The Personnel Committee receives restructuring proposal reports which detail costs and net savings. The committee also receives a staffing update at each meeting, detailing any movements in staff numbers and costs.

Conclusion: The Partnership has considered workforce planning and invests time into the workforce planning process. Reporting arrangements are robust, however long term and succession planning outside of subway modernisation could be strengthened.

Appendices

Appendix one

Auditor independence

To Audit and Standards Committee members

Assessment of our objectivity and independence as auditor of Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the Partnership for professional services provided by us during the reporting period.

We have detailed the fees charged by us to the Partnership for significant professional services provided by us during the reporting period in the attached appendix, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2016 are:

	Current Year £000	Prior Year £000
Audit of SPT	65	65
Audit of SCTS	5	5
Total Audit	*70*	*70*
Total non-audit services	-	-
Total Fees	**70**	**70**

Appendix one

Auditor independence (continued)

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit and Standards Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit and Standards Committee of the Partnership and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Appendix two
Action plan

The action plan summarises specific recommendations arising from our work, together with related risks and management's responses.

We present the identified findings across four audit dimensions – financial sustainability, financial management, governance and transparency and value for money.

Priority rating for recommendations		
Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.	**Grade two** (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.	**Grade three** (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
1 Registers of interests *Risk dimension: financial management*		**Grade three**
Registers of interest for Partnership members are available on the SPT website. Registers of interest for two current members were not available as they had not been completed and returned to SPT by the member. Management provided register of interest templates to members, and issued several reminders for completion. However there is a risk that Partnership members are not following the formal disclosure requirements in providing a register of interests for recording. In mitigation, at each meeting attending members are required to disclose their interests at the outset.	It is recommended that Partnership members are further reminded of their responsibilities in relation to declarations of interest. Accepting that several reminders were issued, there should be an escalation to the Chair of the Partnership if registers of interest are not completed by the year end.	**Responsible officer:** Assistant Chief Executive (Business Support) **Implementation date:** Complete

Appendix three

Prior year recommendations

We follow up prior year audit recommendations to determine whether these have been addressed by management. The table below summarised the recommendations made during the 2014-15 audit and their current status.

Grade	Number recommendations raised	Implemented	In progress	Overdue
One	0	0	0	0
Two	0	0	0	0
Three	2	2	0	0

We have provided a summary of progress against overdue actions below, and their current progress.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
Bus operator payments Adjustments to bus operator payments due to lost mileage, service not operating, fines, etc. are entered on a form which is signed as prepared and counter signed as checked. There is no higher level review of all adjustments to bus operator payments. There is a risk that management will not identify unusual changes or payments to bus operators.	Management should consider conducting a high level review on a periodic basis of all adjustments to contracts for bus operator payments to identify abnormal payments or significant changes to contract payments for bus operators.	Due to a previous internal audit recommendation authorisation reports are produced on a monthly basis that detail the total value of monthly contract payments by operator. The report includes a comparison to the previous months payments with significant variances being highlighted and commented upon. The report is authorised by the Bus Services Manager. **Responsible officer: Bus Services Manager** **Implementation date: Complete**	Complete.
Journal system controls Journal entries posted by junior members of staff are subject to authorisation by senior accounts in the system. However, this authorisation is initiated by the staff member posting the journal rather than being a system enforced automatic control. There is a risk that journals may be posted in the system without authorisation.	Management should consider whether system controls can be set up to ensure that all journals must be authorised before they can be posted.	The potential to stop the posting of unauthorised journals will be investigated and implemented for appropriate staff members where possible. **Responsible officer: Chief Accountant** **Implementation date: July 2015**	Complete.

Appendix four

Defined benefit obligations

In respect of employee benefits, each of the assumptions used to value the Partnership's net pension deficit are within an acceptable range of KPMG's expectations.

We are of the view that this therefore represents a reasonable and balanced approach, in accordance with the requirements of IAS 19.

We set out below the assumptions in respect of defined benefit obligations.

Defined benefit pension liability

2016 £000	2015 £000	KPMG comment
(28,973)	(38,987)	In line with our established practice and in advance of the audit fieldwork, our actuarial specialists reviewed the approach and methodology of the actuarial assumptions used in the IAS19 pension scheme valuation. Details of key actuarial assumptions are included in the table, along with our commentary.

Assumption	SPT	KPMG central	Comment
Discount rate (duration dependent)	3.4%	3.45%	Acceptable. The proposed discount rate is in an acceptable range of KPMG's central rates as at 31 March 2016, and are derived using methodology consistent with that used last year.
CPI inflation	RPI less 1.0%	RPI less 1.0%	Acceptable. The proposed assumptions are within the acceptable range.
Net discount rate (discount rate – CPI)	1.3% - 1.4%	1.25%	Acceptable. The proposed assumptions are within the acceptable range of +/- 0.3% from the KPMG central range.
Salary growth	RPI + 1%	Typically 0% - 1.5% above inflation	Acceptable. The proposed assumptions are within the acceptable range.

The overall assumptions applied by management are considered to be reasonably balanced for a scheme with a liability duration of less that 17 years. The closing deficit decreased by £10 million compared to 2014-15, primarily due to an increase in discount rate (0.3% increase), and an increase in the long-term expected rate of return of assets in the scheme (0.3%).

Appendix five

Appointed auditors' responsibilities

Area	Appointed auditors responsibilities	How we've met our responsibilities
Corporate governance	Review and come to a conclusion on the effectiveness and appropriateness of arrangements to ensure the proper conduct of the bodies affairs including legality of activities and transactions, Conclude on whether the monitoring arrangements are operate and operating in line with recommended best practice.	Page 26 sets out our conclusion on these arrangements.
Financial statements and related reports	Provide an opinion on audited bodies' financial statements on whether financial statements give a true and fair view of the financial position of audited bodies and their expenditure and income Provide an opinion on whether financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements	Page 12 summarises the opinions we expect to provide.
Financial statements and related reports	Review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns.	Page 17 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report. We have not reported on any grant claims.
Financial statements and related reports	Notify the Controller of Audit when circumstances indicate that a statutory report may be required.	Page 12 sets out any notifications we have made to the Controller of Audit.
Financial statements and related reports	Review and conclude on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.	Pages 23 to 26 set out our conclusion on these arrangements.
WGA returns and grant claims	Examine and report on WGA returns Examine and report on approved grant claims and other returns submitted by local authorities.	The Partnership is below the threshold for the completion of audit work on the WGA return.

Appendix five

Appointed auditors' responsibilities (continued)

Area	Appointed auditors responsibilities	How we've met our responsibilities
Standards of conduct – prevention and detection of fraud and error	Review and conclude on the effectiveness and appropriateness of arrangements for the prevention and detection of fraud and irregularities, bribery and corruption and arrangements to ensure the bodies affairs are managed in accordance with proper standards of conduct. Review National Fraud Initiative participation and conclude on the effectiveness of bodies engagement.	Page 23 sets out our conclusion on these arrangements. Page 23 concludes on the bodies participation in the National Fraud Initiative.
Financial position	Review and conclude on the effectiveness and appropriateness of arrangements to ensure that the bodies financial position is soundly based.	Pages 23 and 24 set out our conclusion on these arrangements.
Financial position	Review performance against targets	Pages 6 to 11 summarise our review of how the body has performed against it's financial targets.
Financial position	Review and conclude on financial position including reserves balances and strategies and longer term financial sustainability.	Pages 6 to 11 sets out our conclusion on the bodies financial position including reserves balances. Pages 22 and 25 sets out our conclusion on the financial sustainability.
Best Value	Be satisfied that proper arrangements have been made for securing Best Value and complied with responsibilities relating to community planning.	Page 22 sets out our conclusion on these arrangements.

cutting through complexity

The contacts at KPMG in connection with this report are:

Andy Shaw
Director
Tel: 0131 527 6673
andrew.shaw@kpmg.co.uk

Michael Wilkie
Senior Manager
Tel: 0141 300 5890
michael.wilkie@kpmg.co.uk

Laura Nelson
Assistant Manager
Tel: 0131 451 7725
laura.nelson@kpmg.co.uk