



## 2021/2022 SCTS Annual Audit Report to those charged with Governance

**Committee**            Audit and Standards

**Date of meeting**    9 September 2022                      **Date of report**    25 August 2022

### Report by Director of Finance & Corporate Support

#### 1. Object of report

To provide the Committee, as those charged with governance, with the final audit report from Azets, Strathclyde Concessionary Travel Scheme's (SCTS's) external auditor following the final year audit of SCTS's accounts and financial arrangements for 2021/2022.

#### 2. Background

The scope of the work to be undertaken by Azets was outlined in their Audit Plan, which was presented to the committee on 18 February 2022. The core elements of the audit work included:

- an audit of the 2021/2022 annual financial statements of both SPT and SCTS;
- consideration and reporting on SPT's arrangements on the four audit dimensions: financial sustainability, financial management, governance and transparency and value for money;
- monitoring SPT's participation in the National Fraud Initiative (NFI); and
- any other work requested by Audit Scotland.

#### 3. Outline of proposals

The 2021/22 Annual Audit Report to members of the Strathclyde Concessionary Travel Scheme Joint Committee and the Controller of Audit is attached for noting at Appendix 1.

#### 4. Committee action

The committee is asked to note the details of the 2021/2022 Annual Audit Report for SCTS.

#### 5. Consequences

Policy consequences	<i>None.</i>
Legal consequences	<i>It is a legal requirement to have externally audited financial statements.</i>
Financial consequences	<i>As detailed in the report.</i>

Personnel consequences	<i>None.</i>
Equalities consequences	<i>None.</i>
Risk consequences	<i>None.</i>
Climate Change, Adaptation & Carbon consequences	<i>None.</i>

<b>Name</b>	Neil Wylie
<b>Title</b>	<b>Director of Finance &amp; Corporate Support</b>

<b>Name</b>	Valerie Davidson
<b>Title</b>	<b>Chief Executive</b>

For further information, please contact *Stuart Paul, Chief Accountant*, on 0141 333 3382.



# Strathclyde Concessionary Travel Scheme Joint Committee

2021/22 Annual Audit Report to members of the Strathclyde Concessionary Travel Scheme Joint Committee and the Controller of Audit

September 2022



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# Key messages

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This report concludes our audit of the Strathclyde Concessionary Travel Scheme Joint Committee (“SCTS”) for 2021/22.

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

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## Financial statements audit

<b>Audit opinions</b>	<p>Strathclyde Concessionary Travel Scheme Joint Committee (SCTS) annual accounts for the year ended 31 March 2022 are due to be approved by the Joint Committee on 30 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>Strathclyde Partnership for Transport (SPT; who administer the Scheme) had appropriate processes in place to prepare the annual accounts and the required supporting working papers.</p>
<b>Audit adjustments</b>	<p>We identified no adjustments to the unaudited annual accounts. There were no unadjusted differences to the unaudited annual accounts.</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 SPT’s business 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 – SCTS

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

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

Our conclusions and key observations are set out below:



### Annual governance statement and statement of financial control

We are satisfied that the Annual Governance Statement and Statement of Financial Control 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).



### Financial sustainability

#### Auditor judgement

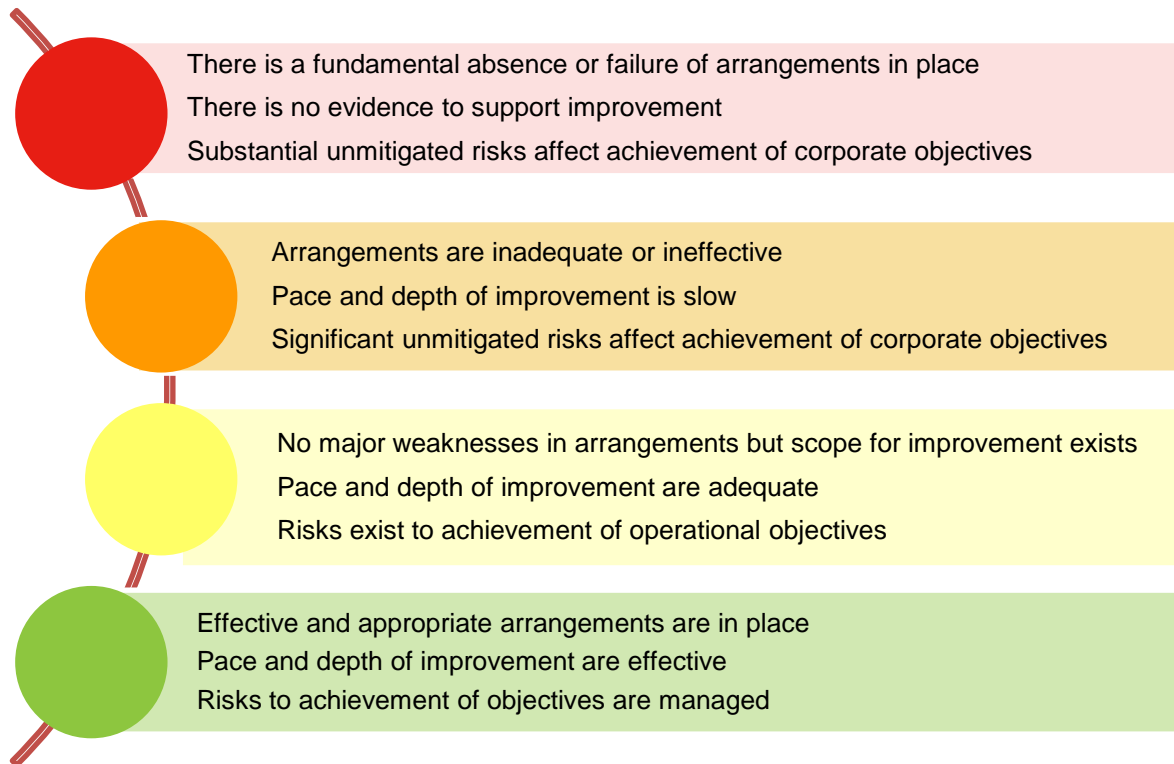
The Joint Committee has appropriate arrangements in place to manage its medium to long term financial position.

The pandemic significantly impacted the short-term financial position of the Scheme, with patronage and scheme costs reducing. In 2021/22, SCTS reported a favourable outturn position; contributing £1.136million to useable reserves.

As a consequence, the Joint Committee agreed, in March 2022, to pause the planned implementation of a revised fare structure until January 2023 at the earliest. This intention however remains to implement a revised fare structure in order to preserve long-term financial sustainability. The specific implementation dates will be influenced by the timing and nature of the recovery of public transport and Scheme patronage in 2022/23.

## Definition

We have used the following grading structure to provide an overall assessment of the arrangements in place as they relate to the dimensions of the wider scope audit (i.e. financial sustainability).





# Introduction

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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 Strathclyde Concessionary Travel Scheme Joint Committee (SCTS).
2. We outlined the scope of our audit in our External Audit Plan, which we presented to Strathclyde Partnership for Transport (SPT) Audit and Standards Committee 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 guidance from Audit Scotland on smaller bodies; and
  - any other work requested by Audit Scotland.

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



## Responsibilities

3. SCTS 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 SPT management and staff 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 remained 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 SCTS 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 SCTS 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 your audit team.

# Audit findings

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In this section we summarise the findings from our audit of SCTS 2021/22 annual accounts and our annual audit work on the wider scope.

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## Introduction

12. The Strathclyde Concessionary Travel Scheme (SCTS) offers reduced fares on rail, subway and ferry services. SCTS covers the 12 local authorities within the designated Strathclyde Partnership for Transport (SPT) area, and all local authorities are represented on the Joint Committee plus the chair of SPT. The cost of the scheme is met by the 12 local authorities. SPT administers the Scheme on behalf of the Joint Committee.
  - Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.
13. SCTS is classified as a 'section 106 body' as defined in section 106 of the Local Government (Scotland) Act 1973. As a consequence, SCTS has a duty to observe proper accounting practices. Annual accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code is recognised as setting out proper accounting practices.
14. In this section of our report, we set out our findings of our audit of SCTS for the year ended 31 March 2022 including:
  - Our findings from our audit of the 2021/22 annual accounts; and
  - Our findings from our annual audit work in respect of our wider scope audit responsibilities. For 2021/22 these were restricted to:
    - Audit work to allow conclusions to be made on the appropriateness of the disclosures in the Annual Governance Statement and Statement on Financial Control; and
15. The annual accounts for the year ended 31 March 2022 are due to be considered by SPT's Audit and Standards Committee on 9 September 2022 and approved by the Joint Committee on 30 September 2022. Our independent auditor's report is unqualified.

## Annual accounts

15. The annual accounts for the year ended 31 March 2022 are due to be considered by SPT's Audit and Standards Committee on 9 September 2022 and approved by the Joint Committee on 30 September 2022. Our independent auditor's report is unqualified.

## Administrative processes

16. We received unaudited annual accounts and supporting papers of high standard, in line with our agreed audit timetable. Our thanks go to staff at SPT for their assistance with our work, particularly given the current environment we are working in.

## 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>	<p>We have issued unqualified audit opinions.</p>
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 SCTS' functions.</p> <p>Our wider scope audit work considers the financial sustainability of SCTS.</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 SCTS 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 other information in the annual accounts to identify material inconsistencies with the 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</li> </ul>	<p>The management commentary 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</li> </ul>

Opinion	Basis for opinion	Conclusions
	<p>Scotland Act 2003 (Management Commentary);</p> <ul style="list-style-type: none"> <li>the Delivering Good Governance in Local Government: Framework (Annual Governance Statements); and</li> <li>The Local Authority Accounts (Scotland) Regulations 2014 (Remuneration Report)</li> </ul>	<p>statement and statement of financial control is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government Framework (2016).</p> <p>As noted in the annual accounts, SCTS has no employees and no allowances or expenses were paid to any councillor members during the year. A remuneration report has therefore not been included within the annual accounts.</p>
<p>Matters reported by exception</p>	<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 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>	<p>We have no matters to report.</p>

## An overview of the scope of our audit

17. The scope of our audit was detailed in our External Audit Plan, which was presented to SPT’s Audit and Standards Committee in February 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 SCTS. 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.

18. 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.

19. 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 testing procedures and detailed analytical review procedures.

risks that have a higher risk of material misstatement.

21. 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

20. 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

## Significant risk areas

### 1. Management override

#### Significant risk description

In any organisation, there exists a risk that management has 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 SCTS' accounting records and audit testing on transactions.
- Adoption of data analytics techniques in carrying out testing.
- Where applicable, a review of judgements and assumptions made in determining accounting estimates as set out in the



## Significant risk areas

financial statements to determine whether they are indicative of potential bias. This includes 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 those judgements were consistent with prior years.

## 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 SCTS could adopt accounting policies or recognise income and expenditure 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 due to a lack of incentive and opportunity to manipulate these transactions.

#### Audit procedures

- As SCTS does not undertake any income generating activity and requisitions from the constituent local authorities are its only source of income, no further audit procedures were deemed necessary.

### Key observations

At the planning stage of our audit cycle, we reported that we did not believe the risk of fraud in revenue recognition was material to the annual accounts and we therefore rebutted this risk. SCTS is funded by contributions received from the local authorities within the area served by the Scheme and from a draw on reserves. The funding is set as part of the budget process. These income streams are agreed in advance of the year and any changes require approval. Our assessment of this risk has been reviewed throughout the audit and our conclusion to rebut this risk has remained appropriate.

## 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 expenditure streams and review the controls in place over accounting for expenditure.
- Consideration of SCTS' 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.

## Other risk factors

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

22. COVID-19 continues to present 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 table below.

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 stayed in close contact with SPT colleagues to ensure all relevant issues were satisfactorily addressed.</p>

## Estimates and judgements

- 23. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.
- 24. 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 significant to the overall financial statements. No significant accounting estimates were identified. We revisited our assessment during the completion stages of our audit and concluded that our assessment remained appropriate.

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.

- 26. Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to SCTS and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.
- 27. Our initial assessment of materiality for SCTS' financial statements was £26,260. On receipt of the unaudited annual accounts, we reassessed materiality and revised materiality to £58,940. We consider that this figure has remained appropriate throughout our audit.

## Materiality

- 25. 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

## Materiality

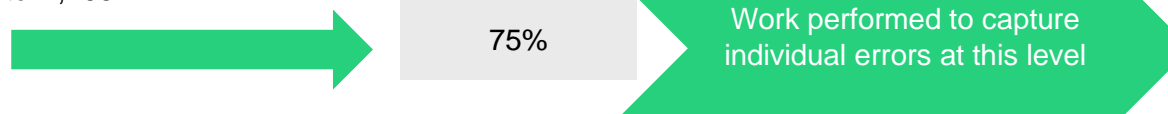
### Overall materiality

£58,940



### Performance materiality

£44,205



### Trivial threshold

£2,947



### Materiality

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

Our assessment of materiality equates to approximately 2% of SCTS' gross expenditure as disclosed in the 2021/22 unaudited annual accounts.

### 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

28. We are pleased to report that there were no adjusted or unadjusted differences to the unaudited annual accounts.

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 Joint Committee. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

## Internal controls

29. As part of our work we considered internal controls relevant to the preparation of the financial statements

Area	Assessment	Comment
Control and process environment	<b>Satisfactory</b>	We consider the control environment within the organisation 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's responses to our audit queries were appropriate and received on a timely basis.

## Other communications

### Accounting policies, presentation and disclosures

30. 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 SCTS.
31. The accounting policies, which are disclosed in the financial statements are considered appropriate.
32. There are no significant financial statements disclosures that we consider should be brought to the attention of the Joint Committee and Treasurer. All the disclosures required by relevant legislation and applicable

accounting standards have been made appropriately.

33. Overall we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate.

### Fraud and suspected fraud

34. We have previously discussed the risk of fraud with SPT management. We have 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.
35. 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

36. As part of our standard audit testing, we have reviewed the laws and regulations impacting SCTS. 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

37. As part of our audit we reviewed SCTS' compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulations 8 to 10<sup>1</sup> as they relate to the annual accounts.
38. Overall, we concluded that appropriate arrangements are in place to comply with these Regulations.

### Written representations

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

### Related parties

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

### Confirmations from third parties

41. All requested third party confirmations in respect of bank and legal confirmations were 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 conclusions



### Annual governance statement and statement of financial control

We are satisfied that the Annual Governance Statement and Statement of Financial Control 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).



### Financial sustainability

#### Auditor judgement



The Joint Committee has appropriate arrangements in place to manage its medium to long term financial position.

The pandemic significantly impacted the short-term financial position of the Scheme, with patronage and scheme costs reducing. In 2021/22, SCTS reported a favourable outturn position; contributing £1.136million to useable reserves.

As a consequence, the Joint Committee agreed, in March 2022, to pause the planned implementation of a revised fare structure until January 2023 at the earliest. This intention however remains to implement a revised fare structure in order to preserve long-term financial sustainability. The specific implementation dates will be influenced by the timing and nature of the recovery of public transport and Scheme patronage in 2022/23.

## Our approach to the wider scope audit

42. Our approach to the wider scope audit (as set out in our 2021/22 External Audit Plan) builds on our understanding of SCTS which we developed from previous years, along with discussions with SPT management and review of minutes and key strategy documents.
45. From our audit work performed we concluded that SPT 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 accounting and internal control systems.



### Annual governance statement and statement of financial control

**Our audit opinion considers whether the annual governance statement and statement of financial control has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).**

43. We are satisfied that the Annual Governance Statement and Statement of Financial Control 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).
44. The Joint Committee's governance statement notes that "although the Joint Committee is a separate legal entity, due to the administrative relationship between SCTS and SPT, there are a number of shared systems between the two bodies. The corporate governance and internal financial control arrangements that govern SCTS are also that of SPT". The Annual Governance Statement and Statement of Financial Control is consistent with the governance statement presented in SPT's annual accounts.





## Financial sustainability

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

## Significant audit risk

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

### Financial sustainability

The pandemic has significantly impacted on SCTS. In 2020/21, reduced patronage and operator reimbursement, as a result of the pandemic, led to a significant increase in reserves. The Joint Committee however recognise that this favourable financial position is short term and that the Scheme continues to experience longer term financial pressures. There continues to be a level of uncertainty on patronage levels due to the pandemic.

The root and branch review of the Scheme was concluded in 2020/21. The key recommendation from the review was to introduce a 'half fares' structure with capped fares apply to ferry routes and to existing rail 'rural zones'. The intention is that the use of half fares will simplify the Scheme, will reduce the level of reimbursement and increase the longer term financial sustainability of the Scheme.

The new structure will be introduced in financial year 2022/23. However, it has been noted that the implementation of the new fare structure presents a significant change. Given the significance of change, it will be necessary to ensure appropriate steps are taken with regard to preparing for and then introducing the new fare structure in 2022/23, including communications with users and communities and liaising with participating operators with a particular focus on ticketing/technology aspects of the change.

An outline budget for 2022/23 was presented to the Joint Committee in March 2021. The budget for 2022/23 was set at the same level as for 2021/22. The budget however does not take into account any fare recommendations following the review of the Scheme. The revised budget 2022/23 will be presented in March 2022.

*Noted in the 2021/22 External Audit Plan*

47. Our detailed findings on SCTS' financial framework for achieving long term financial sustainability are set out below.

## 2021/22 financial performance

48. The 2021/22 Comprehensive Income and Expenditure Statement shows that SCTS spent £2.947million on delivery of services. Taking into account interest received (£7,000) and the local authority requisitions (£4.076million), SCTS reported an in-year surplus of £1.136million. Usable Reserves as at 31 March 2022 were £4.596million (2020/21: £3.460million).
49. The favourable outturn position in 2021/22 is due to a significant decrease in payments to operators, which are driven by the reduced number of journeys made as a result of COVID-19 pandemic. In 2021/22, however, journeys had improved in comparison to 2020/21 (2.821million journeys in comparison to 1.008million in 2020/21). Whilst there was an increase in journeys; levels remain well below pre-pandemic levels (in 2019/20 5.093million journeys were made).
50. The increase in reserves in 2021/22 allows the Scheme to continue to navigate its way out of the pandemic with greater financial sustainability in the short term as it makes decisions regarding the long-term viability and sustainability of the Scheme.
51. With the older demographic being the most impacted by the effects of the virus, it remains unclear whether the numbers will return to pre-pandemic levels in the near future.

## 2022/23 budget

52. In March 2022, the Joint Committee approved its 2022/23 budget. A budget of £4.059million has been approved for 2022/23, to be fully

funded by local authority requisitions. This is a reduction of 0.42% in local authority requisitions. The approved budget was based on the following factors / assumptions:

- It is anticipated that passenger numbers using the scheme will increase to an average of 75% of pre-Covid levels across all modes with adjustments for seasonality;
- There will be no change to the fare structure.

53. An outline budget for 2023/24 was also presented to the Joint Committee. The draft budget proposed (£4.463million) would be funded by local authority requisitions (at the same level as in 2022/23 (£4.059million) and a contribution from reserves (£0.404million).

## New fare structure

54. The Joint Committee was advised in 2019 that the requisition from constituent authorities was no longer sufficient to cover operator payments and, at the time, it was estimated, that a maximum of two years reserves were held. Subsequently the Joint Committee agreed fares increases for 2021/22 to help sustain the Scheme whilst a major review was carried out.
55. The pandemic, however, significantly changed the short term financial position, with patronage and scheme costs reducing, providing financial respite from the financial challenges faced by the Scheme. This led to the suspension of the planned implementation of a revised fares structure.
56. The implementation of the new fares structure will be a move away from a

basic concessionary fare to a simplified 'half fares' structure with capped fares applying to ferry routes and to existing rail 'rural zones'. The use of half fares would simplify the Scheme, would reduce the level of reimbursement and increase the longer-term financial sustainability of the Scheme.

57. This remains the agreed strategy of the Joint Committee to preserve long-term financial sustainability. The specific implementation dates will be influenced by the timing and nature of the recovery of public transport and Scheme patronage in 2022/23. As a consequence, the Joint Committee agreed in March 2022 to pause the planned implementation of the revised fares structure until January 2023 at the earliest. The timing of implementation of the revised fare structure will be considered by the Joint Committee in 2022/23.

# Appendices



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Appendix 1: Respective responsibilities of the Joint Committee and the Auditor 27

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## Appendix 1: Respective responsibilities of the Joint Committee and the Auditor

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

### Strathclyde Concessionary Travel Scheme Joint Committee responsibilities

The Joint Committee has primary responsibility for ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

Area	Responsibilities
<b>Corporate governance</b>	<p>The Joint Committee 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 Joint Committee 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 SCTS.</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	Responsibilities
	<p>disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.</p> <p>The Joint Committee 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 Joint Committee 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 Joint Committee 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 Joint Committee 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.

## 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 your attention 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 SCTS for the provision of services in 2021/22 (with prior year comparators) is as follows:

	Current year £	Prior year £
Audit of Strathclyde Concessionary Travel Scheme Joint Committee (Auditor remuneration)	4,770	4,670
<b>Total audit</b>	<b>4,770</b>	<b>4,670</b>
Non-audit services	-	-
<b>Total fees</b>	<b>4,770</b>	<b>4,670</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 SCTS.

### 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 SPT since appointment can be found at <https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202122>





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