

## **SEStran External Audit 2016/17 – Ensuing Action**

### **1. Introduction**

The above audit was completed in September 2017, by Scott-Moncrieff and contained the following Governance Statement.

- “We have reviewed the Annual Governance Statement and have found that it is consistent with the accounts and has been prepared in accordance with Delivering Good Governance in Local Government: Framework (2016).
- The Partnership has adequate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in the Partnership’s accounting and internal control systems.”

and the following comment on Financial sustainability:

- “The Partnership has arrangements in place for short term (1year) financial planning, with budgets aligned to its annual business plan and regional transport strategy. However, the Partnership does not prepare medium to long-term financial plans due to the uncertainty over future funding allocations.”

The auditors proposed six Action Points for the Partnership to address and these are set out, in summary below, with the agreed action relative to each point included.

### **2. Action Plan Point Issue and Recommendation, with Management Comments**

#### **2.1 Action Plan Grading Structure**

To assist the Partnership in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. The rating structure is summarised as follows:

**Grade 5:** Very high-risk exposure – major concerns requiring Partnership attention

**Grade 4:** Elevated risk exposure – material observations requiring senior management attention

**Grade 3:** Moderate risk exposure – significant observations requiring management attention

**Grade 2:** Limited risk exposure – minor observations requiring management attention

**Grade 1:** Efficiency / housekeeping point

## **2.2 Action Points**

### **2.2.1 Authorisation of Journals**

(Action owner: Treasurer, Due Date: immediate, Rating: Grade 3)

#### *Observation*

Our review of the journals environment found that there was a lack of segregation of duties over the posting of journals. Journals are prepared and posted without any secondary review or authorisation. Journals can be used to override controls and create fraudulent errors therefore, it is essential appropriate controls are in place

#### *Recommendation*

While our audit review in respect of the 2016/17 financial year did not identify any indications of management override we recommend that a review process is put in place for the preparation and posting of journals to the ledger.

Expenditure and Income monitoring reports are prepared in full consultation with officers of the Partnership for reporting to the Partnership Board, on a quarterly basis, in line with the Financial Regulations of the Partnership.

Any exceptional or unanticipated expenditure or income created by journal entry would be identified through this process.

#### *Action*

To enhance control, Partnership officers will receive a monthly report to include details of all journal entries processed, for review.

Strict separation of financial controls, segregation of duties and authorisation levels exist for all actual expenditure transactions of the Partnership.

### **2.2.2 Asset Recording and Tagging**

(Action owner: Partnership Director, Due Date: 31 March 2018, Rating: Grade 4)

#### *Observation*

Assets within the asset register are not allocated a unique reference number and are instead grouped by type. In addition to this the physical assets are not individually labelled. It is therefore not possible to undertake a physical verification of assets from the register to the floor (or vice versa). There have been significant issues verifying the number of assets held and the value per item in year

#### *Recommendation*

To ensure assets are accounted for appropriately and prevent against the possible misappropriation of assets, we recommend that new assets acquired, across all sites are:

- brought into the fixed asset register with sufficient detail to allow each unit to be individually identifiable including purchase date and value per item; and
- appropriately labelled when brought into use to create a direct link between the fixed asset register and the physical assets.

*Action*

The Partnership Director has instructed that the Projects team oversee the creation of a full and comprehensive asset register for SEStran and an initial meeting with the Director, the Treasurer's representative and the projects team has taken place and a protocol for the future agreed. Work is underway to complete the register.

### **2.2.3 Register of Interest**

(Action owner: Partnership Director, Due Date: 31 December 2017, Rating: Grade 3)

*Observation*

From our review of the Registers of Interests of members it was found that many of the declarations forms had not been updated since 2014. Upon further review, we identified an undisclosed related party transaction of £0.086million relating to an undeclared related party for Edinburgh and Lothians Greenspace Trust. The annual accounts have been updated to reflect the appropriate disclosures.

*Recommendation*

The Partnership should ensure registers of interest are updated on at least an annual basis

*Action*

All members of the Partnership Board are reminded and have been in Summer 2017 of the provision of regulations which provide for Board Members to give notice of registerable interests as outlined in SEStran Code of Conduct and all members of the Board, at the first meeting of the new session, have been reminded of their Code of Conduct responsibilities. Keeping entries in the Register of Interests up to date is ultimately the responsibility of individual Members. The Secretary of the Partnership is the proper officer to administer this issue and he has stressed that completing their register of interests accurately and promptly is a legislative requirement of the Board members and failure to maintain accurate and timeous entries would mean that they, individually, would not be complying with the Code of Conduct.

### **2.2.4 Reconciliation of Holding Accounts**

(Action owner: Treasurer, Due Date: 31 December 2017, Rating: Grade 2)

*Observation*

The City of Edinburgh Council maintains a holding account on behalf of the Partnership. The holding account is reconciled on an annual basis. There is a risk that any errors in the allocation of items to the holding account are not discovered timeously.

*Recommendation*

The holding account should be reconciled with the Partnership records on a regular basis to reduce the risk of significant error.

*Action*

The indebtedness between the City of Edinburgh Council and the Partnership, as reflected in the holding account balance, was reconciled several times during 2016/17. The frequency of reconciliation will be formalised such that a reconciliation will be undertaken on a quarterly basis.

## **2.2.5 Income and Expenditure Controls**

(Action owner: Partnership Director/Treasurer, Due Date: immediate, Rating: Grade 3)

*Observation*

While income and expenditure testing did not identify any misstatements to the annual accounts, we did identify many errors relating to income and expenditure invoice processing.

Income and expenditure invoices are sent to City of Edinburgh Council alongside a cover sheet that details the VAT coding, ledger coding and supplier/customer details. We found that the details on cover sheets were often incorrect which resulted in credit notes being raised on numerous occasions.

Income invoices were also found to have many errors in year which resulted in an under declaration of output tax of £12k (disclosed in the accounts as a debtor and creditor). A voluntary disclosure to HMRC was made in relation to this. As part of our review we found that there were weaknesses in the review and authorisation of invoices.

*Recommendation*

The Partnership should ensure all invoices are subject to rigorous checks and are appropriately authorised prior to submitting for processing by City of Edinburgh Council officers.

*Action*

New protocol/guidelines have been obtained from City of Edinburgh Council around the declaration of VAT and have been put in place. This processing change is continuing to be embedded across the organisation.

Controls on authorisation and review of invoice payments have been updated. The VAT issue has been resolved and the outstanding sum of £12k recovered.

## **2.2.6 Long Term Financial Planning**

(Action owner: Partnership Director, Due Date: 31 December 2017, Rating: Grade 4)

*Observation*

The Partnership develops a budget for one financial year which is aligned to the annual business plan and Regional Transport Strategy. There is a risk that funding is used to support short term need rather than long term strategic priorities.

*Recommendation*

To ensure financial sustainability, the Partnership should develop medium to long term financial plans on a 3 to 5-year basis. This would assist the Partnership in highlighting risks to its sustainability and ensure funding is allocated in line with the long term strategic aims of the Regional Transport Strategy.

The removal of capital funding in 2009/10 means there is a difficulty for long-term strategic funding of RTS projects. The Director continues to monitor and advocate for investment by stakeholders in strategic priorities and for the return of long-term significant funding to RTPs through the second National Transport Strategy review process. However, given the main funder, Transport Scotland, has only been able to issue one year funding settlements in recent years, this has limited SEStran's ability to take a long-term budgetary approach to investment.

*Action*

With regard to the Councils' contributions to the Partnership, the Director has prepared a budget proposal for consideration, initially, by the SEStran Council Chief Officers' Group and then, subject to the outcome of the initial discussions, by the Partnership Board.

**3. Conclusion**

Appropriate action, as recommended by the audit, is underway and discussion among the named officials has taken place. Four of the action points are within the control of the partnership. Items 2.2.3 and 2.2.6, however, are not wholly within the control of the Partnership. In respect of 2.2.3 (the Register of Interests) the recommended regular reminders will be put in place. As regards 2.2.6 (Long Term Financial Planning) and in addition to the approach to the Councils, it is proposed to hold discussions with Transport Scotland to explore the possibilities of a longer perspective for funding agreements.

**4. Recommendations**

- 4.1** The committee is asked to note the contents of the report.

Jim Grieve  
**Programme Manager**

17<sup>th</sup> November 2017

Policy Implications	None
Financial Implications	It is imperative that the recommendations made by the auditors are taken forward in order to ensure continued good governance status.
Equalities Implications	None
Climate Change Implications	None