

Strathclyde Concessionary Travel Scheme

Annual Report to Members of the Joint
Committee 2005/06

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29 September 2006

Our ref: MM/MW/DM

Ladies and Gentlemen

Annual Report to Members of the Joint Committee 2005/06

We have completed our audit of Strathclyde Concessionary Travel Scheme (“SCTS”, the “Joint Committee” or the “Travel Scheme”) and its financial statements for the year ended 31 March 2006.

The Annual Report is primarily designed to direct your attention to matters of significance that have arisen out of the 2005/06 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

Our statutory duties as your external auditor are contained within the Local Government (Scotland) Act 1973. These duties and the responsibilities which are derived from them are contained in greater detail within the Code of Audit Practice which has been approved and issued by the Accounts Commission for Scotland.

The matters dealt with in this Annual Report came to our notice during the conduct of our normal audit procedures, which we carried out in accordance with the framework and principles embodied within the Code of Audit Practice. It is emphasised that the Annual Report should not be interpreted as providing legal or other advice to the Joint Committee or any other party.

We would like to take this opportunity to offer our thanks to those members of management and staff who have assisted us during the course of the audit.

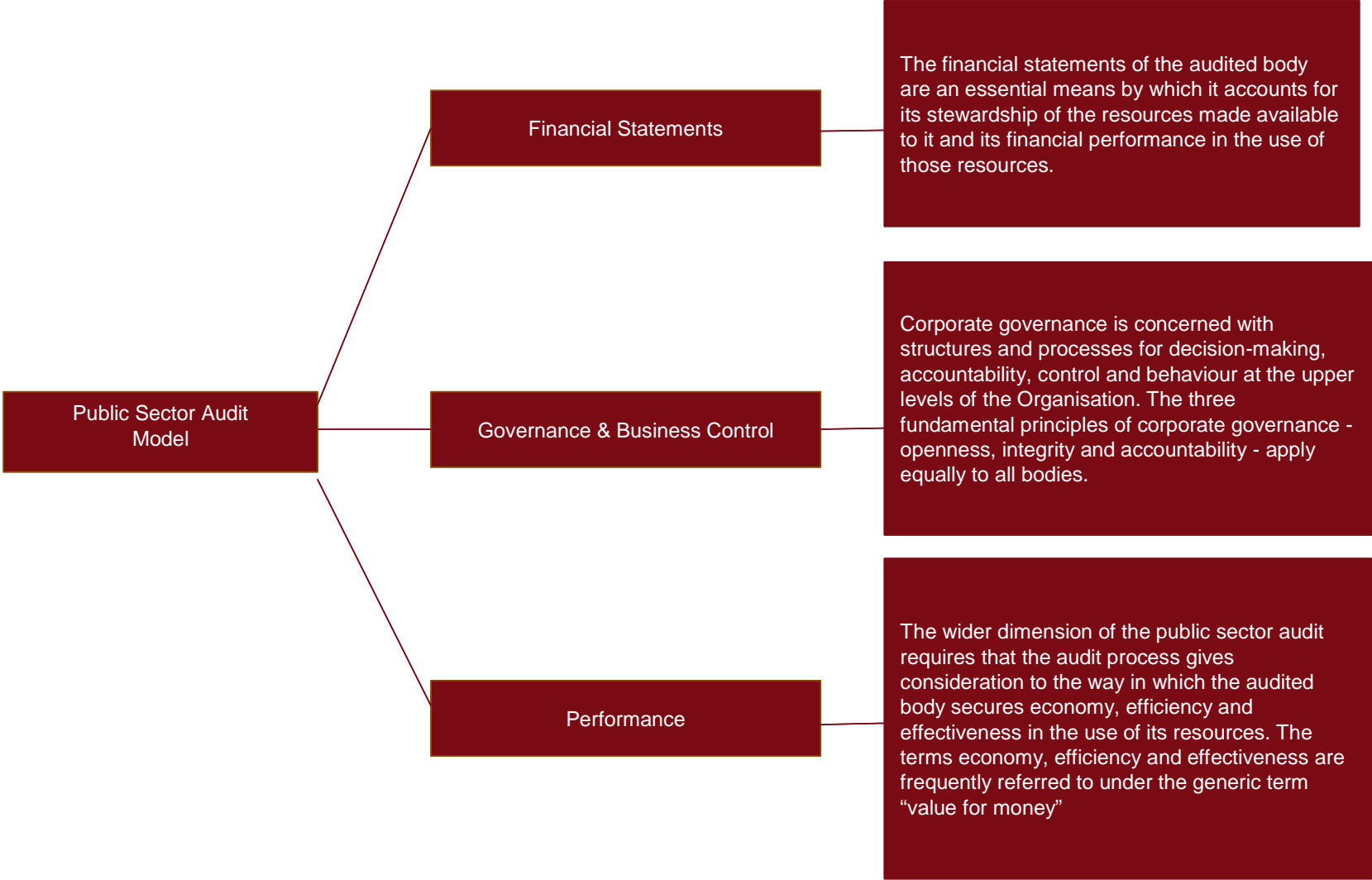
Yours faithfully

PricewaterhouseCoopers LLP

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Our Report Structure



1. Executive Summary

Key Points for Members

1.01 Formal Opinions, the Audit Process, and Financial Position

- Our audit certificate for the year ended 31 March 2006, which is in the format prescribed by the Accounts Commission, is **unqualified**.
- The financial statements and supporting schedules were presented to us for audit within the agreed timetable. There has been continued improvement in the working relationship established with management, and the supporting schedules were of a good standard in terms of clarity and completeness.
- In accordance with SAS 610, we have detailed in this report significant audit matters that came to our attention during the 2005/06 audit.
- Net operating expenditure for the year ended 31 March 2006 amounted to £73.189 million, compared to £61.9 million in the prior year. This constitutes an increase of £11.325 million, which is almost entirely related to additional cost claims of £11.047 million to be met separately by the Scottish Executive via the Section 70 grant claim process (included within debtors at 31 March 2006). Expenditure was also funded by contributions from constituent Local Authorities of £48.972 million (2005 - £47.505 million).
- The out-turn excluding these additional costs is £62.142 million and represents a saving against budget of £0.253 million.

1.02 Change in Status

- A major event with implication for the Organisation was the Transport Act (Scotland) 2005 which received Royal Assent in August 2006. The outcome will be the creation of seven new Regional Transport Partnerships (RTPs), one of which (The West of Scotland RTP known as Strathclyde Partnership for Transport) will be the successor body to both Strathclyde Passenger Transport Authority (SPTA) and Strathclyde Passenger Transport Executive (SPTE).
- In addition, the Scottish Executive has introduced a new Strategic Transport Authority for Scotland, called Transport Scotland as an executive agency of the Scottish Executive. It is jointly responsible, with Scottish Executive Enterprise, Transport, and Lifelong Learning Departments, for delivering the Scottish Executive's national transport agenda. The Rail Franchise function (from 5th November 2005) and the National Concessionary Travel Scheme (from 1st April 2006) will both be administered by Transport Scotland.

1.03 **Prevention and Detection of Fraud and Irregularities**

- We have reviewed the Joint Committee's overall arrangements for the prevention and detection of fraud and corruption. We note that anti-fraud and corruption and whistle-blowing policies were completed and approved during the year 2003/04. Since then these policies have been finalised and have now been communicated to all staff members of SPT. Our review did not highlight any issues.

1.04 **Standards of Conduct, Integrity and Openness**

- A local framework for corporate governance was prepared, based on the CIPFA/SOLACE guidance and other best practice. This was approved by the Performance Monitoring Committee on 21 May 2004. Since then development of 'indicators of compliance' have been drawn up to facilitate compliance with the code. The Head of Finance and the Organisational Performance Manager are in the process of developing an action plan to address any areas of non-compliance. The Staff Code of Conduct is considered within the corporate governance framework.

1.05 **Systems of Internal Control**

- We are able to confirm that the Joint Committee's disclosures contained in the Statement on the System of Internal Financial Control are consistent with the knowledge gained from our normal audit procedures and complies with the Statement of Recommended Practice ('SORP').
- An Interim Report was issued to the Joint Committee in March 2006. Actions have been agreed with management to provide a mechanism for the implementation of the recommendations made.
- Our follow up report on our 2004/05 control recommendations was issued to the Joint Committee in March 2006 and confirmed that the majority of the recommendations have been implemented.

1.06 **Arrangements for securing Value for Money and Best Value**

- SCTS is required to comply with the Best Value regime, however as SCTS does not carry out any operational activities, management have assumed that the regime should apply to SPTE. To date a voluntary undertaking has commenced by SPTE, where some progress has been made implementing best practice arrangements to ensure that Best Value is achieved.

1.07 Although responsibility for a number of the key areas of governance and control lie within SPT, we have included commentary and detail within this report in order the Committee are able to gain the appropriate levels of comfort over the systems of internal control in place within the Organisation.

2. Stewardship of Resources and Audit Opinions

Audit Opinion

- 2.01 The Local Government (Scotland) Act 1973 requires that, following the completion of an audit, the auditors shall place on the abstract of accounts a certificate which sets out the basis on which they have formed their audit opinion. Our opinion on the accounts states:
- that the audit has been conducted in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Code of Audit Practice;
 - the respective responsibility of management and auditors in relation to the accounts; and
 - whether, in our opinion, the accounts present fairly the financial position of the Travel Scheme as at 31 March 2006.
- 2.02 Our audit certificate for the year ended 31 March 2006, which is in the format prescribed by the Accounts Commission, is unqualified. Our opinion is set out in full in **Appendix 4**.

SAS 610 'Communication of audit matters to those charged with governance'

- 2.03 Statement of Auditing Standard ("SAS") 610 'Communication of audit matters to those charged with governance' was revised by the Auditing Practices Board in June 2001 and became applicable from the 2002/03 audits of public sector bodies in Scotland.
- 2.04 The main requirements of the SAS are in respect of auditors communicating relevant matters relating to the audit of financial statements to those charged with governance, sufficiently promptly to enable them to take appropriate action. Those charged with governance are defined as those persons entrusted with the supervision, control and direction of an entity, including senior officers and members.
- 2.05 In accordance with SAS 610, we have detailed in this report significant audit matters that came to our attention during the 2005/06 audit. During the audit we proposed a number of numerical and disclosure amendments to the financial statements. Management made these adjustments in the final version of the financial statements.

3. Financial Performance and Position

Financial Performance in the year

- 3.01 It is emphasised that we do not express a specific audit opinion on the matters outlined below.
- 3.02 Net operating expenditure for the year ended 31 March 2006 amounted to £73.189 million, compared to £61.9 million in the prior year. This constitutes an increase of £11.325 million, which is almost entirely related to additional costs claims of £11.047 million to be met separately by the Scottish Executive via the Section 70 grant claim process (included within debtors at 31 March 2006). Expenditure was also funded by contributions from constituent Local Authorities of £48.972 million (2005 - £47.505 million).
- 3.03 Funding for the year amounted to £76.6 million, of which £48.9 million was contributed by the 12 constituent councils. The remaining £27.6 million relates to Scottish Executive Section 70 grants. An additional claim of £17.542 million has been made, of which £5 million had been received by 31 March 2006, with the balance included within debtors.
- 3.04 The lack of control and influence the Joint Committee has over the number of journeys made by cardholders or commercial fare levels set by operators means the actual costs of running the scheme can vary substantially year on year. Analysis of the figures for 2005/06 reveal a higher number of journeys recorded for 2005/06, partly attributable to improvements in rail and subway concessionary passenger data.
- 3.05 There were no appropriations in the year meaning that the amount to be met from external resources was also £73.189 million (2005: £61.9 million). This was funded as follows:

	2005/06 £000	2004/05 £000
Funding from Local Authorities	48,972	47,505
Funding from the Scottish Executive	27,647	23,577
	76,619	71,082

- 3.06 This resulted in a surplus generated in 2005/06 of £3.43 million (2005: £9.2 million).
- 3.07 As at 31 March 2006, SCTS has a surplus in general reserves of £11.07 million (2005: £7.64 million).

4. Regularity of Financial Transactions and the Audit Process

Audit Process

- 4.01 There has been continued improvement in the working relationship established with management and staff. We found the supporting schedules presented to us for audit were of a good standard in terms of clarity and completeness.

Financial Statements Process

- 4.02 The Travel Scheme's financial statements need to comply with the "Code of Practice on Local Authority Accounting in the United Kingdom, a Statement of Recommended Practice" ("SORP"). The SORP is developed on a continuous basis by the CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) in accordance with the Accounting Standards Board's code of practice for developing of Statements of Recommended Accounting Practice. The Local Government in Scotland Act 2003, Section 12, requires Local Authorities in Scotland to observe proper accounting practices.
- 4.03 The Joint Committee has achieved the deadline for lodging accounts with the Controller of Audit by 30 June 2006 and co-operation between ourselves as external auditors and SCTS has ensured the timely completion of the audit within the 30 September 2006 deadline.
- 4.04 A Follow Up Report of our 2004/05 control recommendations was issued to the Committee in March 2006. Of the 3 agreed recommendations made, 1 had been fully implemented and 2 had been partially implemented at the time of our review. None of these have been classed as business critical and an action plan has been agreed with management to progress these recommendations.

Audit Adjustments

- 4.05 A number of adjustments to the format and disclosure of figures within the financial statements have been made following the conclusion of our audit work. These have been agreed and processed in the final accounts.
- 4.06 There were no unadjusted differences identified from our audit process.

Legality Work

- 4.07 We plan and perform our audit procedures recognising that non-compliance by the Joint Committee with statute or regulations may materially affect the financial statements. In addition, as part of our normal audit process we consider the Joint Committee's assessment of the legality of certain significant transactions and events with a financial consequence.
- 4.08 In considering the arrangements put in place by the Joint Committee with reference to legality, we have focused our attention on significant areas of decision making within SCTS that may involve unlawful expenditure or courses of action which may be illegal and which might lead to a loss or deficiency.
- 4.09 Other than the matter relating to Payments to Operators on page 14, our work has not highlighted any matters which we require to bring to your attention.

Post Balance Sheet Events

- 4.10 A major event with implication for the Organisation was the Transport Act (Scotland) 2005 receiving Royal Assent in August 2006. The outcome will be the creation of seven new Regional Transport Partnerships (RTPs), one of which (The West of Scotland RTP known as Strathclyde Partnership for Transport) will be the successor body to both SPTA and SPTE.
- 4.11 In addition, the Scottish Executive has introduced a new Strategic Transport Authority for Scotland, called Transport Scotland as an executive agency of the Scottish Executive. It is jointly responsible, with Scottish Executive Enterprise, Transport, and Lifelong Learning Departments, for delivering the Scottish Executive's national transport agenda. The Rail Franchise function and the National Concessionary Travel Scheme will both be administered by Transport Scotland from 1 April 2006.
- 4.12 As this has been explained in the Financial Statement by the Treasurer, no Post Balance Sheet event note was deemed necessary.
- 4.13 We have not identified any other significant post balance sheet events.

Backlog in Payments to Operators

- 4.14 Whilst acknowledging improvements, we have also noted in prior reports that there was a back-log in the processing of payments to operators. Additional resources and attention to the backlog has resulted in tangible progress, and outstanding operator payments in 2005/06 (based on actual claims processed) has fallen to £131,000 from £6.076 million in 2004/05.

5. Prevention and Detection of Fraud and Irregularities

Fraud and Corruption Reviews

- 5.01 We have reviewed the Joint Committee's overall arrangements for the prevention and detection of fraud and corruption. A number of low and medium risk issues were identified in 2004/05 and reported in our Interim Management Letter at that time. The Joint Committee agreed to address these issues and we followed them up as part of our 2005/06 audit. No major issues of concern were identified.
- 5.02 Of the two recommendations raised, one has been implemented and one partially implemented. None of these have been classed as business critical and an action plan has been agreed with management to progress these recommendations.

Fraud and Corruption Policy

- 5.03 SPT, acting as the Joint Committee's agent, has a formal Anti-Fraud and Corruption Policy in place and is in accordance with guidance issued by Audit Scotland.

Fraud Guidance

- 5.04 We have reviewed the fraud and irregularities guidance issued by Audit Scotland during 2005/06 and undertaken work accordingly. There are no specific matters to report to the Joint Committee from this work.

Fraud Submission

- 5.05 A nil return has been made to Audit Scotland of all the reported frauds that have occurred within the SCTS during the year. There were no frauds reported by the SCTS during 2005/06.

6. Standards of Conduct, Integrity and Openness

Codes of Conduct for Staff and Members

- 6.01 A local framework for corporate governance has been prepared by SPT based on CIPFA/SOLACE and other best practice guidance. This was approved by the SPTA Performance Monitoring Committee on 21 May 2004. A Code of Conduct for Staff and Members is included within the corporate governance framework.

Procedures for implementing and monitoring compliance with statutory and other guidance

- 6.02 The Joint Committee operates a framework for responding to and monitoring statutory and other guidance issued by the Scottish Executive. Following initial notification to the Treasurer, a range of monitoring systems are in place to regulate compliance and performance. Legal staff liaise and take lead roles in cross-service groups where required.

7. Systems of Internal Control

Statement on the System of Internal Financial Control

- 7.01 The “Code of Practice on Local Authority Accounting in United Kingdom, a Statement of Recommended Practice” introduced the requirement from 2002/03 onwards for local authorities to include a statement on the system of internal financial control (SSIFC) within their financial statements.
- 7.02 Our responsibility is to provide an external audit view, as opposed to an audit opinion, on whether:
- the SSIFC complies with the requirements of the SORP; and
 - the information contained therein is consistent with our knowledge of the SCTS.
- 7.03 We are able to confirm that the Joint Committee’s disclosures, contained in the Statement on the System of Internal Financial Control, are consistent with the knowledge gained from our normal audit procedures and comply with the SORP.

Financial Systems and our 2005/06 Interim Report to Members

- 7.04 An Interim Report to Members (Interim Management Letter) was issued to the Joint Committee in March 2006. SCTS has completed an action plan detailing the individuals responsible for implementing our recommendations and the timetable for completion.

Payments to Operators

- 7.05 As in previous years, our audit testing included a review of the supporting documentation for claims by operators. Prior to making final payments to operators, a number of checks including visits to operators premises are undertaken by staff. In addition the survey team undertake a scheduled survey programme on bus routes to assist with the assessment of the accuracy of the claims submitted. The Concessionary Travel Claims Auditor carried out desktop exercises using SPT survey results to check the number of passengers and the company average fare claimed. We did not identify any errors from our sample testing, which compared the value of the claim paid against the supporting documentation. We have concluded that Management and the Joint Committee have taken steps to verify the accuracy of operator claims. Therefore we have not qualified our audit opinion in regard to this matter. We note the control procedures noted above are an extension from those in place prior to the implementation of the national minimum standard.
- 7.06 Following the implementation of the national minimum standard which introduced free off-peak concessionary bus travel within local scheme areas, it should be noted that evidence available in connection with payments to operators is limited with respect to the existence of the concessionary passenger journeys claimed/input through the operators ticketing systems. The crux of the issue relates to the lack of fare being charged to the concessionary passengers. As the fare-box income check is no longer possible, there is currently no reliable method of verifying concessionary passenger journeys. There is therefore an inherent risk that the payments to operators may be misstated.
- 7.07 Reliable methods of tracking and measuring passenger usage are still in progress but the Joint Committee has recently appointed an external consultant to carry out work on statistical sampling for surveys. In addition two additional auditors have been appointed by SCTS to visit operators and assess their systems.
- 7.08 We recognise the efforts of the Joint Committee, and management, but recommend they continue to review the procedures in place to monitor and assess operator claims.

Follow Up Report on Previous Control Matters

- 7.09 Our follow up report on our prior years control recommendations in relation to the Concessionary Travel Scheme was issued to the Joint Committee in March 2005. Of the 3 agreed recommendations made in our reports including the 2004/05 Interim Management Letter and 2003/04 Follow-up report, 1 had been fully implemented and 2 were in progress. None of these have been classed as business critical and an action plan has been agreed with management.

Information Technology General Controls

- 7.10 As part of an ongoing commitment to quality in our work, audit procedures are being constantly refined and enhanced. One of the developments being rolled out in 2005/06 audits was an increased focus on outputs from IT systems. Given that significant reliance is placed on systems-generated reports throughout the audit – be it for controls testing or substantive year-end procedures – it is pertinent that automated processes are analysed and tested to obtain comfort over the underlying information.
- 7.11 While a greater volume of controls work is required at the interim visit in order to cover IT systems as well as manual processes, our aim was to complement our existing risk-based audit approach by reducing year-end testing where possible by placing reliance on sound controls, both automated and manual.
- 7.12 A number of issues arose as a result of this work and have been discussed with management. These issues have been separately reported together with an agreed action plan.

Corporate Governance Arrangements

- 7.13 As noted above a local framework for corporate governance has been prepared by SPT based on CIPFA/SOLACE and other best practice guidance.
- 7.14 A Corporate Risk Management Strategy was introduced during 2003/04. Through the use of workshops and consultation with departmental heads the corporate level Strategic Risk Register has been completed during the year. This includes a description of the risk, the current controls in place, a traffic light based control effectiveness measure, the impact and likelihood of the risk, a risk score, the responsible officer and the review date. Further to this, for each risk an action plan has been devised including the controls for implementation, the responsible officer, the target date and the status of the control.
- 7.15 The Risk Registers for each Department, based on the same template as the Strategic Risk Register have not been completed. Departmental risk registers were quoted as 75-80% complete which is the same as last year although progressing the completion of risk registers has now received greater priority. This is due to one department refusing to complete the register and certain others failing to produce their risk registers due to a lack of resources.
- 7.16 In addition, the Secretary and the Director General compiled a progress report on the enhancement of SPT's system of Corporate Governance, which was presented to the Performance Monitoring Committee on the 24 June 2005. The report highlighted the areas of best practice at SPTA and the SPTE and identified that further work was required.
- 7.17 The following improvements to systems of corporate governance were achieved:
- Local framework updated;
 - Process to identify, assess and manage operational risks continued and subject to review by Internal Audit;
 - Development of documentation and, where necessary, improvement of key processes;
 - SPTE's Corporate Plan rolled forward to 2005/06; and
 - Performance information further improved;
- 7.18 Work on risk management and the preparation of business continuity plans was continued during 2005/06.
- 7.19 We reviewed the Authority's compliance with corporate governance and risk management requirements, specifically the CIPFA/SOLACE guidance, in previous years and identified a number of areas for attention which have been reported in our Follow-up of Prior Year Recommendations 2005/06 report.

Internal Audit's Report on SPT's Internal Controls

- 7.20 As part of our audit work we meet with and consider the systems work performed by Internal Audit. During the year we undertook a review of Internal Audit and considered that the work undertaken was satisfactory. Co-operation between Internal and External Audit has resulted in a more efficient use of overall audit resources during the year.
- 7.21 The extract of the Internal Auditor's opinion for 2005/06 is reproduced below:
- 7.22 "The internal controls within SPT have improved. The level and nature of audit recommendations which continue to arise from internal and external audit coverage suggest that there is still scope for further improvement."

8. Use of Resources and Business Issues

National Transport Agency

- 8.01 A major event with implication for the Organisation was the Transport Act (Scotland) 2005 receiving Royal Assent in August 2006. The outcome will be the creation of seven new Regional Transport Partnerships (RTPs), one of which (The West of Scotland RTP known as Strathclyde Partnership for Transport) will be the successor body to both SPTA and SPTE.
- 8.02 In addition, the Scottish Executive has introduced a new Strategic Transport Authority for Scotland, called Transport Scotland as an executive agency of the Scottish Executive. It is jointly responsible, with the Scottish Executive Enterprise, Transport, and Lifelong Learning Departments, for delivering the Scottish Executive's national transport agenda. The Rail Franchise function (from 5th November 2005) and the National Concessionary Travel Scheme (from 1st April 2006) will both be administered by Transport Scotland.

9. Value for Money

9.01 As part of our responsibilities under the Local Government (Scotland) Act 1973, we consider the overall arrangements that have been made by the Joint Committee for securing value for money (i.e. Economy, Efficiency, and Effectiveness).

9.02 We have not identified any matters from this element of our work, other than the verification of passenger numbers as noted above.

Best Value

9.03 Best Value was introduced in Scotland in 1997, and a Best Value Task Force was established to develop the framework and timetable for implementing Best Value in Scottish local authorities. The Best Value Task Force included representatives of the former Scottish Office, now the Scottish Executive, the Convention of Scottish Local Authorities ("CoSLA"), and the Accounts Commission.

9.04 The Best Value Regime applied to the Joint Committee for the first time in 2002/03. As part of our audit, we reviewed the arrangements in place to secure Best Value within the Joint Committee.

9.05 We recognise that SPT have voluntarily adopted the principles of Best Value. The Joint Committee place reliance on the work undertaken within SPT in regard to Best Value to ensure SPTS is complying with the Best Value Regime. The Organisation Performance Unit (OPU) within SPT co-ordinate the programme of Best Value reviews.

9.06 A progress report for 2004/05 Best Value in SPT's activities was prepared by the Director General and submitted to the Authority's Performance Monitoring Committee on the 16 June 2005. A meeting concerning Best Value followed and the report forming the basis of the meeting provided a high level summary of progress made towards Best Value in SPT's activities during 2004/05 and advised members with further information provided in the annual report and summary of accounts for 2004/05.

9.07 We have no significant matters to note in regard to Best Value.

Appendix 1 – Other formal reports submitted during the 2005/06 audit process (in addition to this Annual Report)

Output	Date	Financial Statements	Governance & Business Control	Performance
Annual Service Plan	November 2005	✓	✓	v
Follow up report of prior year recommendations	March 2006	✓	✓	✓
Interim Report to the Members	March 2006	✓	✓	N/A
Fraud Return	May 2006	N/A	✓	N/A
Information Technology General Controls	August 2006	N/A	✓	✓

Appendix 2 – Responsibilities of External Audit

The matters dealt with in this report came to our notice during the conduct of our normal audit procedures which we carried out in accordance with the framework and principles contained within the Audit Scotland's Code of Audit Practice.

As a result, we may not have identified all the issues and matters that may exist. It is the responsibility of the Joint Committee and its management to maintain adequate and effective financial systems and to arrange for a system of internal controls. To discharge our audit responsibility we evaluate significant financial systems and associated internal controls and where appropriate, report to management any weaknesses identified. In practice, we do not examine every financial activity and accounting procedure and we cannot substitute for management's responsibility to maintain adequate systems of internal control.

This report is intended to assist the Joint Committee regarding its arrangements to implement appropriate controls surrounding the production of certain management information and processing systems. The report does not purport to provide information or advice to any person not associated with the Joint Committee and we accept no responsibility to such persons. Specifically, the report should not be interpreted as providing legal advice to the Joint Committee or any other person.

The prime responsibility for the prevention and detection of fraud and irregularities rests with the Joint Committee. It also has a duty to take reasonable steps to limit the opportunity for corrupt practices. As part of our approach we consider these arrangements, but our work does not remove the possibility that fraud, corruption or irregularity has occurred and remained undetected.

It is the responsibility of the Joint Committee and its officers to prepare the Accounts in compliance with statutory and other relevant requirements. We are responsible for providing an opinion on the Accounts.

It is the responsibility of the Joint Committee to put in place proper arrangements to ensure the proper conduct of its financial affairs, and to monitor their adequacy and effectiveness in practice. We have a responsibility to review and, where appropriate, report on the financial aspects of the audited body's corporate governance arrangements, as they relate to:

- The legality of transactions that might have significant financial consequences;
- The financial standing of the audited body;
- Systems of internal financial control; and
- Standards of financial conduct, and the prevention and detection of fraud and corruption.

It is the responsibility of the Joint Committee to put in place proper arrangements to manage its performance, to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on the arrangements that the Joint Committee has put in place to secure economy, efficiency and effectiveness in its use of resources.

For more details on any of the issues raised in this document reference should be made to those detailed reports issued by us to the Joint Committee during the year and as listed at **Appendix 1**.

Appendix 3 – The Audit Model and Our Approach

Against a background of change throughout the local government sector, our audit approach has evolved to place more emphasis on the way in which you manage the range of key risks and challenges affecting your business – while still focusing on the impact of these risks on our Code objectives.

Our approach recognises that, in running the business, your management team does many things to get comfort that the information systems are robust, generating reliable data and information for use in managing the business, meeting statutory duties and for reporting to stakeholders. We concentrate our attention on assessing how effectively management have gained this comfort.

This involves stepping back from transaction processing, to focus instead on the activities that drive your business. Our approach mirrors the way in which you manage the business, which means we align our work to your management structure and your business activities, rather than financial statement balances.

This approach enables us to make recommendation which should provide assurance over governance arrangements and “add value” to your business processes wherever possible.

Appendix 4 – Audit Opinion

Independent Auditors' Report to the members of the Joint Committee of Strathclyde Concessionary Travel Scheme and the Accounts Commission for Scotland

We certify that we have audited the financial statements of Strathclyde Concessionary Travel Scheme for the year end 31 March 2006 under Part VII of the Local Government (Scotland) Act 1973. These comprise the Consolidated Revenue Account, the Consolidated Balance Sheet, the Statement of Total Movement in Reserves, the Cash Flow Statement and related notes. The financial statements have been prepared in accordance with the accounting policies set out on pages 11.

This report is made solely to the parties to whom it is addressed, in accordance with Part VII of the Local Government (Scotland) Act 1973 and the Code of Audit Practice approved by the Accounts Commission and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Respective responsibilities of the Treasurer and Auditor

As described on page 5 the Treasurer of the Travel Scheme's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2005 - Statement of Recommended Practice ('the 2005 SORP') are set out in the Statement of Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission.

We report our opinion as to whether the financial statements present fairly the financial position of the Travel Scheme in accordance with applicable laws and regulations and the 2005 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973. We also report if, in our opinion, the Report of the Joint Committee is not consistent with the financial statements, if the Travel Scheme has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We also review whether the Statement on the System of Internal Financial Control reflects the Travel Scheme's compliance with the SORP. We report if, in our opinion, the statement does not comply with the SORP or if it is misleading or inconsistent with other information we are aware of from our audit. We are not required to consider whether the statement covers all risks and controls, or form an opinion on the effectiveness of the Travel Scheme's corporate governance procedures or risk and control procedures.

We read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Joint Committee. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Chief Finance Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Travel Scheme's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements present fairly, in accordance with applicable laws and regulations and the 2005 SORP, the financial position of the Travel Scheme as at 31 March 2006 and its income and expenditure for the year then ended and the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

**Pricewaterhousecoopers LLP
Glasgow**

29 September 2006

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