

Government and Public Sector

September 2006

Strathclyde Passenger Transport Authority

Annual Report to Members 2005/06

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29 September 2006

Our ref: MM/MW/DM

Ladies and Gentlemen

Annual Report to Members 2005/06

We have completed our audit of Strathclyde Passenger Transport Authority (“SPTA” or “the Authority”) 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 Authority 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.

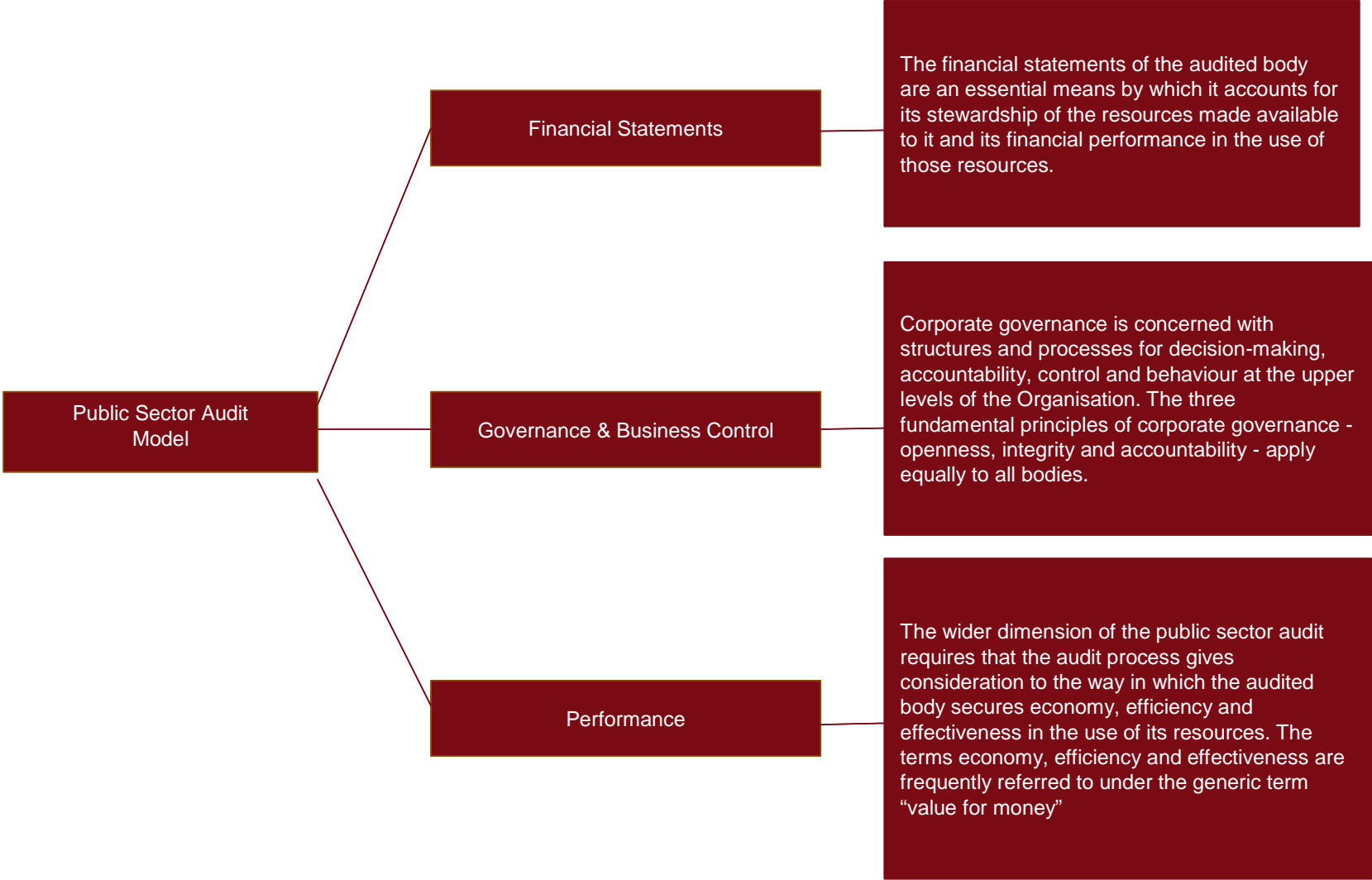
Yours faithfully

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. 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. During the audit we proposed a number of numerical and disclosure amendments to the financial statements. Management made the majority of these adjustments in the final version of the final statements. However, we are obliged to highlight those instances where Management chose not to amend. Details of unadjusted differences are outlined in Section 2 of this report.
- Net operating expenditure amounted to £133 million in the year ended 31 March 2006, compared against £148 million in 2004/05. Of this, £64 million (2005: £111 million) related to Special Rail Grant expenditure, with the reduction due to the transfer of the management of the First ScotRail franchise to Transport Scotland in November 2005.
- Another major event to impact on the financial performance during the year was the Transport Act (Scotland) 2005 which received Royal Assent in August 2006. The outcome was the creation of seven new Regional Transport Partnerships (RTPs), one of which (The West of Scotland RTP known as Strathclyde Partnership for Transport) is the successor body to both SPTA and SPTE. As of the 1 April 2006, all functions, staff, rights, property and liabilities transferred from Strathclyde Passenger Transport Authority (SPTA) and Strathclyde Passenger Transport Executive (SPTE) to Strathclyde Partnership for Transport.
- On order to manage the financial burden of these two major events, Management were successful in securing additional funding from the Scottish Executive of £4 million. Of this amount, £1 million was used to create a strategic reserve to improve stability in the subsidised bus market.
- Any surpluses or deficits generated by SPTA are contributed to, or drawn from, reserves held within the Strathclyde Passenger Transport Executive.

- The Code of Practice on Local Authority Accounting in the United Kingdom 2005 - Statement of Recommended Practice ('the 2005 SORP'), advocates the preparation of Group Accounts dependent on a number of conditions. One of these conditions is the degree of influence one body has over another and following discussion with Management, it was established SPTA did exercise sufficient control over SPTe to merit the preparation of group accounts. Group Accounts have been prepared under a full UK GAAP compliant methodology and are included as part of the final Financial Statements.

1.02 **Regularity of Transactions**

- We have no matters to report in regard to the regularity of transactions.

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

- We have reviewed the Authority'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 2003/04. Since then these policies have been finalised and 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 guidance. 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 Authority'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 Statement of Recommended Practice ('SORP').
- An Interim Management Letter was issued to the Authority in March 2006. Actions have been agreed with management to provide a mechanism for the implementation of the recommendations made.
- A Follow Up Report of our 2004/05 control recommendations was issued to the Authority in March 2006. Of the 7 agreed recommendations made, 3 had been fully implemented and 4 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.

1.06 Arrangements for securing Value for Money and Best Value

- SPTA is required to comply with the Best Value regime, however as SPTA 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 Best Value is achieved.

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 Authority 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 the majority of these adjustments in the final version of the final statements. However, we are obliged to highlight those instances where Management chose not to amend and details of these unadjusted differences are outlined in the table below:-

Description	Balance Sheet		P&L	
	Dr	Cr	Dr	Cr
Consolidated Revenue Account - Net Cost of Services The full amount of audit fees for SPTA has not been recorded in the accounts. As the fee is paid in 3 instalments, it appears that only 2 have been included in the accounts.		Balance Sheet – Creditors £7,624	CRA Expenditure - Audit Fees £7,624	

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 on pages 10 and 11.
- 3.02 Net operating expenditure for the year amounted to £133 million (2005: £148 million), before appropriations to reserves as outlined below. This resulted in an amount to be met from external sources of £102 million (2005: £144 million) detailed below. As SPTA are unable to hold general reserves no surplus or deficit arises in SPTA. All free funds are transferred to SPTE as part of general support funding.

	2005/06 £000	2004/05 £000
Net Operating expenditure	133,109	147,753
Contribution to earmarked reserves	1,144	350
Contribution to capital financing reserve	2,249	6,246
Contribution (from) deferred grants	(35,109)	(10,606)
Amount to be met from external sources	101,393	143,743
The expenditure in the year was financed as follows:		
Special Rail Grant	63,925	110,896
Rural Transport Grant	800	758
Transfer from SPTE to Earmarked Reserves	-	218
Funding from Constituent Councils	32,668	31,871
Direct funding from the Scottish Executive	4,000	-
	101,393	143,743

3.03 The decrease in the Special Rail Grant is due to the transfer of the management of the First ScotRail franchise to Transport Scotland in November 2005, hence funding received (and subsequently spent) only covered part of the year.

Financial Commentary 2005/06

Intangible Assets (Deferred charges)

3.04 Deferred charges represent capital expenditure that does not result in, or remain matched, with a tangible asset owned by SPTA. However, SPTA does retain an ongoing interest in the assets and derives an economic benefit from them. The deferred charge balance in the balance sheet decreased from £57.9 million in 2004/05, to £30.1 million in 2005/06.

3.05 This decrease is largely attributable to the total balance of the investment in the Larkhall/Milngavie rail project of £32.2 million in the year being written off in the year, as representing economic benefit used in relation to prior year expenditure.

Capital Expenditure

3.06 Total expenditure in support of the capital programme amounted to £19.715 million during 2005/06, and can be summarised as follows:-

Capital Project Classification	£000
Rail passenger transport facilities	8,095
Non Rail passenger transport facilities	3,928
Subway	6,153
Direct Activities	1,539
Total spend	19,715

3.07 Grant funding in support of the programme included specific grant in support of the Larkhall/Milngavie project of £5.9 million and the Partick Interchange Development.

3.08 The capital budget had initially been set at £26.556 million in June 2005, but was subsequently amended in February 2006 to £23.631 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 Authority'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 Authority 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 the Authority has ensured the timely completion of the audit within the 30 September 2006 deadline.
- 4.04 We have issued a number of reports that contain recommendations for management action during the year. We note that certain higher priority recommendations have been implemented during the year and that management continue to work towards the implementation of recommendations which remain outstanding from both our prior year audits.

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. Management made the majority of these adjustments in the final version of the final statements. However, we are obliged to highlight those instances where Management chose not to amend and details of these unadjusted differences are outlined in the **Section 2** of this report.

Legality Work

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

Post Balance Sheet Events

- 4.08 As outlined above, 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. As of the 1 April 2006, all functions, staff, rights, property and liabilities transferred from SPTA and SPTE to Strathclyde Partnership for Transport.
- 4.09 As this has been explained in the Financial Statement by the Treasurer, no Post Balance Sheet event note was deemed necessary.
- 4.10 We have not identified any other significant post balance sheet events.

5. Prevention and Detection of Fraud and Irregularities

Fraud and Corruption Reviews

- 5.01 We have reviewed the Authority'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 Authority agreed to address these issues and we followed them up as part of our 2005/06 audits. No major issues of concern were identified.
- 5.02 Of the two recommendations raised in the Interim Management Letter, one has been implemented and one has been 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 A formal Anti- Fraud and Corruption Policy is 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 in 2005/06 and undertaken work accordingly. There are no specific matters to report to the Authority from this work.

Fraud Submission

- 5.05 A return has been made to Audit Scotland of all the reported frauds that have occurred within the Authority during the year. No frauds were reported by the Authority 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 guidance and other best practice guidance. This was approved by the Performance Monitoring Committee on in May 2004. A Code of Conduct for Staff and Members is included within the local corporate governance framework.

Procedures for implementing and monitoring compliance with statutory and other guidance

- 6.02 The Authority 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 within SPTE liaise and take lead roles in cross-service groups where required.
- 6.03 The Organisation now has a Parliamentary Monitoring Officer in place for identifying all new legislation and statutory requirements, and a European Officer responsible for identifying and reporting on new EU legislation.

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 SORP; and
 - the information contained therein is consistent with our knowledge of the Authority.
- 7.03 We are able to confirm that the Authority’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 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 Authority in March 2006. The Authority has completed an action plan detailing the individuals responsible for implementing our recommendations and the timetable for completion.

Follow Up Report on Previous Control Matters

- 7.05 Our follow up report on our prior years control recommendations was issued to the Authority in March 2006. Of the 7 agreed recommendations made, 3 had been fully implemented and 4 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.

Information Technology General Controls

- 7.06 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.
- 7.07 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.
- 7.08 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

- 7.09 As noted above a local framework for corporate governance has been prepared by SPT based on CIPFA/SOLACE guidance and other best practice guidance.
- 7.10 A Corporate Risk Management Strategy was introduced during 2003/04. Through the use of workshop consultations with department 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.
- 7.11 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.
- 7.12 In addition, the Secretary to the Authority 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.

7.13 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;

7.14 Work on risk management and the preparation of business continuity plans was continued during 2005/06.

7.15 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

7.16 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.

7.17 The extract of the Internal Auditor's opinion for 2005/06 is reproduced below:

7.18 "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

Prudential Framework

- 8.01 A working group has been established to sit along side the Capital Working Group and Capital Steering Group. Both the Head of Finance and Corporate Finance Manager are members of the Group along with the Head of Operations, Head of TPI, Subway General Manager, and the Rail Franchise Manager. This Group will report to the Performance Monitoring Committee, and the Executive, on progress towards the implementation of the Code.
- 8.02 Prudential Indicators were considered and approved by the Authority on 2 April 2004. The measurement and refinement of these measures is ongoing. We have no matters to report in regard to the arrangements for implementing the Prudential Code within the Authority.

National Transport Agency

- 8.03 In June 2004, the Scottish Executive issued a transport white paper "Scotland's Transport Future" setting out future legislative changes to transport arrangements within Scotland.
- 8.04 The Transport Act (Scotland) 2005 received Assent in August 2006. The outcome was the creation of seven new Regional Transport Partnerships (RTPs), one of which (The West of Scotland RTP known as Strathclyde Partnership for Transport) is the successor body to both SPTA and SPTE. As of the 1 April 2006, all functions, staff, rights, property and liabilities transferred from SPTA and SPTE to Strathclyde Partnership for Transport.
- 8.05 However, certain duties remain for SPTA and SPTE beyond the 1 April 2006, and these were outlined in a paper to the Committee by the Secretary of SPTA on 31 March 2006.
- 8.06 The SPTA agreed at this meeting to ensure these key duties, particularly concerning appointments of Chairs, Secretaries and a Director General, and financial and legal tasks, would be undertaken. This also includes the approval of the 2005/06 Statutory Accounts.

Corporate Plan Targets

- 8.07 SPTE's fifth Corporate Plan covering the period 2005-2008 was approved by the Authority at its meeting on 1 April 2005. The Plan contains 36 development targets most of which are "roll-forwards" from the previous 2004-2007 plan.

- 8.08 Progress was reported to Committee at the end of period 12 (4 March 2006). Of the 36 targets contained in the 2005-08 plan, 34 contained milestones that were scheduled for completion by the end of period 12. Of these, 11 had been completed and 23 were slipping.
- 8.09 The Committee report acknowledged that much of this slippage was due to senior management time being focused on achieving a satisfactory transition to the Regional Transport Partnership. However, where slippage had occurred, remedial action was being pursued where possible and continued monitoring and reporting would ensure completion of the plan.

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 Authority 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.

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 Authority for the first time in 2002/03. As part of our audit, we reviewed the arrangements in place to secure Best Value within the Authority.

9.05 We recognise that SPTE have voluntarily adopted the principles of Best Value. The Authority place reliance on the work undertaken within SPTE in regard to Best Value to ensure the Authority is complying with the Best Value Regime. The Organisation Performance Unit (OPU) within SPTE 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	✓	✓	✓
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 Authority 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 Authority 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 Authority and we accept no responsibility to such persons. Specifically, the report should not be interpreted as providing legal advice to the Authority or any other person.

The prime responsibility for the prevention and detection of fraud and irregularities rests with the Authority. 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 Authority 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 Authority 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 Authority 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 Authority 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 Authority 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 Strathclyde Passenger Transport Authority and the Accounts Commission for Scotland

We certify that we have audited the financial statements of Strathclyde Passenger Transport Authority and its group 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 the Group Accounts and related notes. The financial statements have been prepared in accordance with the accounting policies set out on pages 13 to 14.

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 6 the Treasurer of the Authority'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 Authority 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 Financial Statement of the Treasurer is not consistent with the financial statements, if the Authority 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 Authority'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 Authority'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 Financial Statement of the Treasurer. 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 Authority'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 Authority and its group 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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