



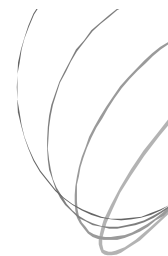
# Tay Road Bridge Joint Board

Report to Members and the Controller of Audit on the 2006/07 Audit

September 2007

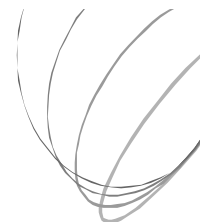






# Contents

<b>Key Messages</b>	<b>1</b>
<b>Introduction</b>	<b>2</b>
<b>Financial statements &amp; financial position</b>	<b>3</b>
Auditor's report	
Financial position	
Issues arising	
Legality	
Statement on the system of internal financial control	
Future outlook	
<b>Governance</b>	<b>8</b>
Overview	
Anti-fraud and corruption arrangements	
Systems of internal control	
<b>Risk summary and action plan</b>	<b>10</b>



# Key Messages

In 2006/07 we have audited the financial statements and looked at aspects of governance within Tay Road Bridge Joint Board. This report sets out our main findings. An interim report on governance at the Bridge was also issued in July 2007.

Overall, we found the financial stewardship of Tay Road Bridge Joint Board during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- An unqualified audit opinion has been issued on the financial statements for 2006/07
- Balances held at 31 March 2007 were within the limits set in the Tay Road Bridge Order Confirmation Act 1991
- Capital expenditure has been funded principally through capital grants received from the Scottish Executive and from borrowing from the constituent councils
- The Statement on the System of Internal Financial Control included in the accounts complies with accounting requirements and is not inconsistent with audit findings
- Final accounts preparation procedures and working papers were generally good and this enabled the audit to progress smoothly
- Many aspects of a sound corporate governance framework are in place
- A corporate anti-fraud & corruption strategy, including a fraud response plan, is in place

Bird Simpson, the Joint Board's internal auditors, concluded that "...reasonable assurance can be placed upon the adequacy and effectiveness of the Joint Board's internal control system in the year to 31<sup>st</sup> March 2007." The Joint Board operates the corporate financial systems of Dundee City Council under a Service Level Agreement. As external auditor of the Council, we have also been able to take assurance from our work on these systems.

Key issues for the Joint Board in the future include future funding following the abolition of the tolls, financial pressures arising from the bearing replacement programme and the increasing cost of pension contributions.

**Audit Scotland  
September 2007**

# Introduction

1. The members and officers of the Joint Board are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
  - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed;
  - the Board's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests;
  - the Board has adequate corporate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability;
  - the systems of internal control provide an appropriate means of preventing or detecting material mis-statement, error, fraud or corruption;
  - the Board has proper arrangements for securing best value in its use of resources.
  
2. This report summarises the most significant issues arising from our work during 2006/07. A more detailed report to management on corporate governance, including an agreed action plan, has also been submitted to officers during the year.

# Financial statements & financial position

3. In this section we summarise key outcomes from our audit of the Joint Board's financial statements for 2006/07, aspects of the Joint Board's reported financial position and performance to 31 March 2007, and provide an outlook on future financial prospects and financial reporting issues.

## Auditor's report

4. We have given an unqualified opinion on the financial statements of Tay Road Bridge Joint Board for 2006/07, concluding that:
  - the financial statements present fairly the Board's financial position at 31 March 2007 and income and expenditure during the year;
  - the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

## Financial position

5. The Joint Board's actual operating surplus for the year was £1.418 million compared to a budgeted surplus of £1.023 million. This figure measures the Board's financial results in the year under Generally Accepted Accounting Principles. The movement on the General Reserve balance is also an important aspect of the Board's stewardship and adjustments are made to the net surplus figure to take account of expenditure that statute and non-statutory proper practice require to be charged to the general reserve. Following these adjustments the actual general reserve surplus for the year was £0.712 million compared to a budgeted surplus of £0.304 million.
6. The Treasurer's report on pages 6 to 9 of the Statement of Accounts includes a summary of the main factors underlying the financial out-turn. The material transaction impacting on the increased surplus against budget was a compensation payment of £442,000 received from Dundee City Council following the early termination of the Commercial Street car park lease.
7. The Tay Road Bridge Order Confirmation Act 1991, Part V 39 (3) set a limit of £3 million or such amounts as agreed by the Joint Board and the Secretary of State to be held in the general fund. The closing balance on the general reserve was £2.873 million.
8. Capital expenditure totalled £8.947 million and was funded by, revenue contributions of £56,000, capital grants from the Scottish Executive of £4.827 million and borrowing from constituent councils of £4.064 million. The Joint Board's actual capital grant from the Scottish Executive for 2006/07 was £3.75 million and £1.077 million was carried forward from previous years. The budgeted capital spend in the year

was £10 million and the main area where slippage occurred continued to be in respect of the bearings replacement work.

## Issues arising

9. The Joint Board's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation procedures and working papers were generally good and this enabled the audit to progress smoothly.
10. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the 'SORP'). The 2006 SORP required a number of significant changes to be made to the 2006/07 financial statements to make them more consistent with the accounts of other public and private sector entities. These included:
  - replacement of the consolidated revenue account with a traditional income and expenditure account. This shows the income receivable and expenditure incurred in the year and is compiled in line with UK Generally Accepted Accounting Practice (UK GAAP);
  - a new statement of movement on the general fund balances that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit. Income and expenditure charged to the general fund are determined by statute and non-statutory proper practices rather than being in accordance with UK GAAP;
  - replacement of the statement of total movement in reserves with a statement of total recognised gains and losses.
11. Overall, we were satisfied that the Joint Board had prepared the accounts in accordance with the revised SORP. There was only one significant adjustment made to the figures included in the unaudited accounts provided for public inspection, the net effect of which was to decrease the net operating surplus for the year by £80,000. The adjustment related to the treatment of income from the sale of the Commercial Street car park and the valuation of the car park land. The £765,000 sale proceeds were initially treated largely as a compensation payment (£755,000) for early withdrawal of the lease agreement by Dundee City Council and the balance was classed as capital receipts. Further consideration of the terms of the lease resulted in the compensation payment being adjusted to £442,000. Following discussions with the District Valuer the land value in the accounts was revised from £10,000 to £90,000. This resulted in the following accounting adjustments being made to the unaudited accounts provided for public inspection:
  - the Income & Expenditure account was amended to accurately reflect the revised compensation payment and gain on disposal of the car park. Similar adjustments were made to the Statement of Movement on General Reserve Balances;
  - the Statement of Recognised Gains and Losses was amended to reflect the higher value placed on the car park by the Valuer;

- the Balance Sheet, Cash Flow Statement and Movement on Reserves were amended to reflect the revised compensation and capital elements of the car park sale.
  - relevant notes to the core financial statements and the Treasurer's report were also amended to reflect the above changes.
12. Audited accounts were finalised prior to the target date of 30 September 2007 and are now available for presentation to the Joint Board and for publication. The financial statements are an essential means by which the Joint Board accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

## Legality

13. Each year we request written confirmation from the Treasurer that the Joint Board's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes and checklists. The Treasurer has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of members and officials of Tay Road Bridge, the financial transactions of the Joint Board were in accordance with the relevant legislation and regulations governing its activities.
14. There are no additional legality issues arising from our audit which require to be brought to members' attention.

## Statement on the system of internal financial control

15. The 2006/07 financial statements include a Statement on the System of Internal Financial Control which gives the Treasurer's view that reasonable assurance can be placed upon the adequacy and effectiveness of the Joint Board's internal financial control system.
16. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.

## Future outlook

### *Pension liabilities*

17. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. There are further proposals to amend the Local Government Pension Scheme which are designed to reduce the ongoing cost although these have not yet been implemented. In accounting for pensions, Financial Reporting Standard 17 (Retirement



Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised on the face of annual accounts.

18. The Joint Board participates in the Local Government Superannuation Scheme (Tayside Superannuation Fund), a defined benefits scheme administered by Dundee City Council. Note 22 to the Core Financial Statements highlights that the Joint Board's scheme net liabilities at 31 March 2007 are £1.5 million, a decrease of £0.34 million from the previous year largely as a result of increased actuarial gains in the year of £0.197 million and changes to the pension regulations which allows individuals to elect to receive a larger lump sum payment in return for a reduced annual pension. The actuary assessed the overall effect of this as a reduction in the pension liability of £0.1 million. This was based on the assumption that 50% of retirees would opt to take the larger lump sum in return for a reduced annual pension. Dundee City Council, the administering authority for the pension fund, will arrange to have this assumption monitored over time against the actual take up of the higher lump sum.
19. The full actuarial valuation of the Tayside Superannuation Fund was reported in early 2006. Factors such as the volatile stock market and increasing life expectancy have resulted in the funding level, calculated as the ratio of fund assets to past service liabilities, falling from 97% as at March 2002 to 91% as at March 2005. The actuary is required to make a 3-year assessment of the contributions that should be paid by the employing authorities as from April 2006 to maintain the solvency of the fund. The contribution levels are based on percentages of employee contributions normally 5% - 6% of salary. The current 3-year assessment shows that budgeted contributions are expected to rise from 275% of employee contributions to 315% by 2008/09.

### *Asset Register*

20. During the year the Board sold several plots of land as part of the Waterfront Development project. From our review of the asset register we noted that:
  - four of the plots of land sold had not been recorded as assets on the register;
  - details of gross book values and accumulated depreciation figures are not held on the register;
  - there is no breakdown of the various component parts of the Bridge infrastructure and no details of the "useful lives" allocated to each of these elements.
21. These matters were raised with officers and it was agreed the asset register would be updated in respect of these items. This will be subject to further audit review during 2007/08.

### *Abolition of the tolls and the tolled bridge review*

22. The Tolled Bridges Review Phase Two report highlighted that the main legislation relating to the Bridge requires the Joint Board to repay all outstanding loans by 2016. It also highlighted the financial pressures facing the Joint Board, including the bearing replacement programme, and emphasised that this work was not affordable without either substantial funding from the Scottish Executive or further borrowing by the Joint Board. This latter action would require amendment to the legislation to remove the repayment date.
23. The Joint Board has continued to be proactive in keeping the issues of funding, borrowing and toll collection high on the political agenda. Following the May 2007 Scottish Parliament elections, the Scottish Government committed to remove the Tay Road Bridge tolls. This has implications for future funding. We note that the Joint Board continues to be proactive in addressing these issues.
24. The 2006/07 accounts have been prepared on a “going concern” basis as it is envisaged that the Joint Board will continue to operate after the abolition of the tolls.

# Governance

25. In this section we comment on key aspects of the Joint Board's governance arrangements during 2006/07 and provide an outlook on future governance issues.

## Overview

26. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. In previous years we have concluded that the Joint Board has many aspects of a sound corporate governance framework in place and have reached the same conclusion this year.
27. Internal audit is a key element of internal control arrangements designed to ensure appropriate monitoring of risks and controls takes place. For the financial year 2006/07 Bird Simpson & Co continued to provide internal audit services to the Joint Board. From 2007/08 this service will be provided by Dundee City Council internal audit service
28. In 2004/05 the Joint Board's internal auditors carried out a risk assessment as part of a five year strategic plan which identified the high, medium and low risk areas for the Joint Board. Following the delays in delivering the first year's internal audit assignments, a revised schedule of work was agreed in April 2006. This revised work schedule was to be completed by September that year. We noted there have been considerable delays in concluding this revised schedule with two assignments, Payroll and Health & Safety, still outstanding as at August 2007. No internal audit reports have been presented to the Joint Board since September 2005, although the Disaster Recovery Report was completed in October 2006. We understand that the Health & Safety review which was classed as a high risk area on the internal audit strategic plan will now be completed by Dundee City Council internal audit service during 2007/08. The fieldwork for the Payroll review has been completed and a number of queries have been submitted to management. We have been advised that the outgoing auditors will conclude the payroll review. Officers are currently taking action to ensure the agreed audit plan is completed and findings are to be reported to the Joint Board by March 2008.

## Anti-fraud and corruption arrangements

29. The Joint Board has appropriate arrangements in place to prevent and detect fraud and corruption. These arrangements include the Councillors' Code of Conduct, an Anti-Fraud and Corruption Strategy and a whistle blowing policy.

## Systems of internal control

30. Bird Simpson, the Joint Board's internal auditors, concluded that "...reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system in the year to 31<sup>st</sup> March 2007."
31. Our audit plan for 2006/07 included a review of corporate governance arrangements at the Bridge. The key findings from this review were:
  - the Joint Board does not have a risk register in place
  - the internal audit plan was significantly behind schedule and no internal audit reports had been submitted to the Joint Board since September 2005.

The Risk Summary and Action Plan on page 10 details the actions that have been agreed with officers at the Joint Board to address these issues.

32. The Joint Board operates the corporate financial systems of Dundee City Council under a Service Level Agreement. As external auditor of the Council, we have also been able to take assurance from our work on these systems.

# Risk summary and action plan

No.	Issue & risk	Responsible officer	Response & agreed action	Action date
1	<p>CIPFA and SOLACE recommend having a risk register and a risk strategy in place as part of good governance arrangements. This would help ensure that risks which could influence the achievement of the Joint Board's key objectives are systematically identified and managed by controlling, transferring or accepting them. We noted there was no risk register in place at the Joint Board.</p> <p><b>Risk:</b> Issues impacting on the Joint Board's ability to operate effectively are not identified resulting in potential financial loss, physical damage, injury or delay</p>	Bridge Manager	Currently in the process of identifying key risks and drafting a risk register linked to business continuity in conjunction with loss control consultants. This process will result in a finalised document by March 2008.	March 2008
2	<p>Internal audit is a key element of internal control arrangements designed to ensure appropriate monitoring of risks and controls takes place. We noted there have been considerable delays in concluding internal audit work agreed in April 2006 with two assignments, Payroll and Health &amp; Safety, still outstanding as at April 2007. No internal audit reports have been presented to the Joint Board since September 2005. Although the Payroll report is expected to be finalised shortly, work has not yet started on the Health &amp; Safety review which was classed as a high risk area on the internal audit strategic plan. There is therefore little assurance that the internal audit arrangements are operating effectively and no evidence of the Joint Board monitoring the delivery of the internal audit service.</p> <p><b>Risk:</b> Internal audit arrangements are ineffective in ensuring that appropriate monitoring of risk and controls are taking place.</p>	Treasurer	Ensure internal auditors complete the planned work. Present the findings of all unreported reviews to board members.	March 2008