

South West of Scotland Transport Partnership

Report to Members and the Controller of Audit
on the 2007/08 Audit



October 2008



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Key Messages

Introduction

In 2007/08 we looked at the key business and financial risks faced by the South West of Scotland Transport Partnership (the partnership). We audited the financial statements and considered aspects of governance which the partnership had developed since its formal constitution in the preceding year. This report sets out our main findings, summarising key outcomes during the year.

Key outcomes from the 2007/08 audit

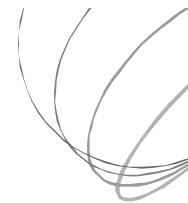
We have given an unqualified opinion on the financial statements of the South West of Scotland Transport Partnership for 2007/08.

The partnership's financial transactions are processed through the financial systems of Dumfries and Galloway Council. Our review of these systems was conducted as part of the audit of the council and supplemented by specific audit work on the partnership's financial statements. Overall there were no material issues of concern concerning the operation of the main financial systems and the partnership's transactions.

Included within the financial statements is a Statement on the System of Internal Financial Control. Integral to the Treasurer's assessment of the partnership's control environment is the work of the council's internal auditors on the council's financial systems. The partnership has yet to establish a formal relationship with internal audit which would enable them to provide improved assurance on the governance arrangements in place within the partnership. We encourage Members to ensure that a formal understanding is reached on the role the council's internal auditors play in providing this assurance.

The partnership has undertaken a significant amount of work during the year to develop its governance arrangements, and has made good progress in providing regular budgetary updates to Members. There remain, however, several areas which require further development, including the introduction of a performance management framework and risk management arrangements. We identified these issues in our 2006/07 report and will continue to monitor the partnership's progress in introducing these planned improvements.

The co-operation and assistance given to us by the partnership staff over our audit is gratefully acknowledged.



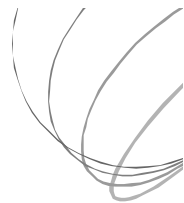
Introduction

1. This report summarises the findings from our 2007/08 audit of the South West of Scotland Transport Partnership, the second year of our five year audit appointment. Findings are drawn together within four sections, namely:
 - performance
 - governance
 - financial position
 - financial statements.

2. The members and officers of the partnership are jointly responsible for the performance, 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 partnership'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 partnership has adequate 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 misstatement, error, fraud or corruption
 - the partnership has proper arrangements for securing best value in its use of resources.

3. The financial statements of the partnership are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. It is the responsibility of the partnership to prepare financial statements that present fairly its financial position and the income and expenditure for the year.

4. The scope of the audit was set out in the Annual Audit Plan provided to the Lead Officer and Secretary of the partnership in March 2008. Our objectives focused on the identification and assessment of the key challenges and risks to the partnership in achieving its business objectives. We also assess the risk of material misstatement or irregularity in the partnership's financial statements.



5. The scope of the audit appointment included a review of the governance, scrutiny and financial arrangements in place within the partnership. The findings from our review of these arrangements were reported to management on 10 June 2008.



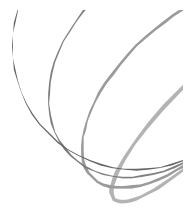
Performance

Introduction

6. In this section we summarise key aspects of the partnership's reported performance during 2007/08.

The Regional Transport Strategy and Delivery Plan

7. The Transport (Scotland) Act 2005 placed a duty on Scottish Ministers to create Regional Transport Partnerships (RTPs) covering the whole of Scotland.
8. Constituted as the South West of Scotland Transport Partnership the partnership began work as a statutory Transport Partnership in December 2005 with the formal transfer of functions from Dumfries and Galloway Council occurring in November 2006. The partnership is one of seven Transport Partnerships set up across Scotland to provide a co-ordinated approach to transport planning and delivery both regionally and nationally. The partnership area is coterminous with the boundary of Dumfries and Galloway Council.
9. A statutory requirement of the Transport (Scotland) Act (2005) is that each RTP produces a Regional Transport Strategy (RTS). The partnership complied with this requirement, issuing a draft strategy for consultation on the 15 December 2006. The strategy and accompanying documents were submitted to the Minister for Transport by the target date of 31 March 2007.
10. Following the May 2007 elections, the Cabinet Secretary for Finance and Sustainable Growth reviewed the various strategies and wrote to the partnership on 7 January 2008 to request that the RTS be resubmitted to take account of the new government's priorities for regional transport.
11. The partnership Board considered the Cabinet Secretary's letter at its meeting on 22 February 2008 and agreed that the RTS be re-visited and updated as follows:
 - to highlight that the RTS takes account of the Scottish Government's five key objectives
 - to take account of the concordat between the Scottish Government and Local Authorities
 - to inform and take account of the Single Outcome Agreement being developed by Dumfries and Galloway Council
 - interventions to be removed from the RTS and included in a delivery plan which would take account of all necessary requirements to prioritise interventions including, under the new arrangements, funding in the light of resources likely to be available as agreed by the partnership and Dumfries and Galloway Council



- ownership of the revised RTS to rest with the current Board
 - although it is recommended that the RTS is not the subject of significant change the opportunity would be taken to update the document to take account of any change in circumstances.
12. The strategy identifies the main outcomes necessary to improve the region's competitiveness and economic regeneration, alongside enhancing social inclusion and protecting the environment in keeping with the Scottish Government's five key objectives:
- A wealthier and fairer Scotland
 - A smarter Scotland
 - A healthier Scotland
 - A safer and stronger Scotland
 - A greener Scotland
13. Accompanying the RTS is the delivery plan which is being developed, in accordance with the Minister of Finance and Sustainable Development's view, and includes the specific interventions which are designed to realise the strategy while taking account of the change in funding arrangements agreed in the concordat.
14. At its meeting on 25 April 2008, the partnership Board agreed revisions to the priorities identified in the original RTS for transport investment in the region. These priorities aimed to support the broader economic, social and environmental development of the region through a number of specific targets, including the need to:
- improve transport links within Dumfries and Galloway and provide fast, safe and reliable journey opportunities to significant markets, including the national economic centres of Edinburgh and Glasgow, as well as England and Northern Ireland
 - contribute to improved economic growth and social inclusion in the region whilst minimising the environmental impacts of transport
 - support the national transport target of road traffic stabilisation
 - add value to the broader Scottish economy and underpin increased sustainable national economic growth
 - assist in getting visitors/tourists to the region from other parts of Scotland, England, Ireland and beyond



- make it possible for more people to do business in and from Dumfries and Galloway by providing sustainable connections to key business centres in the Central Belt and other locations such as Ayrshire and Cumbria
 - support vibrant places that provide employment, healthcare, educational and other services that people need and want so that their quality of life is maximised
 - reduce the constraint of peripherality, both between the region's main settlements and its outlying area, and between the region and its external markets
 - capitalise on improvements to critical long distance corridors to create new transport services, nodes and development opportunities for Dumfries and Galloway
 - pursue certain transport schemes in the context of local and national economic development, while at the same time recognising the wider context of economic, social and environmental imperatives.
15. The necessary priority given to the revision of the RTS (which has now been approved by the Minister for Transport) and development of the delivery plan during the year has meant that a number of strategic documents have still to be finalised, including corporate planning documents, risk management arrangements and performance evaluation models. We will review the progress achieved in these areas as part of future audits.

Overview of performance in 2007/08

Monitoring Performance

16. During 2007/08 the partnership has continued to develop the organisation, refining its governance arrangements, managing the delivery of strategic documentation and engaging with stakeholders by expanding the number of observers to the Board. Consideration has been given to performance management during this second year, notably in the provision of regular revenue and capital monitoring reports, but further work in this area is required. A robust performance management framework is essential if the partnership is efficiently and effectively to deliver in its role as the strategic transport facilitator for the region. It will also enable the partnership to demonstrate to those bodies upon which it is dependent for funding that it is achieving its objectives, allowing it to make a strong case for the support of specific projects. It has been agreed that the partnership will continue to develop a performance and reporting regime, alongside risk management arrangements, for the Board's approval by the end of June 2009.



Going forward

17. In order to further develop the partnership's performance and measure the resultant impact on regional transport, it is essential that a performance management framework is introduced. There have been improvements in the reporting of financial activity against budget during the year, and we anticipate that these will be embedded in regular reports to the Board summarising the partnership's qualitative and quantitative performance across the range of its activities.



Governance

Introduction

18. In this section we comment on key aspects of the partnership's governance arrangements during 2007/08. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2007/08

19. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. The partnership has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice. In compliance with my duties under the Code of Audit Practice, I have a responsibility to report on the partnership's corporate governance arrangements.
20. Our report on corporate governance issued on 10 June 2008 highlighted that while progress has been made by the partnership, there were a number of areas where governance and accountability arrangements had yet to be fully developed and implemented.
21. The report included an action plan which allows us to monitor the partnership's progress in achieving the agreed objectives, and highlight developments to the Board. Some aspects of the report, such as the introduction of a register of interests and the completion of the 2007/08 draft financial statements have already been completed and reported to members. The remaining issues have been agreed and will be resolved as part of an ongoing plan of work finishing in June 2009. We will follow up progress against the action plan during our 2008/09 audit.

Systems of Internal Financial Control

22. The partnership's financial transactions are processed through Dumfries and Galloway Council's financial systems. It is the responsibility of the council's management to maintain adequate financial systems and associated internal controls. The external auditor evaluates the significant financial systems and the associated internal controls, both for the purpose of giving an opinion on the financial statements, and in order to report on the adequacy of such systems and controls.
23. Our review of these systems was conducted as part of the audit of Dumfries and Galloway Council and supplemented by specific audit work on the partnership's financial statements. There were no material issues of concern concerning the operation of the main financial systems or the partnership's transactions.



24. A Statement on the System of Internal Financial Control (SSIFC) is included within the partnership's annual financial statements. The SSIFC is prepared by the partnership's Treasurer and is informed by the work of internal audit on the council's financial systems and by the partnership's managers and external audit.
25. The Treasurer confirms in the SSIFC that reasonable assurance can be placed upon the adequacy and effectiveness of the partnership's internal financial control system in the year to 31 March 2008. The SSIFC recognises that there is a need to improve arrangements for risk management and business continuity. The SSIFC complies with accounting requirements and is not inconsistent with the findings of our audit.

Audit Committee and Internal Audit

26. As the partnership does not have a separate audit committee, members of the Board should be cognisant of the good practice for audit committees included in the 'Audit Committee Principles in Local Authorities in Scotland' published by CIPFA.
27. The partnership has a service level agreement with Dumfries and Galloway Council which includes the services provided by the council's internal audit section. During 2007/08 no work was carried out by internal audit covering the specific authorisation procedures, procurement exercises etc undertaken by the partnership. All work carried out was that which applied to both the council and the partnership. As part of formalising the relationship with internal audit, the partnership should consider agreeing a specific plan of work with internal audit which would provide assurances for the partnership's SSIFC.

Key Risk Area 1

Prevention and detection of fraud and irregularities

28. The partnership applies the Financial Code of Dumfries and Galloway Council, with employees contracted through the service level agreement being bound by the terms of their employee handbook. Included within the Financial Code are sections relating to fraud, corruption and whistleblowing. There were no frauds identified within the partnership in 2007/08.



Financial position

Introduction

29. In this section we summarise key aspects of the partnership's reported financial position and performance to 31 March 2008.

Revenue Account

Revenue Performance 2007/08

30. The partnership receives both revenue and capital financing from the Scottish Government in the form of grant aided income. Revenue funding is also received from Dumfries and Galloway Council. Revenue income received in 2007/08 by the partnership matched expenditure to total £4.066 million, which is very close to the anticipated outturn of £3.957 million reported to the Board in February. At 31 March 2008, the partnership held unspent capital grants of £47,000 which have been carried forward to 2008/09 as part of the creditors figure held on the balance sheet. This is in accordance with agreed accounting practice and reflects the fact that the partnership does not have the statutory powers to hold reserves.

Capital Expenditure

Capital performance 2007/08

31. The partnership was initially awarded capital funding of £1.112million for 2007/08 by the Scottish Government. When added to balances brought forward from the prior year, the total available for capital expenditure was £1.223 million. The funding was awarded to support the partnership in developing ten separate projects, including:

- passenger transport and pedestrian facilities at the new regional leisure centre in Dumfries
- new bus stances and shelters in locations around the region
- enhancements to, and the development of new walking and cycling routes
- a new bus interchange for Dumfries.

32. In December 2007 the Scottish Government decided to reduce the capital funding available to all RTPs by £4.8 million, the partnership's share of which amounted to £278,000. The revised funding available in February, when the reduction was reported to the Board, was £945,364. Actual capital spend at year end totalled £917,000.



33. Of the ten schemes identified in the September 2007 capital expenditure programme, all had been initiated at the year end, with the exception of the Real Time Information (RTI) project. The RTI project had yet to begin at the time of the announcement of the reduction in available capital funding and the Board therefore approved the project's deferral to 2008/09 at its meeting in February 2008.

Going forward

34. The new concordat between the Scottish Government and local authorities has made some changes to the funding arrangements for transport partnerships. The partnerships must engage directly with the council's budget setting process to obtain funding, notwithstanding its legal right to requisition such funds. In the current financial climate the partnership's revenue budget is likely to come under increasing pressure and it is vital that the Board considers the sustainability of its activity when approving future projects.



Financial statements

Introduction

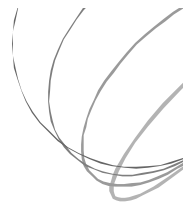
35. In this section we summarise key outcomes from our audit of the partnership's financial statements for 2007/08. We audit the financial statements and give an opinion on:
- whether they present fairly the financial position of the partnership and its expenditure and income for the year
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
36. We also review the Statement on the System of Internal Financial Control by:
- considering the adequacy of the processes put in place to obtain assurances on systems of internal control
 - assessing whether disclosures in the Statement are consistent with our knowledge of the internal financial control systems within Dumfries and Galloway Council.

Overall conclusion

37. We have given an **unqualified** opinion on the financial statements of the South West of Scotland Transport Partnership for 2007/08.
38. The partnership's un-audited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June 2008. Final accounts preparation processes and working papers were adequate and we agreed a number of presentational changes to be made to the 2007/08 financial statements to ensure fuller compliance with relevant reporting requirements. The audit process was completed by 30 September 2008 and the financial statements are now available for presentation to the Board and for publication.

Legality

39. As part of our audit we requested written confirmation from the Treasurer that the partnership's financial transactions accord with relevant legislation and regulations. The Treasurer has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of other senior officers, the financial transactions of the partnership were in accordance with the relevant legislation and regulations governing its activities.
40. There are no legality issues arising from our audit which require to be brought to members' attention.



Final Remarks

41. The members of South West of Scotland Transport Partnership Board are invited to note this report.
We would be pleased to provide any additional information that members may require.

42. The co-operation and assistance given to us by officers of the partnership is gratefully acknowledged.



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	27	<p>Assurances for the Statement on the System of Internal Financial Controls</p> <p>A formal assurance framework has to be introduced to support the statement on the adequacy of the partnership's internal financial control systems. The future role of internal audit in reviewing the partnership's control environment also has to be clarified.</p> <p><i>Risk: the annual statement on the adequacy of the partnership's internal financial controls cannot be properly evidenced.</i></p>	<p>An internal audit programme will be developed by the Chief Internal Auditor from Dumfries and Galloway Council.</p>	<p>Alistair M Speedie</p>	<p>February 2009.</p>