

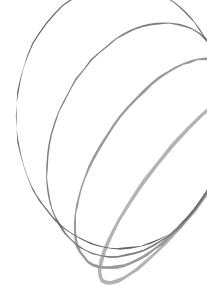


Tay Road Bridge Joint Board

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

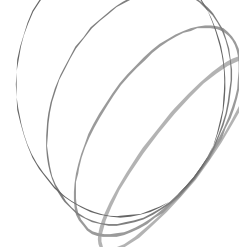


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Key Messages

In 2007/08 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.

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 2007/08
- Balances held at 31 March 2008 were within the limits set in the Tay Road Bridge Order Confirmation Act 1991
- 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

Dundee City Council Internal Audit Service, 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 31st March 2008." 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.

There was a change to the internal audit provider in the year and delays resulting from the previous internal auditors concluding their contract commitments resulted in the 2007/08 audit plan not being completed in the year. The Chief Internal Auditor expects the strategic audit plan to be back on track by the end of 2008/09.

In line with many other bodies, the key issue for the Joint Board in the future is the increasing cost of pension contributions.

**Audit Scotland
August 2008**

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 2007/08.

Financial statements & financial position

3. In this section we summarise key outcomes from our audit of the Joint Board's financial statements for 2007/08, aspects of the Joint Board's reported financial position and performance to 31 March 2008, 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 2007/08, concluding that the financial statements:
 - present fairly, in accordance with relevant legal and regulatory requirements and the 2007 SORP, the financial position of the Joint Board as at 31 March 2008 and its income and expenditure for the year then ended; and
 - have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Financial position

5. The Joint Board's actual operating deficit for the year was £257,000 compared to a budgeted surplus of £124,000. 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 deficit figure to take account of expenditure that statute and non-statutory proper accounting practice require to be charged to the general reserve. Following these adjustments the actual general reserve deficit for the year was £1.074 million compared to a budgeted deficit of £1.395 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 transactions impacting on the increased deficit against budget relating to the abolition of the tolls were voluntary redundancy payments of £122,000 and reduced toll income of £506,000. These were partially offset by reduced interest payments of £170,000 following the early repayment of the Board's outstanding loan debt. The loan debt repaid was £15.422 million which was offset by a grant of £14.84 million from the Scottish Government to give a net cost to the Bridge of £582,000. The 2007/08 budget included a repayment of £1.231 million, therefore the early repayment also resulted in a reduction of £649,000 in budgeted loan repayments which was the main factor impacting on the lower than anticipated general reserve deficit for the year.

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 £1.799 million.
8. Capital expenditure totalled £7.6 million and was funded by, revenue contributions of £1.2 million, capital grants from the Scottish Government of £5.6 million and capital receipts of £0.8 million. The Joint Board's actual capital grant from the Scottish Government for 2007/08 was £3.75 million and £1.843 million was carried forward from previous years. The budgeted capital spend in the year was £9.812m and the main area where slippage occurred continued to be in respect of the major project for 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 2007 SORP required a number of significant changes to be made to the 2007/08 financial statements to make them more consistent with the accounts of other public and private sector entities. The major changes include:
 - accounting for financial instruments based on FRS25, FRS 26 and FRS 29
 - replacement of the fixed asset restatement account and capital financing account by a revaluation reserve and capital adjustment account
11. Overall, we were satisfied that the Joint Board had prepared the accounts in accordance with the revised SORP.
12. Audited accounts were finalised prior to the target date of 31 August 2008 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.

Stocks

13. The accounts have not been adjusted to correct one financial misstatement. A number of stock items relating to the Fife Abutment are recorded at a nil balance. This does not comply with the relevant accounting policy which requires stock items to be held at the lower of cost or net realisable value. As a result both stock and the general reserve are understated. The amount of this understatement is uncertain, but we are content that it is not material to the accounts.

14. A significant majority of the stock items have been held since the Bridge inception in 1966 although just over 20% was purchased in 1999/2000. No record of the historic cost of any of the affected stock items is available. The relevant stock has a current replacement cost of £129,140. Officers have used the Commodity Metals Price Index to calculate an estimated historic cost of £8,000 for these newer items, which have a current replacement cost of £32,240. No similar calculation was carried out to determine an estimated historic cost for the remaining stock (current replacement cost £113,760) as officers concluded this would be minimal. We are content that this is a reasonable approach given the period for which the remaining stocks have been held. Officers have agreed that the stock position will be reviewed in 2008/09 and changes to the valuation may be made at that time.

Refer Action Plan no 1

Legality

15. 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.
16. 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

17. The 2007/08 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.
18. The Board operates the corporate financial systems of Dundee City Council under a service level agreement. The statement highlighted that assurance had been taken from the work done by Dundee City Council's internal audit service on their corporate financial systems and also work done by the Board's internal audit service provider.
19. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.

Abolition of the tolls

20. The Abolition of Bridge Tolls (Scotland) Act received Royal Assent on 25 January 2008 with tolls being abolished from midnight, 10 February 2008. The Board will continue as a road and traffic authority with running costs funded on a 3 year-basis by a revenue grant from the Scottish Government and capital expenditure being funded primarily by capital grant from the Scottish Government.

Future outlook

Pension liabilities

21. 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. 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.
22. 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 2008 are £1.3 million a decrease of £0.225 million from the previous year largely as a result of changes in the interest rate.
23. In 2006/07 we reported that changes to the pension regulations allowing individuals to elect to receive a larger lump sum payment in return for a reduced annual pension had resulted in 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 and Dundee City Council, the administering authority for the pension fund, had agreed to have this assumption monitored over time against the actual take up of the higher lump sum. We noted that no monitoring had taken place in the year following the changes to the regulations. We have been advised that Board Officials considered that this assumption is a long term one and should be monitored at each triennial valuation rather than annually.
24. A 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.


25. The next full actuarial valuation will assess the position at 31 March 2008. This will determine contribution rates for 2009-10 and the next two financial years. Recent changes to the Local Government Pension Scheme regulations are expected to release some future financial benefits, while providing additional flexibility to future pensioners.

Governance

26. In this section we comment on key aspects of the Joint Board's governance arrangements during 2007/08 and provide an outlook on future governance issues.

Overview

27. 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.
28. 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 2007/08 Dundee City Council internal audit service provided internal audit services to the Joint Board. Previously this service was provided by Bird Simpson & Co.
29. Although the Bird Simpson Internal Audit Risk & Assessment & Strategic Plan to 2009 remained current, DCC internal audit service has completed a more detailed assessment. Risks have been analysed by category, ranked by priority and a strategic plan produced based on the assessment. The 2007/08 plan included health & safety, asset management, debtors/income & information/IT.
30. Work on the 2007/08 plan did not start until the previous auditors concluded their contract commitments in November 2007. The debtors/income audit work on prepaid voucher refunds was completed in February 2008. A number of changes in administration procedures were adopted as a result of this work and the voucher scheme has now been concluded. The late start to the 2007/08 plan resulted in the following delays in the audit programme:
- Health & safety - this was deemed to be a high risk area by both Bird Simpson and DCC internal audit service. It was planned that audit work in this area would start in 2007/08 and be concluded in 2008/09. However, work on this audit has been postponed until 2008/09 as the Health & Safety Executive are currently undertaking an investigation,
 - Asset management - this work is several months behind schedule although the field work is largely complete,
 - Information & IT - not started.

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31. In our 2006/07 final report to members we raised concerns about the delay in delivering the strategic internal audit plan and the effectiveness of the audit arrangements in ensuring that appropriate monitoring of risk and controls are in place and these concerns remain for 2007/08. The Chief Internal Auditor is, however, confident that the plan will be back on track by the end of 2008/09.

Refer Action Plan no 2

Anti-fraud and corruption arrangements

32. 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

33. Dundee City Council internal audit service, 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 31st March 2008. However, this assurance was not received until 25 July, after the unaudited accounts had been issued. The annual Internal Audit statement should be provided prior to the accounts being signed to ensure the appropriate assurances in respect of the Board's Statement on the System of Internal Financial Controls are in place.
34. Our annual audit plan for 2007/08 highlighted the main risk area for the Board as being the lack of risk registers linked to business continuity plans. This had also been raised in our 2006/07 final report to members where it was agreed that a risk register would be in place by March 2008. As at August 2008 this action is still outstanding.

Refer Action Plan no 3

35. The Board operates the corporate financial systems of Dundee City Council under a service level agreement. As external auditors 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>A number of stock items relating to the Fife Abutment were recorded at a nil balance therefore both stocks and general fund balances are understated. The amount of this understatement is uncertain although not thought to be material. A significant majority of the stock items have been held since the Bridge inception in 1966 although just over 20% was purchased in 1999/2000. The relevant stock has a current replacement cost of £129,140 but should be recorded at the lower of (historic) cost and net realisable value. No record of the historic cost is available. Officers have used the Commodity Metals Price Index to calculate an estimated historic cost of £8,000 for these newer items, which have a current replacement cost of £32,240. No similar calculation was carried out to determine an estimated historic cost for the remaining stock (current replacement cost £113,760) as officers concluded this would be minimal. Officers have agreed that the stock position will be reviewed in 2008/09 and changes to the valuation may be made at that time.</p> <p>Risk: <i>The Joint Board's net assets are understated due to stock holdings not being appropriately included.</i></p>	Treasurer	It is agreed that this will be reviewed and the necessary adjustments will be reflected in the 2008/09 Financial Statements.	30 June 2009

No.	Issue & risk	Responsible officer	Response & agreed action	Action date
2	<p>In our 2006/07 final report to members we raised concerns about the delay in delivering the strategic internal audit plan. The 2007/08 internal audit plan included health & safety, asset management, debtors/income & information/IT. However, only the debtors/income work was completed by August 2008. This was largely due to delays in starting the 2007/08 work until the previous audit work was completed in November 2007 rather than March 2007. 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>Risk: <i>Internal audit arrangements are ineffective in ensuring that appropriate monitoring of risk and controls are taking place.</i></p>	Treasurer	<p>It is recognised that the work of internal audit is an integral part of the assurance gathering process and therefore importance is placed on ensuring that the planned internal audit work is delivered.</p> <p>To ensure that the Board's internal audit arrangements are operating effectively during the 2008/2009 financial year the planned internal audit work programme will be monitored and appropriate action taken if required.</p>	31 March 2009
3	<p>Our annual audit plan for 2007/08 highlighted the main risk area for the Board as being the lack of risk registers linked to business continuity plans. This had also been raised in our 2006/07 final report to members where it was agreed that a risk register would be in place by March 2008. As at August 2008 this action is still outstanding.</p> <p>Risk: <i>Issues impacting on the Joint Board's ability to operate effectively are not identified resulting in potential financial loss, physical damage, injury or delay.</i></p>	Bridge Manager	<p>The development of a risk register has been sub-contracted to an external risk management company. This process has been delayed, although it is anticipated that a risk register will be completed by the end of the year.</p>	31 December 2008