

Tay Road Bridge Joint Board

**Report to Members and the Controller of Audit on the
2008/09 Audit**

September 2009



 **AUDIT SCOTLAND**



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Key Messages

In 2008/09 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.

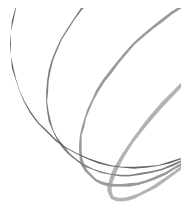
Overall, we found the financial stewardship of Tay Road Bridge Joint Board (the Board) during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- an unqualified audit opinion has been issued on the financial statements for 2008/09
- balances held at 31 March 2009 were within the limits set in the Tay Road Bridge Order Confirmation Act 1991
- revenue grant funding from Scottish Government was reduced by £405,000. This reduction was agreed in light of the reserves held by the Joint Board.
- 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 services, the Board's Internal Auditor concluded that "...reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system in the year to March 2009"

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.

Global events may also have far reaching consequences for local authorities' pension funds. A key issue for the Joint Board in the future is the funding of pension liabilities. Whilst the latest triennial valuation of the Tayside Superannuation Funds reflects an improvement in the fund asset valuation and expects employers' contributions to remain at 18.5% for the next three years, the stock market performance continues to decline and could have an adverse effect on future valuations



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 Joint 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 Joint 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; and
 - the Joint 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 2008/09.



Financial statements

3. In this section we summarise key outcomes from our audit of the Joint Board's financial statements for 2008/09, aspects of the Joint Board's reported financial position and performance to 31 March 2009, and provide an outlook on future financial reporting issues.

Auditor's report

4. We have given an unqualified opinion on the financial statements of Tay Road Bridge Joint Board for 2008/09, concluding that the financial statements:
 - show a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, the financial position of the Joint Board as at 31 March 2009 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 £901,000 compared to a budgeted deficit of £679,000. 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 £162,000 compared to a budgeted breakeven position on the general reserve.
6. The Treasurer's report on pages 6 to 8 of the Statement of Accounts includes a summary of the main factors underlying the financial out-turn. The material transaction impacting on the increased deficit against budget related to a reduction in the level of grant income from Scottish Government. This reduction was agreed in light of the level of reserves held by the Board.
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 £1.637 million. This reduction in the general reserve reflects the agreement with the Scottish Government to reduce the level of grant income. The Board have agreed a reduction in revenue grant support of £400k per annum for each the three years 2008/09, 2009/10 and 2010/11.



8. Capital expenditure totalled £3.15 million and was funded by, revenue contributions of £41,000, capital grants from the Scottish Government of £3.1 million and capital receipts of £6,000. The Joint Board's actual capital grant from the Scottish Government for 2008/09 was £3.88 million and £0.78 million has been carried forward to next year. The budgeted capital spend in the year was £4.077m and the main area where slippage occurred was in relation to bearing replacement programme and the advanced warning signs works.

Issues arising

9. The Joint Board's financial statements were submitted to the Controller of Audit by the deadline of 30 June. Final accounts preparation procedures and working papers were 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'). No major changes were introduced by the 2008 SORP. Overall, we were satisfied that the Board had prepared the accounts in accordance with the revised SORP.
11. Audited accounts were finalised by 1 September 2009 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.

Fixed Assets

12. We noted discrepancies between the values held in the fixed asset register and those included in Note 11 to the financial accounts. Whilst we are satisfied with officers assurances that the net book value of fixed assets in the Balance Sheet is accurate it is acknowledged that the gross book values and accumulated depreciation figures in Note 11 to the Balance Sheet could be understated.

Key risk area 1

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 her knowledge and belief and having made appropriate enquiries of members and officials of Tay Road Bridge Joint Board, 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. Scottish authorities are required by the local authority SORP to include a statement on the system of internal financial control with their statement of accounts. The 2008/09 financial statements include a Statement on the System of Internal Financial Control which highlights 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 Joint 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.
17. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.
18. The SORP states that authorities *may choose* to include a wider statement of internal control in place of a statement of internal financial control. The CIPFA framework document *Delivering good governance in local government* recommends that the review of the effectiveness of the system of internal control should be reported in an annual governance statement. LAAP bulletin 71 *The Annual Governance Statement* clarifies that authorities are encouraged (but not required) to include an annual governance statement with their accounts. The Joint Board may wish to consider moving to an Annual Governance Statement in future years to reflect best practice.

Future outlook

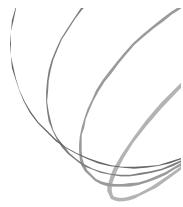
Pension liabilities

19. 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 of 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 a very large future liabilities being recognised on the face of annual accounts.



20. 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 Board's scheme net liabilities at 31 March 2009 are £1.441 million, an increase of £0.163 million from the previous year. This increase is largely due to actuarial losses in the year as a result of the current economic climate along with the Joint Board adopting an amendment to Financial Reporting Standard 17 which changed the way quoted securities held as assets are valued.
21. A full actuarial valuation of the Tayside Superannuation Fund was carried out as at 31 March 2008 which shows an increase in the funding level, calculated as the ratio of fund assets to past service liabilities, from 91% as at March 2005 to 97.6% as at March 2008. This is mainly due to the fund achieving a better rate of investment return than had been anticipated in the previous valuation and better statistical outcomes than assumed in 2005 i.e. lower number of retirements and less death in service. The actuary is required to make a 3-year assessment of the contributions that should be paid by the employing authorities as from April 2009 to maintain the solvency of the fund. The current 3-year assessment shows that budgeted contributions will remain constant at 18.5% of pensionable payroll.
22. In 2006/07 changes were made to the pension regulations allowing individuals to elect to receive a larger lump sum payment in return for a reduced annual pension. An assumption that 50% of retirees would opt to take the larger lump sum in return for a reduced annual pension was made 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. Last year, Board officials advised us that this assumption would be monitored at each triennial valuation rather than annually. However, we are not aware of any confirmation of the accuracy of this assumption or indeed, any other being undertaken as part of the latest valuation. We would highlight that actuarial reports are only advisory and the Joint Board should confirm it is satisfied with the assumptions/rates used in these reports.

Key risk area 2



Corporate governance

23. In this section we comment on key aspects of the Joint Board's governance arrangements during 2008/09 and provide an outlook on future governance issues.

Overview

24. 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.
25. Internal audit plays a key role in the Board's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. Dundee City Council's internal audit service have provided an internal audit service to the Board during 2008/09.

Anti-fraud and corruption arrangements

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

Systems of internal control

27. 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 31 March 2009".
28. During the year we reviewed the Internal Audit structure and function in accordance with International Standard on Auditing 610 and concluded that Dundee City Council's internal audit service was well managed and operated to acceptable standards. We reviewed the following internal audit reports submitted to the Board and noted that:
- *Health & Safety* - the report highlighted weaknesses in the system which should be addressed. The Board's Health & Safety Policy Statement requires updating and health & safety audits are required to be performed and reported to the Board annually. Procedures should be reviewed to ensure compliance with all relevant regulations and the risk assessment process should be revisited to ensure clear risk identification, scoring and measuring can be carried out.



- *Risk Management & Business Continuity Management* – the report highlighted weaknesses in the system which required to be addressed. A Risk Management Strategy is to be developed and the risk register updated to cover a number of strategic risks including, staffing, Information Technology and Health & Safety. Whilst work was on-going to develop a business continuity plan this was some way off from being finalised.
 - *Information and IT* – whilst there is basically a sound system of control in place the report recommended that a formal contract be drawn up with the service provider detailing the level and cost of IT support services as well as responsibilities and agreed standards of service provision.
29. 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.



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	12	<p>We noted discrepancies between the values held in the fixed asset register and those included in Note 11 to the financial accounts. This included differences in gross book values and accumulated depreciation as well as several assets purchased a number of years ago which did not appear to be included in the asset register.</p> <p>Risk: The gross book value and accumulated depreciation figures reported in Note 11 to the Balance Sheet are understated.</p> <p>The balance sheet is understated as it does not include all of the Joint Board's fixed assets.</p>	<p>An initial investigation has identified the discrepancies between the fixed asset register and the figures disclosed in the accounts. These discrepancies have now been corrected and now agree to the figures disclosed in the financial accounts.</p> <p>Notwithstanding this, there will be a survey of all fixed assets owned by the Board carried out during 2009/10 to ensure all fixed assets are reflected in the asset register accordingly.</p>	<p>Treasurer</p> <p>Treasurer</p>	<p>Actioned</p> <p>31 March 2010</p>
2	22	<p>In accounting for pensions, Financial Reporting Standard 17 (Retirement of 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 a very large future liabilities being recognised on the face of annual accounts. An actuarial calculation of the FRS17 impact is provided to the Joint Board each year however no review of the assumptions or rates applied by the actuary is carried out to ensure the Joint Board is satisfied that these are appropriate to local circumstances.</p> <p>Risk: FRS 17 pension costs, assets and liabilities are based on inaccurate or inappropriate assumptions.</p>	<p>The FRS 17 report rolls forward from the triennial valuation whose assumptions are fully discussed with Dundee City Council as administering authority. The Fund uses a common contribution rate which acknowledges there should be no significant local differences between member bodies. The financial assumptions are derived from a standard methodology which has been agreed and accepted in the past by the administering authority. There has not yet been sufficient retirement history in the Board to vary the lump sum assumption.</p> <p>Notwithstanding the above comments, it is agreed that the Board should be asked to note the key assumptions underpinning the actuary's</p>	<p>Treasurer</p>	<p>30 June 2010</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			FRS17 calculations each year, as set out in the Unaudited Statement of Accounts. Further, the Board will be asked to note that these key assumptions have been reviewed and accepted by Dundee City Council as administering authority.		