

Tay Road Bridge Joint Board

Annual report on the 2010/11 audit



Prepared for the members of the Tay Road Bridge Joint Board and the Controller of Audit
October 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

We have audited the 2010/11 financial statements and looked at aspects of governance, including the key financial risks faced by the Tay Road Bridge Joint Board (the board). This report sets out our main findings, summarising key outcomes from the 2010/11 audit and the outlook for the period ahead.

Key outcomes from the 2010/11 audit

Overall we found the stewardship of the board during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below.

- we have given an unqualified opinion on the financial statements of the board for 2010/11
- balances held at 31 March 2011 were within the limits set by the Tay Road Bridge Order Confirmation Act 1991
- the Statement on the System of Internal Financial Control included in the Statement of Accounts complies with accounting requirements and is not inconsistent with audit findings
- the part of the Remuneration Statement to be audited has been properly prepared in accordance with the Local Authority Accounts (Scotland) Regulations 1985
- 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
- the board's internal auditor, Henderson Loggie concluded that " the board operates adequate and effective internal control systems as defined in the ANA (Audit Needs Assessment). Proper arrangements are in place to promote and secure Value for Money"
- we are also pleased to note the continued successful operation of the bridge during the unprecedented spell of severe weather in 2010/11 with only relatively minor disruption, thanks to the effective contingency arrangements and efforts of staff to maintain service delivery.

Outlook

Key issues for the authority in the future include:

- delivering continuous improvement in service delivery and use of resources in the face of increasing financial constraints
- continuing to effectively manage the day to day operation of the bridge in the face of uncertainty over future funding levels.

Key issues for the attention of members are outlined in an Action Plan included at appendix A of this report.

2010/11 is the final year of our audit appointment and we would like to thank the officers of the board and Dundee City Council for their support and co-operation of the period of our appointment.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of the Tay Road Bridge Joint Board and summarises the auditor's opinion on the financial statements and conclusions and any significant issues arising. The scope, nature and extent of the audit are set out in our Annual Audit Plan submitted to the board in April 2011.
2. Appendix A is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the board understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
3. This report is addressed to the members of the Tay Road Bridge Joint Board and the Controller of Audit and will be published on our website after consideration by the board.
4. The members and officers of the 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 authority 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 board has proper arrangements for securing best value in its use of resources.
5. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

6. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources. In this section we summarise the outcomes from our audit of the board's financial statements for 2010/11. We also summarise key aspects of the board's reported financial position and performance to 31 March 2011.
7. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
8. Auditors review and report on, as appropriate, other information published with the financial statements, including the Bridge Manager's report, Treasurer's' report, the statement on the system of internal financial control and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinion

9. We have given an unqualified opinion on the financial statements of the Tay Road Bridge Joint Board for 2010/11. Concluding that the financial statements:
 - give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2010/11 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code'), of the financial position of the board for the year ended 31 March 2011 and its income and expenditure for the year then ended
 - have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the Code, and
 - have been prepared in accordance with the Local Government (Scotland) Act 1973.

Opinion on other prescribed matters

10. We have also stated that in our opinion:
 - the part of the remuneration report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
 - the information given in the Bridge Manager's Report and the Treasurer's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Legality

11. Through our planned audit work we consider the legality of the board's financial transactions. In addition the Treasurer has confirmed that, to the best of her knowledge and belief, and having made appropriate enquiries of the members and officers of the board, the financial transactions of the board were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to the attention of members.

Statement on the system of internal financial control

12. We were satisfied with the disclosures made in the Statement on the System of Internal Financial Control and the adequacy of the process put in place by the board to obtain assurances on the systems of internal financial control.
13. In preparing the Statement on the System of Internal Control assurance is drawn from a number of sources, including the work of internal audit. We note, however, that the board's Internal Auditor's Annual Report was not received until July 2011, after the date the Statement on the System of Internal Control was signed.

Refer Action Plan No. 1

14. The board's corporate financial systems are provided by Dundee City Council under a service level agreement. The statement highlights that assurance was taken from the work done by Dundee City Council's internal audit service on these corporate financial systems. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.

Accounts submission

15. The board's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Final accounts preparations and working papers were generally good and this enabled the audit to progress smoothly.
16. The accounts were certified on 29 September 2011, prior to the target date of 30 September and are now available and are now available for presentation to the board and publication.

Accounting issues

17. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom ('the Code') which constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003.
18. The 2010 Code required local authorities to prepare their financial statements under International Financial Reporting Standards ('IFRS'). This has resulted in some significant changes to the presentation of the financial statements.

19. A further significant change was introduced by the Local Authority Accounts (Scotland) Amendment Regulations 2011 which introduced the requirement for a remuneration report to be included in the financial statements from 2010/11 onwards.

Prior year adjustments

20. 2010/11 is the first year that the local authority accounting Code has been based on international financial reporting standards (IFRS). The move to an IFRS based Code from a UK GAAP based SORP has resulted in a number of significant changes in accounting practice which, in turn, have resulted in the restatement of prior year balances. We have reviewed the board's arrangements for restating the prior year balances and found them to be satisfactory.

Pension costs

21. In the UK budget statement on 22 June 2010 the Chancellor of the Exchequer announced that with effect from 1 April 2011 public service pensions would be up-rated in line with The Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This had the effect of reducing the Joint Board's liabilities in the Local Government Pension Scheme as at 31 March 2011 by £554,000. This has been recognised as a past service gain in accordance with guidance set down in UITF Abstract 48 as the change is considered to be a change in benefit entitlement and does not impact on the General Reserve balance.

Infrastructure assets

22. The board's Balance Sheet at 31 March 2011 includes infrastructure assets with a net book value of £48.6 million. During 2010/11 a slip road taking traffic off the bridge was closed and subsequently removed prior to being reconstructed at a new point on the main structure during 2011/12. The Code requires that where a component of a non-current asset is replaced or restored, the carrying amount of the old component is derecognised to avoid double counting and the new component reflected in the carrying amount. As the board has not adopted component accounting for non-current assets it has not been possible to determine the value of any impairment arising.
23. The Treasurer has confirmed that, in her view, any adjustment arising is unlikely to be significant. Having considered the board's accounting policies in respect of infrastructure assets, the absence of impact on the service potential of the bridge and the nature of the project as a whole (in effect to simply move the slip road), we concur with this view.

Refer Action Plan No. 2

Outlook

24. The above mentioned change in the rate of pension increase and the continuing turmoil in the world's stock markets are likely to impact on the board's pension fund liabilities under IAS19. The effect on the asset values of the pension fund and the future outlook for employers' contributions was assessed at the triennial valuation of the Tayside Superannuation Fund as

at 31 March 2011. The board will need to take the findings of this valuation into account in the decision to set future employers' contribution rates.

25. Further changes are likely to result as the Government considers the findings of the Hutton Report which sets out a number of options for the reform of public sector pension schemes. If adopted many of the findings are likely to have a significant impact on the Local Government Pension Scheme.

Audit appointment for 2011/12

26. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment. The procurement process for the next five years was completed in May 2011. From next year (2011/12) the auditor for the board will be KPMG LLP. As this is the last year of our audit appointment, we would like to acknowledge the good working relationship that existed during our current appointment term with the board and thank officers and members of the board and Dundee City Council for their assistance during the last five years. We will be meeting with the incoming external auditors, KPMG LLP, as part of a managed changeover process.

Financial position

27. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
28. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
29. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

30. The board's surplus on the provision of services for the year was £1.556m compared to a budgeted surplus of £1.465m. 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 accounting practice require to be charged or credited to the general reserve. Following these adjustments the actual general reserve deficit for the year was £0.293m compared to a budgeted deficit of £0.400m.
31. The Treasurer's report on pages 6-9 of the Statement of Accounts includes a summary of the main factors underlying the financial out-turn. Underspends in staff costs (£44,000) and supplies and services (£47,000) contributed to the lower than budgeted deficit.
32. The Tay Road Bridge Confirmation Act 1991, Part V 39(3) set a limit of £3 million or such amounts as agreed by the board and the Secretary of State to be held in the general reserve. The closing balance on the general reserve was £1.161m (2009/10 £1.454m). The reduction in the general reserve reflects the agreement with the Scottish Government to reduce the level of grant income.
33. Capital expenditure totalled £1.807 million and was funded by capital grant from the Scottish Government of £1.805 million and capital receipts of £0.002 million. The board's actual capital grant from the Scottish Government was £2.840 million of which £1.035 million has been carried forward to the next year. The budgeted capital spend in the year was £1.340 million, the variance arising due to slippage in some projects from 2009/10, in particular the Pier Collision Protection and Fife Abutment Bearing Replacement.

Outlook

2011/12 budget

34. The board, like all public sector organisations, faces a very challenging financial climate with constraints on expenditure likely to increase significantly as the Government seeks to reduce its debt burden. The board will continue to face difficult decisions in the coming years to ensure that it manages its budget in the light of increasing financial pressures and the impact of age and traffic volumes on the bridge.

Governance and accountability

35. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
36. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
37. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption
38. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

39. The Tay Road Bridge Joint Board was set up under the Tay Road Bridge Confirmation Act 1991 and has responsibility for the operation, management and maintenance of the Tay Road Bridge. The board comprises of six councillors from Dundee City Council, five from Fife Council and one from Angus Council and meets four times each year
40. Local authorities are increasingly using electronic media to communicate with stakeholders and service users. The internet provides a fast and low cost means of disseminating information to a broad range of service users and stakeholders. Using the board's website to distribute notices of meetings and provide access to minutes, agendas and reports would improve openness and accountability and enhance engagement with service users and stakeholders.

Refer Action Plan no. 3

Governance framework

41. Corporate governance is concerned with the 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 board has many aspects of a sound governance framework in place.

42. We note that in March 2011 the board approved some changes that reinforce its commitment to the principles of sound governance and good management.
- a local Code of Corporate Governance setting out the responsibilities of board members and officers in relation to corporate governance was approved
 - a number of key elements of the governance framework (Standing Orders, Scheme of Delegation, Financial Regulations and Tender Procedures) were reviewed and revised.

Risk management

43. During 2010/11 the board continued to develop its risk management processes through the introduction of a Business Continuity Plan (approved in September 2010). This will support the Strategic Risk Management Plan by ensuring the board's readiness to deal with situations which could result in an interruption to the on-going operation and maintenance of the bridge.

Internal control

44. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole.
45. 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. During 2010/11 the board changed its internal audit provider to Henderson Loggie a firm of Chartered Accountants with substantial experience in the public sector.
46. In their report for the year ended 31 March 2011 Henderson Loggie concluded that the board operates adequate and effective internal control systems as defined in the Audit needs Assessment and that proper arrangements are in place to promote and secure Value for Money.
47. The board operates the corporate financial systems of Dundee City Council under a service level agreement. As the external auditors of the council we have been able to take assurance from our work on these systems.

Prevention and detection of fraud and irregularities

48. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
49. The board's strategy for the prevention and detection of fraud and irregularities is detailed in the Fraud Guidelines. This document sets out the roles and responsibilities of Members, Officers and staff, the internal control systems in place and the board's Fraud Response

Policy. The Fraud Guidelines have recently been reviewed and an updated version was approved by the board in March 2011.

50. The Fraud Guidelines are supported through the publication on the board's website of National Code of Conduct for Local Government Employees in Scotland and the 'Helpline for Employees - Disclosure of Information' (whistleblowing policy). We would recommend that the board considers publishing the guidelines in the same manner to ensure that they remain readily accessible to all staff.

Refer Action Plan no. 4

National performance reports

51. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of interest are detailed in Table 1:

Table 1: A selection of national performance reports 2010/11

Scotland's public finances: responding to the challenges	An overview of local government in Scotland 2010
Improving energy efficiency: a follow-up report	The cost of public sector pensions in Scotland

Source: www.audit-scotland.gov.uk

52. Officers should review national performance reports as they become available and consider the impact of the findings on the board.

Refer Action Plan no. 6

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.	13	<p>Statement on the System of Internal Financial Control</p> <p>In preparing the Statement on the System of Internal Control assurance is drawn from a number of sources, including the work of internal audit. We note, however, that the board's Internal Auditor's Annual Report was not received until July 2011, after the date the Statement on the System of Internal Control was signed.</p> <p><i>Risk: there may not be sufficient assurance to fully support the assertions in the Statement on the System of Internal Financial Control.</i></p>	<p>An email from the Board's Internal Auditor was received on 27th May 2011 which stated that "we are not aware of any significant weaknesses or failures in the Board's system of internal financial control that could have a material effect on the operations of the Board."</p> <p>We will contact the Internal Auditor in due course to request that in future, the Annual Report be made available to us prior to the date on which the SSIFC is signed.</p>	Treasurer	June 2012
2.	22 & 23	<p>Infrastructure assets</p> <p>During 2010/11 a slip road taking traffic off the bridge was closed and subsequently removed prior to being reconstructed at a new point on the main structure during 2011/12. The Code requires that where a component of a non-current</p>	<p>As per paragraph 23, during the audit process it was confirmed with the valuer & agreed with Audit Scotland that any adjustment arising is unlikely to be significant due to the absence of impact on the service potential of the bridge</p>	Treasurer	June 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>asset is replaced or restored, the carrying amount of the old component is derecognised to avoid double counting and the new component reflected in the carrying amount. As the board has not adopted component accounting for non-current assets it has not been possible to determine the value of any impairment arising.</p> <p><i>Risk: in the absence of a robust component accounting system the board may fail to classify expenditure on non-current assets appropriately.</i></p>	<p>and the nature of this project as a whole(in effect to simply move the slip road).</p> <p>NB: Component Accounting for the various components of the Bridge will need to be considered in light of the incoming requirements of CIPFA's Code of Practice on Transport Infrastructure Code of Practice. Work on this will be progressed during 2011/2012.</p> <p>NB: Component Accounting has been used for Capital Infrastructure projects since 2000/2001.</p>		
3.	40	<p>Processes and committees</p> <p>Using the board's website to distribute notices of meetings and provide access to minutes, agendas and reports would improve openness and accountability and enhance engagement with service users and stakeholders.</p> <p><i>Risk: the board may be perceived as lacking openness and</i></p>	Agreed.	Bridge Manager / Clerk	March 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<i>accountability in its decision making processes and fails to engage fully with stakeholders.</i>			
4.	50	<p>Prevention and detection of fraud and irregularities</p> <p>The Fraud Guidelines are supported through the publication on the board's website of National Code of Conduct for Local Government Employees in Scotland and the 'Helpline for Employees - Disclosure of Information' (whistleblowing policy). We would recommend that the board considers publishing the guidelines in the same manner to ensure that they remain readily accessible to all staff.</p> <p><i>Risk: staff may not be fully aware of how to report suspected fraud or irregularity.</i></p>	Agreed	Bridge Manager	March 2012
5.	52.	<p>National performance reports:</p> <p>Officers should consider the impact of findings from national performance studies.</p> <p><i>Risk: the board does not take appropriate action to address relevant findings.</i></p>	The findings of relevant reports will be considered in relation to how they might impact on the Board.	Treasurer / Bridge Manager	On-going