

# Tayside and Central Scotland Transport Partnership

## Annual report on the 2011/12 audit



Prepared for Members of TACTRAN and the Controller of Audit  
October 2012

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

## 2011/12 audit findings

We have given an unqualified opinion that the financial statements of Tayside and Central Scotland Transport Partnership for 2011/12 give a true and fair view of the state of the affairs of the Partnership as at 31 March 2012 and of the income and expenditure for the year then ended.

The Partnership's Balance Sheet at 31 March 2012 has an excess of liabilities over assets largely due to pension commitments. However we are satisfied that the process which the Partnership has undertaken to consider the organisation's ability to continue as a going concern is reasonable as future actuarial valuations of the pension fund will consider the appropriate employer's rate to meet the fund's commitments and the constituent authorities are also liable to fund the Partnership's liabilities as they fall due.

## Outlook

Delivery of the Regional and National Transport Strategies will be challenging given the financial pressures faced in the public sector. We note the Partnership is proactive in seeking alternative means of funding and auditors will continue to monitor progress in this area.

# Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of Tayside and Central Scotland Transport Partnership (TACTRAN). The nature and scope of the audit were outlined in the Annual Audit Plan presented to the Partnership on 13 March 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the public sector audit model.
2. Appendix B 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 TACTRAN 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 and the Controller of Audit and should form a key part of discussions, either prior to, or as soon as possible after, the formal completion of the audit of the financial statements. Reports should be made available to constituent authorities, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting. This report will be published on our website after consideration by the Partnership.
4. The management of TACTRAN is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. 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. The co-operation and assistance given to us by members and officers of the Partnership is gratefully acknowledged.

# Financial statements

5. 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.
6. 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.
7. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, statement on the system of internal financial control and the remuneration report. This section summarises the results of our audit on the financial statements.

## Audit opinion

8. We have given an unqualified opinion that the financial statements of TACTRAN for 2011/12 give a true and fair view of the state of the affairs of the Partnership as at 31 March 2012 and of the income and expenditure for the year then ended.

## Legality

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

## Going concern

10. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on the financial statements. One of the indicators that may give rise to going concern considerations is an excess of liabilities over assets. The Partnership's Balance Sheet at 31 March 2012 has an excess of liabilities over assets of £0.606 million, largely due to the accrual of pension liabilities in accordance with International Accounting Standards 19 (IAS 19). The Explanatory Foreword by the Treasurer to the Board on page 4 of the Financial Statements confirms that the Partnership has adopted a 'going concern' basis for the preparation of the financial statements as future actuarial valuations of the pension fund will consider the appropriate employer's rate to meet the fund's commitments. The actuary is required to make a 3-year assessment of the contributions that should be paid by the employing authorities to maintain the solvency of the fund. The most

recent valuation took place as at 31 March 2011. The constituent authorities of the Partnership are also liable to fund the Partnership's liabilities as they fall due. We are satisfied, therefore, that the process which the Partnership has undertaken to consider the organisation's ability to continue as a going concern and the conclusion reached is reasonable.

## Statement on the system of internal financial control

11. There is a requirement for the partnership to include either an annual governance statement or a statement of internal financial control within the financial statement. In accordance with requirements the Partnership has included a statement on the system of internal financial control in the 2011/12 financial statements. We are satisfied with the disclosures made in this statement and the adequacy of the process put in place by the Partnership to obtain the necessary assurances. An annual governance statement requires fuller disclosure in accordance with the CIPFA/SOLACE *Delivering Good Governance in Local Government* document and is recognised good practice in this area.

**Refer Action Plan No. 1**

12. The Partnership has a responsibility to ensure that an effective system of internal financial control is maintained. The Partnership's payroll costs are made through the Perth & Kinross Council system which is subject to regular review by the Council's internal audit section. An internal review of the Partnership arrangements in previous years noted duplication of work between internal and external audit therefore internal audit coverage was not deemed to be cost effective. This approach was maintained during 2011/12 and the Partnership may wish to regularly review whether an internal audit function could improve the assurance that internal controls are operating effectively.

**Refer Action Plan No. 2**

## Remuneration report

13. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2011/12 financial statements include all eligible remuneration for the relevant Partnership officers and elected members.

## Accounting issues

### Accounts submission

14. The Partnership's unaudited financial statements were submitted to the Controller of Audit by the deadline of 29 June. A comprehensive working papers package was also available by this date. This enabled us to conclude the audit and certify the financial statements by the target date of 28 September 2012. The financial statements are now available for presentation to members and for publication.

15. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the 2011 Code). We are satisfied that the Partnership prepared the 2011/12 financial statements in accordance with the 2011 Code.

### Presentational and monetary adjustments to the unaudited accounts

16. A number of presentational amendments were made to the unaudited accounts to better reflect Code requirements. These had no impact on either the comprehensive income & expenditure statement or the balance sheet. The unaudited cash flow statement required changes to figures for both the current and prior year as a result of misclassification of amounts between lines on the statement. These changes did not impact on the cash position at the end of the year.

### Pension costs

17. The Partnership is a member of Tayside Superannuation Fund which is a multi-employer defined benefit scheme. In accordance with pensions accounting standard IAS19 'Retirement Benefits' the Partnership has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation at 31 March 2012 provided by the scheme's actuaries increased the Partnership's share of the deficit from £0.490 million last year to £0.603 million this year. This increase is a result of changes in actuarial assumptions such as salary increases, mortality levels and rates of inflation. Actuarial assumptions in general were lower this year with the result that scheme liabilities increased.
18. There are a number of assumptions made by the actuary in calculating pension costs. However, we are not aware of the Partnership undertaking any confirmation that the assumptions applied are appropriate to local circumstances. We would highlight that actuarial reports are only advisory and the Partnership should confirm it is satisfied with the assumptions/rates used in these reports.

**Refer Action Plan No. 3**



# Financial position

19. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
20. 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.
21. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the Partnership.

## Financial results

22. In 2011/12, Tayside and Central Scotland Transport Partnership spent £0.686 million on the provision of public services and achieved an accounting surplus of £0.107 million.
23. The Partnership is required to achieve a breakeven position year on year in accordance with the requirements of the Transport (Scotland) Act 2006 for Regional Transport Partnerships. After making adjustments between accounting basis and funding basis under regulation, which were largely for pension costs, the breakeven requirement was met.
24. As highlighted at paragraph 10 the Partnership's balance sheet at 31 March 2012 is in a net liabilities position due largely to the requirements of IAS 19 (retirement benefits) which requires the full pension obligations to be recognised in the year they are earned. This technical accounting requirement has had no impact on the underlying basis for meeting current and on-going pension liabilities which will be met, as they fall due, by contributions from constituent authorities in the normal way. In addition to the pension liability there was a £0.003 million liability for annual leave outstanding at the end of the financial year.

## Outlook

### 2012/13 budget

25. In the current financial environment the Partnership faces significant financial pressures from reduced revenue funding and reductions in capital spend by partner councils as councils themselves seek to make financial savings. As Grant-in-Aid has been maintained in 2012/13 at £0.523 million, there is a degree of certainty in the short term but the Partnership has identified in its risk register the need to actively pursue other sources of finance with Transport

Scotland, Scotland Europa, councils, operators and other potential partners on availability of match funding to enable it to deliver the transport strategy.

# Governance and accountability

26. 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.
27. 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.
28. 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
29. In this part of the report we comment on key areas of governance.

## Corporate governance

### Processes and committees

30. The Partnership has a Board in place, which consists of ten members representing the constituent authorities and five non councillor members who are appointed individually through a public appointment process. All members have voting rights on transport strategy related issues, however, the non councillor members do not have the right to vote on the requisition of funding or transfer of powers from constituent authorities.
31. Following the local government elections in May 2012 there were seven changes to councillor members of the Board, three previous councillor members continued to be members of TACTRAN as did the five non-councillor members which gives the Board a degree of consistency.
32. There is also an Executive Committee in place comprises one member from each of the constituent councils and one non-councillor member which meets as required to address matters that require attention outwith the normal Board cycle. This Committee approved the Partnership's 2010/11 Annual Report in February 2012 for submission to the Scottish Government. The approach taken by the Partnership in this respect is appropriate for the size of the organisation.

33. There were no changes in officers this year. During the year members worked effectively together and with officers to deliver on the Partnership's objectives. The dynamics of the Board changed with the appointment of a significant proportion of new members in May 2012. Whilst some time should be allowed for new working relationships between members and officers to be developed this is not expected to lead to any deterioration in performance of the Board. Induction training was given to Board members at the meeting in June 2012 and training is given to all members periodically in response to changes to legislative or other controls.

### Governance Framework

34. The Partnership's current standing orders, scheme of delegation, members code of conduct, financial regulations and risk management policy were approved in June 2011. In March 2012 a risk register, which covered risks in relation to delivery of the regional transport strategy, management and operation of the Partnership and financial pressures was approved. The risk register will be subject to annual review. Overall the arrangements in place are appropriate to the organisation.

### Internal control

35. 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. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit (currently none for the Partnership).
36. It is the responsibility of the Partnership's management to maintain adequate financial systems and associated internal controls. The Partnership's financial transactions are generally maintained on a spreadsheet with payroll being processed through Perth & Kinross Council's ResourceLink system. Monthly meetings on the financial position in respect of both revenue and capital spend are undertaken by officers and the financial position is considered on a quarterly basis at Board meetings.
37. As external auditor of Perth & Kinross Council, we have been able to take assurance from our work on the payroll system (refer also to paragraph 12). We also sample tested the other controls in operation for the transactions and balances in the Partnership's financial statements. Overall, on the basis of the audit testing done, there were no issues of concern in relation to the operation of the Partnership's financial control systems.

### Prevention and detection of fraud and irregularities

38. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity and for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place.

39. The Partnership's financial regulations at section 7 refer to fraud and corruption and compliance with the Partnership's Disclosure of Information (Whistleblowing) and Anti-fraud and Corruption Policies. The Partnership currently uses the Perth & Kinross Council anti-fraud and corruption policies. Specific Partnership procedures include *Achieving & Maintaining Standards* (covering disciplinary procedures) and codes of conduct for both officers and members are in place.
40. The Partnership does not have a history of fraud or corruption and overall the arrangements in place are appropriate to the organisation.

# Best Value, use of resources and performance

41. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
42. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
  - a performance audit which may result in the publication of a national report
  - an examination of the implications of a particular topic or performance audit for an audited body at local level
  - a review of a body's response to national recommendations.
43. This section includes a commentary on the performance management arrangements within the Partnership.

## Management arrangements

### Regional Transport Strategy

44. Under the Transport (Scotland) Act 2005, the Partnership's key role and purpose is to develop and oversee the delivery of a Regional Transport Strategy (RTS) for the Tayside and Central regions and to support the National Transport Strategy. The RTS spans a period of 15 years from inception and is due to be delivered by 2023. The RTS sets out the vision and objectives for addressing transport issues and needs in the Tayside and Central regions and is underpinned by a RTS Delivery Plan. Sub strategies including Walking & Cycling, Buses, Travel Information, Tay Estuary Rail Service (TERS), Health & Transport Framework and Park & Ride have also been developed.
45. The Partnership's objectives per the RTS are to:
  - ensure transport helps to deliver regional prosperity
  - improve accessibility for all, particularly for those suffering from social exclusion
  - ensure that the transport system contributes to safeguarding the environment and promotes opportunities for improvement
  - promote the health and well-being of communities
  - improve the real and perceived safety and security of the transport network and
  - improve integration, both within transport and between transport and other policy areas.

46. There are 23 strategic actions in the RTS to achieve these objectives and 24 performance indicators (PIs) are used to monitor and measure progress towards achieving the RTS objectives. TACTRANs delivery plan contains 88 projects covering a range of transport infrastructure and services. This 15 year plan:
- includes all of the capital projects that are required to deliver the RTS vision and objectives;
  - provides an indication of how each project contributes towards RTS objectives and relevant sub-strategy objectives;
  - provides an indication of how each project relates to the partner Council/Community Planning Partnership Single Outcome Agreements; and
  - provides an estimate of the capital investment needed to deliver each project.
47. An annual report is produced detailing the Partnership's progress against projects and developments it has engaged in, its performance against the allocated budget and an update on the performance against the RTS. At the time of our audit, the 2011/12 annual report was not yet available.
48. In order to assess progress against the RTS it is vital that key measurable milestones are built into the plans to ensure delivery is on target. The delivery plan does not include projected dates for the completion of the 88 projects. If milestones are not in place, it will be difficult to assess whether the RTS will be deliverable by 2023. This risk was raised in our annual audit plan where officers advised that delivery of milestones are set and monitored through the annual revenue and capital programmes. However, it is not clear how this annual focus will ensure that the long term nature of the Strategy will be met.

**Refer Action Plan No. 4****National Transport Strategy**

49. The Minister for Housing and Transport and the Regional Transport Partnership (RTPs) Joint Chairs Forum met in March 2012 where it was agreed to establish a Working Group between the seven RTPs, Transport Scotland and Scottish Government. It was proposed that the group would look at various issues of joint interest, including those raised in the National Transport Strategy and in Regional Transport Strategies, with a view to working in partnership and maximising the role of RTPs to deliver the agenda for improving Scotland's transport systems.
50. The primary purpose of the Working Group is to establish how RTPs can assist in the delivery of the National Transport Strategy and the outcomes outlined below:
- Improve journey times and connections between cities and towns and global markets to tackle congestion and provide access to key markets
  - Reduce emissions to tackle climate change
  - Improve quality, accessibility and affordability of transport, to give people the choice of public transport and real alternatives to the car.

51. The Partnership Director is involved in this Working Group. As the group has only recently been established it is too early to comment on the impact this will have on the delivery for improving Scotland's transport systems. We will monitor progress in this area as part of our 2012/13 audit.

## National performance reports

52. Audit Scotland carries out a national performance audit programme on behalf of the Auditor General and Accounts Commission. In line with Audit Scotland's strategy to support improvement through the audit process and to maximise the impact from national performance audits, we reviewed the action taken by the Partnership in response to Audit Scotland's report, *Transport for Health & Social Care* which was published in August 2011.
53. The report was considered by the Partnership Board in September 2011. No self assessment based on the report, or action plan, was developed however the report has assisted the Partnership in making constructive improvements to aspects of its work. TACTRAN has, with its partners, developed the Tayside and Central Scotland Health & Transport Framework to inform and support the development of local action plans to support delivery of the single outcome agreements of the community planning partnerships (CPP) . This Framework, which has been adopted formally by CPP's is intended to be a cross - community planning partnership approach to addressing the issues and recommendations from the national report.
54. Although not all aspects of the Audit Scotland report have been covered by this work to date, it is anticipated that the scope of the Framework will be extended to covers aspects related to the closer integration of health care and social care provision.

## Outlook

55. Delivery of the Regional and National Transport Strategies will be challenging given the financial pressures faced in the public sector. We note the Partnership is proactive in seeking alternative means of funding and auditors will continue to monitor progress in this area.



# Appendix A: audit reports

## External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Partnership Board
Annual Audit Plan	27 February 2012	13 March 2012
Report on financial statements to those charged with governance	31 August 2012	11 September 2012
Audit opinion on the 2011/12 financial statements	31 August 2012	11 September 2012
Report to Members on the 2011/12 audit	25 October 2012	11 December 2012

# Appendix B: action plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	11	<p>The Partnership includes a Statement on the system of internal financial control rather than an Annual Governance Statement (AGS) within the financial statements. Whilst not mandatory the AGS is recognised good practice.</p> <p><b>Risk:</b> <i>The Partnership's financial statements do not comply with current recognised good practice.</i></p>	<p>Given the size of the organisation the added value of including an AGS is debatable and with the budgetary pressures over the short to medium term there may be capacity issues in terms of taking on this additional work.</p>	N/A	N/A
2.	12	<p>An internal review of the Partnership arrangements in previous years noted duplication of work between internal and external audit therefore a decision was taken that the internal audit coverage was not deemed to be cost effective. There was therefore no assurance obtained from internal audit in 2011/12 over the effectiveness of internal controls.</p> <p><b>Risk:</b> <i>Weaknesses in the effectiveness of the Partnership's internal financial controls are not detected timeously.</i></p>	<p>As noted in the past there may be elements of duplication between internal and external audit, therefore given the budgetary pressures facing TACTRAN there are no plans to procure internal audit services. However advice is available on an ad hoc basis from Internal Audit within Perth and Kinross Council.</p>	N/A	N/A

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3.	18	<p>The Partnership does not confirm the assumptions made by the actuary in calculating pension costs reflect local circumstances and experience.</p> <p><b>Risk:</b> <i>Actuarial assumptions may not be relevant to or reflect the experience of the Partnership resulting in a misstatement of the financial statements.</i></p>	For 2012/13 the actuarial assumptions will be discussed with the Actuaries and reviewed.	S Walker, Treasurer	June 2013
4.	48	<p>Performance measures are not split into short, medium and long term and therefore the Partnership is unable to measure its effectiveness in delivering against the Regional Transport Strategy.</p> <p><b>Risk:</b> <i>The Partnership will not be able to deliver the Regional Transport Strategy by 2023.</i></p>	The move from direct capital grant funding by the Scottish Government to RTP's in 2007/08 resulted in a position whereby the RTP is effectively required to negotiate an annual RTS capital programme with constituent Councils which has placed constraints on the medium to long-term planning. As a result of this constraint it is intended to review the delivery plan and monitoring procedures.	E Guthrie, Partnership Director	June 2013