

# Tayside & Central Scotland Transport Partnership

## Annual report on the 2012/13 audit



Prepared for members of TACTRAN and the Controller of Audit  
18 September 2013

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 given an unqualified opinion that the financial statements of Tayside and Central Scotland Transport Partnership (the Partnership) for 2012/13 give a true and fair view of the state of its affairs as at 31 March 2013 and of the income and expenditure for the year then ended.

The Partnership's Balance Sheet at 31 March 2013 has an excess of liabilities over assets largely due to pension commitments. Actuarial valuations of the pension fund consider the appropriate employer's rate to meet the fund's commitments. Under the Transport (Scotland) Act 2005, the constituent authorities are liable to fund the Partnership's liabilities as they fall due. 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.

On the basis of the audit testing undertaken, there were no issues of concern in relation to the operation of the Partnership's governance arrangements.

Delivery of the Regional Transport Strategy will be challenging given the financial pressures faced in the public sector. The Partnership will be reviewing the monitoring arrangements for the delivery of the strategy in 2013. We also note the Partnership has recognised the need to continue to seek alternative means of funding to ensure the strategy can be delivered.

# Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of Tayside and Central Scotland Transport Partnership (the Partnership). The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of the Partnership and no responsibility to any third party is accepted.
3. [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 Partnership 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.
4. This report is also addressed to the Controller of Audit and will be published on our website after consideration by the Partnership.

## Acknowledgements

5. We would like to express our thanks to the staff of the Partnership for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

# Financial statements

## Conduct and scope of the audit

6. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Partnership Board on 12 March 2013, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
7. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not require to carry out any additional work outwith our planned audit activity this fee remains unchanged.

## Audit opinion & accounting issues

8. We have given an unqualified opinion that the financial statements of Tayside and Central Scotland Transport Partnership for 2012/13 give a true and fair view of the state of the Partnership's affairs as at 31 March 2013 and of the income and expenditure for the year then ended. The audit opinion was formally issued and signed on 17 September 2013.
9. We received the unaudited financial statements on 28 June 2013 in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team. The Partnership is required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code) and we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

## Significant findings

10. During the course of the audit we identified a few issues regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties. These are outlined below.

## Going Concern

11. 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 2013 has an excess of liabilities over assets of £0.461 million, largely due to the accrual of pension liabilities in accordance with International Accounting Standards 19 (IAS 19).

12. 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 2013 provided by the scheme's actuary decreased the Partnership's share of the deficit from £0.603 million last year to £0.459 million. The Treasurer has confirmed the Partnership agreement that the assumptions used by the actuary were reasonable and has explained in Note 2 the impact of small changes in these assumptions.
13. 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 have a legal obligation under the Transport (Scotland) Act 2005 to provide the Partnership with funding to meet all 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.

### **Presentational and monetary adjustments to the unaudited accounts**

14. A few presentational amendments were made to the unaudited accounts however these had no impact on either the comprehensive income & expenditure statement or the balance sheet.

### **Statement on the system of internal financial control**

15. 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 included a statement on the system of internal financial control. 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.
16. An annual governance statement (AGS) requires fuller disclosure in accordance with the CIPFA/SOLACE *Delivering Good Governance in Local Government* document and is recognised good practice in this area. In our 2011/12 Annual Audit Report officers indicated that the added value of including an annual governance statement is debatable, and with the budgetary pressures over the short to medium term, the provision of a statement of financial control remained appropriate and proportionate to the present scale of the organisation.
17. 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 again maintained during 2012/13.

18. The Partnership may wish to regularly review whether an AGS and an internal audit function could improve the assurance that internal controls are operating effectively.

## Legality

19. 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.



# Financial position

## Financial results

20. In 2012/13, the Partnership spent £0.646 million on the provision of public services and achieved an accounting surplus of £0.145 million.
21. 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.
22. As highlighted at paragraph 10 the Partnership's balance sheet at 31 March 2013 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 addition to the pension liability there was a £0.002 million liability for annual leave outstanding at the end of the financial year.

## Financial planning

23. 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. The Partnership identified recurring efficiency savings of approximately 12% over the past 4 years, and considers that there are no significant opportunities for effecting further savings in 2013/14.
24. It is anticipated that Scottish Government Grant in Aid funding will continue for the period 2013/14 – 2014/15 at the same level as awarded for 2012/13 at £0.523 million. There is therefore a degree of certainty in the short term but the Partnership continues to identify in its risk register (March 2013) the need to actively pursue other sources of finance to enable it to deliver the transport strategy.

## Corporate governance and systems of internal control

### Governance Framework

25. 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 was the subject of review and discussion by the Partnership Board in March 2013. Overall the governance arrangements in place are appropriate to the organisation.

## Accounting and internal control systems

26. 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).
27. 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 the Perth & Kinross Council payroll 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 Partnership Board meetings.
28. 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 17). 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 undertaken, there were no issues of concern in relation to the operation of the Partnership's financial control systems.

## Standards of conduct and arrangements for the prevention and detection of fraud and irregularity

29. Audited bodies are responsible 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. In our opinion the overall arrangements in place are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

# Performance

## Best value

30. Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.
31. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. The focus of the Partnership for demonstrating best value is the delivery of the Regional Transport Strategy.

## Regional Transport Strategy

32. 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 legislation provides for the periodic review and updating of the Strategy. The current RTS was approved in 2008 and covers the period up to 2023. It sets out the vision and objectives for addressing transport issues and needs in the Tayside and Central regions and is underpinned by a number of sub-strategies and the RTS Delivery Plan.
33. 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.
34. There are 23 strategic actions in the RTS to achieve these objectives. The current Delivery Plan contains 94 projects covering a range of transport infrastructure and services. The Delivery Plan provides a framework for determining Capital and Revenue programmes required to support delivery of the RTS and:
  - includes all of the presently identified 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.
35. 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 performance against the RTS. In 2011/12 the Annual Report used 22 performance indicators (PIs) to monitor and measure progress towards achieving the RTS objectives. At the time of our audit, the 2012/13 annual report was not yet available.
36. 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 projects. Given the lack of key measurable milestones, coupled with the uncertainty in longer term funding (refer paragraph 24), it is difficult to assess whether the RTS will be deliverable. The Partnership's risk register highlights that a review of reporting on Regional Transport Strategy Delivery Plan progress and monitoring is to be undertaken during 2013. As part of our 2013/14 audit we will consider the action taken by the Partnership following this review.

## National Transport Strategy

37. 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. The primary purpose of the Working Group was to establish how RTPs and their RTSs 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.
38. The Group met regularly during 2012/13 and in March 2013 drafted a report covering a range of issues and recommendations for future development of the role and effectiveness of RTPs. At the time of writing discussions are on-going with Transport Scotland to finalise the report.

## National performance reports

39. Audit Scotland carries out a national performance audit programme on behalf of the Auditor General and Accounts Commission. Although the Partnership has not been directly involved in these reviews there are some significant areas that impact on the strategic direction of the Partnership and constituent councils. Some of the main national performance reports potentially impacting on the Partnership included:

- *Scotland's key infrastructure projects issued* in June 2013 highlighted that Transport Scotland and the Scottish Government must improve their public reporting on major projects
  - *Maintaining Scotland's Roads* issued in May 2013 highlighted that changes improve the management of roads maintenance have yet to result in significant improvement in road condition
  - *Improving community planning in Scotland* issued in March 2013 notes that a fresh drive to realise community planning's full potential, particularly in the light of severe budget pressures on all public services, has been outlined in a Statement of Ambition from the Scottish Government and the Convention of Scottish Local Authorities
  - *Major capital investments in Councils* issued in March 2013 highlighted that councils spend significant amounts of money on building and maintaining infrastructure - more than any other part of the public sector - but lack sufficient information for fully effective scrutiny
40. The Partnership should ensure appropriate cognisance is taken of national performance reports to support continuous improvement. Currently there is no formal process to ensure members are aware of all national reports of relevance to the Partnership.

**Refer Action Plan No. 1**

# 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.	41	<p>There is no formal process to ensure members are aware of all national reports of relevance to the Partnership.</p> <p><i><b>Risk</b> Risks or areas of good practice identified through national performance reports are not appropriately considered and addressed.</i></p>	<p>Officers regularly monitor and report on relevant Scottish Government, Transport Scotland, UK Department for Transport and other national reports and developments in policy, strategy, legislation and delivery. It is proposed that the Director and Treasurer institute a similar process for monitoring and reporting on relevant Audit Scotland and other national performance reports.</p>	Director/Treasurer	October 2013.