cutting through complexity

Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee

Annual audit report to Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee and the Controller of Audit

Audit: year ended 31 March 2015

25 August 2015

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the *Code*").

This report is for the benefit of Strathclyde Partnership for Transport ("SPT") and Strathclyde Concessionary Travel Scheme Joint Committee ("SCTSJC"), and is made available to Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and responsibilities section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Headlines

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the *Code*"). This specifies a number of objectives for the audit.

In accordance with ISA (UK and Ireland) 260: *Communication with those charged with governance,* this report summarises our work in relation to the financial statements for the year ended 31 March 2015.

We wish to record our appreciation of the continued co-operation and assistance extended to us by the Partnership during the course of our work.

We have completed our audit for 2014-15 of both Strathclyde Partnership for Transport ("SPT") and Strathclyde Concessionary Travel Scheme Joint Committee ("SCTSJC"), together for the purposes of this report, "the Partnership".

Area	Summary observations	Analysis
Service overview		
Key issues and update	The subway modernisation programme to upgrade the Subway is in its fourth year. Expenditure in the year was significantly lower than budget, due to the extra time given for major contract tenders, delaying the award into 2015-16. The award of the ScotRail franchise to Abellio from 1 April 2015 included the commitment of Abellio to fund maintenance of rolling stock. This led to redemption of a long term maintenance bond and return to SPT of associated funds from the revenue maintenance account held by First ScotRail, resulting in £7.6 million net cash inflow and a capital loss in respect of the rolling stock fixed assets. Due to the Queen Street station enhancements planned by Network Rail, SPT sold its headquarters at Consort House and acquired premises at St Vincent Street. The Fastlink project continues to progress, although there was an underspend in 2014-15 and elements of the delivery programme were re-phased to 2015-16. The Strathclyde Concessionary Travel Scheme operated under the same strategy as in prior years, no issues were noted during the audit process.	Pages 7 to 8 Page 13
Financial position	SPT achieved a net surplus of £4.1 million after allocating £10.4 million to the subway modernisation fund and after property transactions and impairments. As at 31 March 2015 SPT held cash and short term investments of £98.7 million. Total expenditure in respect of the capital programme was £40.7 million, against an initial budget of £73.5 million. The main variance is £21.6 million rephased into 2015-16 in respect of the subway modernisation programme as noted above. The 2015-16 budget forecasts a breakeven position, with further contributions to the subway modernisation fund of £9.2 million. The 2015-16 capital budget of £78.4 million includes planned over-programming of £6 million. SCTSJC met its financial targets and £21,000 was transferred to general reserves. The 2015-16 budget forecasts a break even position after the utilisation of £224,000 accumulated reserves.	Pages 9 to 12 Page 13

Headlines (continued)

Area	Summary observations	Analysis
Financial statements and accounting		
Audit conclusions	We have issued unqualified audit opinions on the 2014-15 financial statements, following their approval by the Partnership in August 2015. The financial statements, explanatory foreword, governance statement and remuneration report were received by the start of audit fieldwork and were supported by high quality working papers.	Page 15 Appendix 1
Significant risks and audit focus areas	The areas highlighted below are the specific audit focus areas identified within our audit strategy document: ■ accounting for SPT's participation in the Strathclyde Pension Fund, ■ property, plant and equipment: including the subway modernisation programme, the accounting treatment of expenditure to be capitalised and related impairments; ■ the assumed fraudulent income recognition risk; and ■ recognition of income and expenditure. Audit work was completed to satisfy the requirements of ISA 330 'The auditor's procedures in response to assessed risks', including tests of key financial controls. In respect of each matter, we are content with management's judgements and accounting treatment.	Pages 16 to 18
Going concern	The financial statements of the Partnership have been prepared under the assumption that the organisations are a going concern. SPT had net assets as at 31 March 2015 of £155.9 million, including cash of £98.7 million. The Partnership's main sources of funding are government grants, funding from constituent local authorities and subway generated income. Government grants and local authority requisitions are agreed in advance of 2015-16 and therefore there is reasonable certainty over those sources of income.	Page 19
Accounting policies	There were no changes to accounting policy applied by the Partnership in 2014-15 No newly effective accounting standards are expected to have a material impact on the 2015-16 financial statements.	Page 19

Headlines (continued)

Area	Summary observations	Analysis
Governance and narrative reporting		
Governance	Over-arching and supporting corporate governance arrangements remain primarily unchanged and provide a sound framework for organisational decision-making.	Pages 22 to 24
Internal controls	Testing of the design and operation of financial controls over significant risk points was undertaken as part of our interim testing. Our work concluded that that controls relating to financial systems and procedures are designed appropriately and operating effectively. Since the conclusion of our interim work there have been no changes to the operation of the controls subject to review.	Page 23
Performance management		
Performance management	Our review of the Partnership's performance management arrangements in the year to 31 March 2015 concludes that they continue to be appropriate. Internal audit reviews, conducted as part of the 2014-15 internal audit plan, provided assurance over Best Value considerations in the year to 31 March 2015 and did not indicate significant weaknesses.	Pages 26 to 27

Scope and responsibilities

Purpose of this report

The Accounts Commission for Scotland appointed KPMG LLP as auditor of Strathclyde Partnership for Transport ("SPT") and Strathclyde Concessionary Travel Scheme Joint Committee ("SCTSJC") , together for the purposes of this report, "the Partnership", under the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2011-12 to 2015-16, inclusive.

Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee and the Controller of Audit. The scope and nature of the audit were set out in our audit strategy document which was presented to the audit and standards committee in our "Audit strategy, plan and interim report".

The Code sets out the wider dimensions of 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.

Officer responsibilities

Audit Scotland's *Code of Audit Practice* ("the Code") sets out Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee's responsibilities in respect of:

- preparation of financial statements that show a true and fair view;
- systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- financial position; and
- Best Value

Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Partnership and the Code.

Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance.

Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, 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.

Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This annual audit report to members and our presentation to the audit and standards committee, together with previous reports to that committee throughout the year, discharges the requirements of ISA 260.

Strategic overview

Our perspective on key business issues and the financial position

Key developments

The subway modernisation programme is in its fourth year.

The contribution to the subway modernisation fund in 2014-15 was £10.4 million, an increase of £2.4 million from the budget.

Expenditure in 2014-15 was £8.5 million. This represents a £21.6 million underspend, primarily due to the rolling stock contract award being moved into 2015-16.

An impairment of £2.2 million was recorded against station upgrades in the 2014-15 financial statements. This has been applied consistently with prior years.

The Smartcard ticketing system has been integrated with Park-and-Ride.

Subway modernisation programme

The subway modernisation programme is in its fourth year and is a large scale, multi-year project supported by the Scottish Government. The overall subway modernisation programme is underpinned by five work streams comprising; rolling stock and signalling, infrastructure, ticketing, stations and human resources.

In February 2014 the Partnership approved a budget of £30.1 million for 2014-15 for related expenditure, to be financed by drawing down £23.5 million from the subway modernisation fund or incurring borrowing with the remainder met from government grants. Actual expenditure was £8.5 million, representing a variance of £21.6 million.

The difference between budgeted and actual expenditure is due primarily to delays in awarding the contract for the rolling stock, signalling, control and associated systems which is the most significant area of investment in the subway modernisation programme. The complexity of tender requirements and specifications resulted in the expected decision on the award of the contract to be moved into 2015-16. The tender process is progressing and a report on the evaluation process and recommendation to award a contract will be presented at a future Partnership meeting, currently targeted for October 2015.

The contribution to the subway modernisation fund in 2014-15 was £10.4 million, an increase of £2.4 million from the original budget. £9.7 million was utilised from the subway modernisation fund in the year to finance core subway modernisation and other capital projects. The Partnership is forecasting subway modernisation expenditure of £33.8 million for 2015-16, financed by drawing down £27.8 million from the subway modernisation fund or borrowing and £6 million of government grants.

Station upgrades

As in prior years, management considered the valuations of completed station upgrades in order to assess if there is a need to estimate impairments to be recognised at other stations. An impairment of £2.2 million is reflected in the 2014-15 financial statements. Having discussed with management, and reviewed supporting documentation, we are satisfied that it is calculated on a logical and reasonable basis.

Integrated ticketing system

SPT owns 49% of the ordinary shares in Nevis Technologies Limited, a joint venture between SPT and Ecebs Limited for the provision of a smartcard ticketing and payment service. In October 2013 the Subway Smartcard became fully operational, and is now integrated with Park-and-Ride.

The new ScotRail franchise holder, Abellio, awarded Nevis Technologies the contract to supply ScotRail's smart ticketing back office system and card media. Abellio ScotRail smart ticketing system migrated to the Nevis platform on 1 April 2015.

We will continue to discuss accounting consequences and highlight key accounting judgements that need to be considered by management as the level of activity within the joint venture increases. The magnitude of transactions in 2014-15 was not material and consequently the Partnership has not prepared group financial statements.

Key developments(continued)

Expenditure on the Fastlink project was £7.2 million. This is a £11.1 million variance against original budget, due to elements on the delivery programme being re-phased into 2015-16.

SPT received net £7.6 million funds relating to a long term bond.

SPT sold Consort House, for £8 million. The new headquarters at St Vincent Street were purchased for £5.75 million excluding fees.

Net expenditure on bus operations was £16.7 million, an underspend of £0.4 million against budget.

The Strathclyde Concessionary Travel Scheme continues to operate under the same strategy as prior years.

Fastlink project

SPT works in support of NHS Greater Glasgow and Clyde and Glasgow City Council regarding transport to the new South Glasgow University Hospital and Royal Hospital for Sick Children complex. The Fastlink project, which SPT sponsors and the Council delivers, continues to progress. This includes: the construction of sections of segregated carriageway and bus lanes; installation of bus priority traffic signals; installation of halts along the route incorporating CCTV; passenger help points; and bus information systems.

The Partnership approved a capital expenditure budget of £18.3 million for Fastlink in 2014-15, financed primarily from a £14.7 million government grant with the remainder £3.6 million from European Regional Development Funding. Actual expenditure on the scheme was £7.2 million, an underspend of £11.1 million. The difference is because some elements of the delivery programme were re-phased into 2015-16. The Partnership is forecasting £15.9 million Fastlink expenditure in 2015-16.

New ScotRail passenger rail franchisee

In October 2014 the new ScotRail passenger rail franchise was awarded to Abellio by Transport Scotland, with operations commencing on 1 April 2015.

Abellio agreed to fund maintenance of rolling stock from 1 April 2015 and this led to return of a long term maintenance bond and associated funds from the revenue maintenance account held by First ScotRail. Related to the maintenance of the rolling stock SPT had a historical legal provision to direct nine trains from the rolling stock fleet, which ceased on 31 March 2015. The related assets were derecognised at 31 March 2015.

This bond was associated with the rolling stock purchased historically by Strathclyde Partnership Transport Authority, SPT's predecessor. The bond receipt of £21.1 million was split 64% payable to Transport Scotland (£13.5 million) and 36% retained by SPT (£7.6 million), negotiated in line with the original funding agreement structure.

Property transactions

As part of the Edinburgh Glasgow Improvement Programme, Network Rail is planning to redevelop Queen Street station. As a result SPT's headquarters at Consort House were sold and a new property purchased.

The sale of Consort House was finalised in March 2015 for £8 million. The purchase of the St Vincent Street property was completed in December 2014 for £5.75 million excluding legal fees, stamp duty and other fees.

Bus operations

The Partnership approved a budget of £17.1 million net expenditure towards bus operations in 2014-15, including £12.1 million of payments to bus operators. Actual expenditure in the year was £16.7 million. The underspend of £0.4 million was mainly due to a decrease in bus operator payments compared to budget.

The Partnership approved the Bus Strategy and Outline Investment Programme 2014-15 to 2024-25 in September 2014. Furthermore, the Glasgow and Clyde Valley City Deal allocated £30 million towards the Strathclyde Bus Investment Programme. This will provide support to the wider investment by SPT into bus operations. In March 2015 the Partnership approved the related draft Strategic Business Case.

Strathclyde Concessionary Travel Scheme

The Strathclyde Concessionary Travel Scheme is operating under the same strategy as in prior years, no issues were noted during the audit process.

Financial position

SPT met its financial targets, through effective financial planning and management.

There was an underlying net underspend of £5.7 million against the original budget, of which £3.3 million was used to support capital expenditure and £2.4 million transferred to the subway modernisation fund.

Financial position

The table opposite reconciles the budget outturn to actual outturn for 2014-15. The original budget was for a breakeven position, from core revenue expenditure of £38.4million. Of this, £37.4 million was budgeted to be financed through requisitions from constituent local authorities and £1 million funded by the Scottish Government.

Requisitions from the constituent local authorities were in line with budget. There was an increase in subway income (£4.0 million) attributable to a fare increase introduced in January 2014 and increased patronage in 2014-15 related to the Commonwealth Games. Other income also increased by £2 million, primarily as a result of Commonwealth Games related activity although this was partially offset by additional expenditure in support of the games.

The savings were partially offset by an increase in the contribution to capital funded from revenue of £3.3 million, to continue to support the general capital programme.

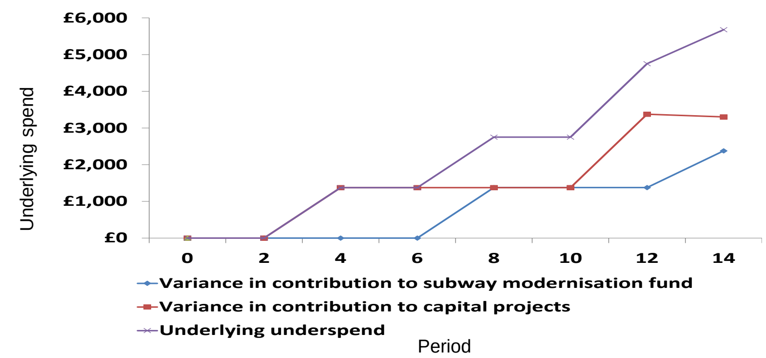
The original budget included a contribution to the subway modernisation fund of £8 million. As a result of the revenue savings and additional income which arose during 2014-15, an additional contribution of £2.4 million was made to the subway modernisation fund, to bring the cumulative fund to £30.9 million.

Underlying spend

There was a reported surplus on provision of service of £4.1 million and an further underlying net underspend, due to savings programme and increased income. £5.7 million of which was applied to support capital expenditure of £3.3 million and a further £2.4 million was credited to the subway modernisation fund. The increase in subway modernisation fund reflects the continuing funding programme as detailed in the outline business case. The business case details the requirement to contribute revenue savings to assist in the overall funding package throughout the life of the project.

Surplus on provision of services reconciled to budgeted outturn	£'000
Budget outturn	**-**
Variations in respect of:	
Employee costs	(193)
Property costs	121
Supplies and services	470
Transport and plant costs	350
Third party payments	(464)
Subway income	(3,986)
Other income	(1,979)
Contribution to capital financed from revenue	3,302
Contribution to subway modernisation	2,378
Items included in CIES not included in budget	(4,056)
Surplus on provision of services as at 31 March 2015	(4,057)

Source: Strategy and programmes committee minutes April 2014 – March 2015



Financial position (continued)

The 2015-16 budget forecasts a breakeven position, with further contributions to the subway modernisation fund of £9.2 million, in line with the approved plan.

Revenue budget

The revenue budget was approved at £38.4 million for 2015-16, as agreed at the Partnership meeting on 13 December 2013, and being the same level as 2014-15. An updated budget with amendments to reflect events throughout the year was presented at the strategy and programmes committee on 28 November 2014 and approved at the Partnership meeting on 19 December 2014.

The budget was set on the basis that the level of requisition from the constituent local authorities is maintained, in cash terms (with inflation factors and service cost pressures being absorbed by SPT). Similar to prior years, performance is monitored regularly by the strategy and programmes committee, with reports also presented to Partnership meetings.

A summary of the budget and variances to the previous years' budget is shown opposite. The key changes in the updated 2015-16 budget, compared with 2014-15 are:

- an increase in contribution to subway modernisation fund of £1.2 million (14.7%);
- an increase in employee costs of £0.37 million (1.6%);
- a reduction in supplies and services costs of £0.6 million (34%);
- a increase in other third party payments of £0.4 million (2.4%); and
- an increase in budgeted subway income of £0.9 million (6.2%), assumed because of increased income from ticket sales and offset by £1.0 million subway expenditure relating to preparatory work on tunnels.

	Budget 2014-15 (£'000)	Budget 2015-16 (£'000)	Variance (£'000)
Chief executive's department	617	627	(10)
Operations	20,161	21,006	(845)
Corporate	3,505	2,083	1,422
Business support	3,585	3,472	113
Contribution to subway modernisation fund	8,050	9,230	(1,180)
Contribution to capital funded from revenue	2,500	2,000	500
Net expenditure	**38,418**	**38,418**	**-**
Requisitions	(37,381)	(37,381)	-
Revenue grant	(1,037)	(1,037)	-
Reserves	-	-	-
Funding	**38,418**	**38,418**	**-**
(Surplus) / deficit	**-**	**-**	**-**

Source: Strategy and programmes committee 28 November 2014

Financial position (continued)

Total expenditure in support of the capital programme was £40.7 million against an initial budget of £73.5 million, the main variance is a £21.5 million underspend to date in respect of re-phasing of subway modernisation to 2015-16.

Capital programme

The table below summarises capital programme expenditure in 2014-15 compared to the budget. Total expenditure in support of the capital programme was £40.7 million, against an initial budget of £73.5 million approved by the partnership on 21 February 2014. The main variance in the delivery of the capital plan related to subway modernisation, mainly due to the rolling stock, signalling, control and associated systems which is the most significant area of investment in the subway modernisation programme. The complexity of tender requirements and specifications has resulted in the expected decision on the award of the contract to be delayed to 2015-16.

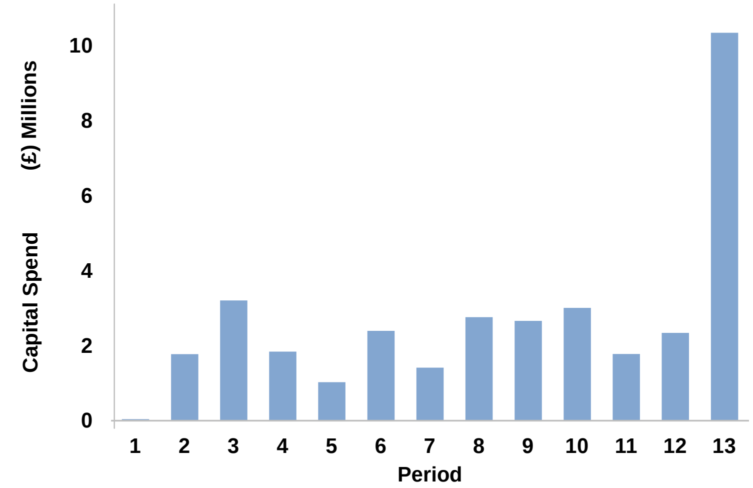
Capital project	Actual 2014-15 (£'000)	Original Budget 2014-15 (£'000)	Variance (£'000)
Subway modernisation	8,504	30,091	(21,587)
Fastlink	7,175	18,313	(11,138)
Local Authority grants	11,753	17,082	(5,329)
Bus operations	3,203	3,310	(107)
Subway operations	3,015	2,765	250
Other	7,043	1,959	5,084
Total	**40,693**	**73,520**	**(32,827)**

Source: *P13 capital monitoring report*

Actual expenditure on the Fastlink scheme was £7.2 million, an underspend of £11.1 million. The difference between budgeted and actual expenditure is because some elements of the delivery programme were re-phased into 2015-16.

The £5.3 million underspend in local authority projects relates to a number of projects across the twelve local authority areas. Other capital expenditure includes £6.1 million of property costs, capitalised relating to the purchase of the Partnership's new headquarters at St Vincent Street which had not been budgeted at the time the original budget was approved.

The graph below shows capital spend per period, excluding the purchase of new headquarters in period 10. The four weeks to 31 March had a significantly higher spend than other periods:



Source: *P13 capital monitoring report*

Financial position (continued)

SPT approves a higher level of capital expenditure relative to available funding, as a number of projects may be subject to in-year delays and slippage.

The 2015-16 capital budget of £78.4 million includes over programming of £6 million.

Capital budget

The budget for 2015-16 compared to 2014-15 is shown below:

Capital budget	2014-15 £'000	2015-16 £'000
Capital budget	73,520	78,441
Funded by:		
Scottish Government capital grant	16,500	15,900
Subway modernisation (ring-fenced)	6,000	6,000
Contribution to subway modernisation fund	23,491	27,800
Fastlink funding	14,713	10,540
ERDF grant	4,212	360
Other capital grants	722	-
Transfer from unapplied capital grants	-	9,500
Capital funded from revenue	2,500	2,000
Variance	**5,382**	**6,024**

Source: Partnership committee 13 February 2015

Scottish Government general funding available is £21.9 million, of which the core capital grant award includes £6 million ring-fenced for subway modernisation. It is important that management continues to monitor capital expenditure against these projects as part of the monthly monitoring to ensure the terms of the capital grant are met.

A lower general capital grant award compared to prior years has resulted in a revenue contribution to the capital programme of £2 million to maintain investment levels, in particular the grant funded projects with local authorities and other partners.

The 2015-16 subway modernisation budget of £33.8 million is to be funded by a draw down of the subway modernisation fund (or borrowing) of £27.8 million, and £6 million of government grants ring-fenced for subway modernisation. In preparation for the introduction of new rolling stock, which is the most significant area of investment in the subway modernisation programme, there is a planned transfer of £5 million from unapplied capital grants.

The 2015-16 Fastlink budget of £15.9 million will be funded by £10.5 million of specific capital grants, £5 million from general capital grants and £0.3 million of European Regional Development Fund. The £5 million allocation from general capital grants concludes a prior year funding swap which will be offset by the transfer of £5 million from unapplied capital grants.

SPT regularly plans a higher level of capital expenditure relative to available funding to allow for flexibility in the capital programme.

Cash balances

As at 31 March 2015 the Partnership had liquid cash balances (cash and short term investments) of £98.7 million. We have noted in prior years that this is a relatively high balance for a public body, although we note that there is expected to be a significant reduction in 2015-16 when the contract for the provision of new subway rolling stock is signed, as a result of a substantial initial payment. However a decision on whether to utilise cash or borrow to meet these costs is still to be taken by SPT and the Scottish Government.

Strathclyde Concessionary Travel Scheme Joint Committee

SCTSJC met its financial targets. £21,000 was transferred to general reserves.

The 2015-16 budget forecasts a break even position after the utilisation of £223,637 accumulated reserves.

The Strathclyde Concessionary Travel Scheme ("the Scheme") covers the twelve local authorities in the partnership area. The cost of the Scheme is mainly funded by requisitions from the constituent local authorities together with planned utilisation of reserves. In the prior year the joint committee focused on efficiency savings with 2014-15 being business as usual.

The table below highlights the 2014-15 surplus of £21,000 which was transferred to reserves, compared with a budget to break even after £70,000 utilised from reserves. The £91,000 saving in net operating expenditure reflects a continuing reduction in costs from 2009-10. There have been a number of measures established since 2010-11 to ensure the long-term sustainability of the Scheme and the joint committee highlights that the fare increase helped manage overall payments to operators from the Scheme and that despite fare increases, patronage levels have been maintained.

	Actual 2014-15 (£'000)	Budget 2014-15 (£'000)	Variance (£'000)
Payments to operators	3,948	4,042	(94)
Administration & overheads	316	311	5
Interest received	(27)	(25)	(2)
Net operating expenditure	4,237	4,328	(91)
Funded by:			
Requisition	**(4,258)**	(4,258)	-
Use of reserves	-	(70)	70
(Surplus) / deficit	**(21)**	**-**	**(21)**

The budget for 2015-16 estimates £4.5 million net operating expenditure, funded by £4.3 million requisition income from the constituent local authorities and utilisation of £0.2 million reserves.

The budget reflects forecast patronage and revised operator reimbursement levels based on 2014-15 actuals. It was designed to maintain the overall scheme within levels affordable to the constituent local authorities together with prudent use of accumulated reserves, however SCTSJC has no control over the fare levels set by operators or patronage.

	Budget 2014-15 (£'000)	Budget 2015-16 (£'000)	Variance (£'000)
Payments to operators	4,042	4,188	(146)
Administration & overheads	311	319	8
Total expenditure	4,353	4,507	(154)
Interest received	(25)	(25)	-
Net operating expenditure	4,328	4,482	(154)
Funded by:			
Requisition	(4,258)	(4,258)	**-**
Use of reserves	(70)	(224)	154
(Surplus) / deficit	**-**	**-**	**-**

Source: SCTSJC February 2015

Financial statements and accounting

Our perspective on the preparation of the financial statements and key accounting judgements made by management

Audit conclusions

We have issued an unqualified audit opinions on the financial statements.

The financial statements, including the explanatory foreword and governance statement, were made available on a timely basis and were accompanied by high quality working papers.

Audit conclusions

Following approval of the financial statements by the Partnership in August 2015, we have issued unqualified opinions on the truth and fairness of the state of Partnership's affairs as at 31 March 2015, and of the Partnership's surplus for the year then ended. There are no matters identified on which we are required to report by exception.

In gathering the evidence for our opinion we have:

- performed controls testing and substantive procedures to ensure that key risks to the financial statements have been covered;
- communicated with the internal audit and assurance team and reviewed its reports as issued to audit and standards committee, to verify that key risk areas which may be viewed to have an impact on the financial statements have been considered;
- reviewed estimates and accounting judgements made by management and considered these for appropriateness;
- considered the potential effect of fraud on the financial statements through discussions with senior management and the internal audit and assurance team to gain a better understanding of the work performed in relation to prevention and detection of fraud; and
- attended audit and standards committee meetings to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

Financial statements preparation

- High quality working papers and draft financial statements were provided at the start of the audit fieldwork on 27 May 2015. This included the remuneration report and governance statement.
- In advance of the audit fieldwork, we issued a 'prepared by client' request setting out a list of required analyses and supporting documentation. Reflective of the long standing working relationship with the Partnership the standard of documentation was very good and there was evidence of accountability and ownership of working papers across the finance department.
- Throughout the course of the year we had regular communication and discussion with the Partnership's finance team to ensure that disclosure within the financial statements was consistent with the requirements of the Code. We provided feedback to management on the content of the financial statements, annual report, governance statement and remuneration report and we are pleased to report that these were prepared appropriately.
- There are no significant matters in respect of (i) audit differences; (ii) auditor independence and non-audit fees; and (iii) management representation letter content as reported in appendix one.
- We consider that management has maintained a robust control environment. Our testing, combined with that of the internal audit and assurance team, of the design and operation of financial controls over significant accounts confirms that controls relating to financial systems and procedures are designed appropriately and operating effectively.

Significant risks and audit focus areas

The significant area of risk identified in our audit strategy was in respect of management override of controls.

Other audit focus areas include:

- **fraud risk in respect of revenue recognition;**
- **completeness and accuracy of recognition of income and expenditure;**
- **property, plant and equipment; and**
- **pension liability.**

We summarise below the risks of material misstatement as reported within the audit strategy document during the course of the audit. We set out the key audit procedures to address those risks and our findings from those procedures, in order that the audit and standards committee may understand the process by which we arrived at our audit opinion.

We have no changes to the risk or our approach to addressing the assumed ISA risks of fraud in management override of controls and fraudulent revenue recognition. We do not have findings to bring to your attention in relation to these matters; no control overrides were identified.

Audit focus area	Our response	Audit findings
Recognition of income and expenditure There is a risk that both income and expenditure are not recognised appropriately, in the correct period, or in line with the Code. This includes income and expenditure in the following areas: ■ third party payments to bus operators; ■ employee costs; and ■ depreciation and impairments.	We performed controls testing over revenue monitoring reports, third party payments to bus operators and employee costs and found them to be operating effectively. We compared expenditure against budget and prior year, and sought explanations and supporting documentation for unexpected movements. We performed cut-off testing to verify that expenditure and associated creditors were recorded in the correct accounting period. We agreed sample year-end associated creditors and accruals to supporting documentation. We developed expectations of employee costs and depreciation and compared these against actual costs recorded. We considered impairments as part of our property, plant and equipment testing; further information is provided on the next page. We agreed grant income to supporting documentation including grant offer letters. We compared other income against budget and developed an expectation of subway income and compared this against actual income recorded.	No exceptions were noted from the testing performed. In respect of the income and expenditure items noted, we are satisfied that income and expenditure has been appropriately recognised in the financial statements.

Significant risks and audit focus areas (continued)

Audit focus area	Our response	Audit findings
Property, plant and equipment There are a number of capital projects ongoing, the most significant being the subway modernisation programme. An impairment was recorded for station enhancements where the value generated is less than the costs to complete, consistent with the approach in prior years. Revaluations were also recorded against stations, other facilities upgraded and investment properties. SPT sold its headquarters at Consort House and purchased new headquarters at St Vincent Street in 2014-15. In order to componentise the asset categories, a revaluation of the new headquarters took place at year end. SPT also disposed of Buchanan Street investment properties in the year. SPT disposed of assets in respect of third party rolling stock, following the transfer of the ScotRail franchise to Abellio, and received repayment of a maintenance bond associated with the stock which was split between SPT and Transport Scotland. There is a risk to the financial statements relating to the recognition of expenditure, the valuation of the assets subsequently recognised and the gains or losses on disposal of assets.	We reviewed management's approach to the calculation of impairments for stations upgraded under the subway modernisation programme and underlying assumptions. We agreed the valuation of assets to the independent valuer's reports and confirmed that management had adopted a similar approach to prior years. We inspected supporting documentation for the disposal of Consort House and Buchanan Street investment land, including formal offer and acceptance letters and agreement to bank statements. We discussed with management the accounting treatment for the acquisition and subsequent £0.5 million downwards valuation of St Vincent Street. We inspected supporting documentation including formal offer and acceptance letters and valuer's reports. We reviewed management's approach to the accounting treatment against the Code, IAS 16 Property, Plant and Equipment and IAS 36 Impairment of Assets. We discussed with management the accounting treatment for the disposal of the third party rolling stock and redemption of the associated maintenance bond. We inspected supporting documentation in relation to the bond redemption and asset disposal and reviewed management's approach to the accounting treatment against the Code, IAS 16 Property, Plant and Equipment and IFRS 5 Non-current Assets Held for Sale.	We are satisfied that: ▪ the £2.2 million impairment of stations upgraded is appropriately recognised, and the approach is consistent with prior years; ▪ the disposals of Consort House and Buchanan Street are accounted for correctly; ▪ the cost and subsequent downwards revaluation of St Vincent Street premises are correctly treated. The downwards revaluation partially reflects the additional costs, such as Stamp Duty, and the treatment is consistent with other non-current assets acquired; and ▪ the redemption of the maintenance bond and return of associated funds from the revenue maintenance account is accounted for on a reasonable basis, in the correct period and in line with the Code, IAS 16 and IFRS 5. The return of the maintenance bond of £21.1 million was paid to SPT and £13.5 million then transferred to Transport Scotland as agreed; SPT retaining £7.6 million. Having inspected the legal documentation, and obtained further confirmation from Transport Scotland, we are content with the recognition of the receipt and related debtor as at 31 March 2015. The related £13.9 million rolling stock asset was correctly derecognised as at 31 March 2015, giving rise to a capital loss. We concur with the disclosure within the financial statements.

Significant risks and audit focus areas (continued)

Audit focus area	Our response	Audit findings
Pension liability SPT accounts for its participation in the Strathclyde Pension Fund in accordance with IAS 19 Retirement benefits, using a valuation report prepared by actuarial consultants. SPT's actuaries use membership data and a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive the anticipated future liabilities back to the year end date and assumptions on future salary increases. IAS 19 requires the discount rate to be set by reference to yields on high quality (i.e. AA) corporate bonds of equivalent term to the liabilities. The determination of the retirement benefit obligation is inherently judgemental and there is a financial statement risk as a result.	Our audit work consisted of: ■ KPMG specialists reviewing the financial assumptions underlying actuarial calculations and comparison to our central benchmarks, the result of which are on page 32; ■ testing the scheme assets and rolled-forward liabilities; ■ testing the level of contributions used by the actuary to those actually paid during the year; ■ testing the membership data used by the actuary to data from SPT; and ■ agreeing actuarial reports to financial statement disclosures.	We are satisfied that the retirement benefit obligation: ■ is correctly stated in the balance sheet as at 31 March 2015; ■ has been accounted for and disclosed correctly in line with IAS19 *Retirement benefits*; and ■ assumptions used in calculating this estimate and managements judgements are appropriate and within the acceptable KPMG range. We set out further information in respect of the pension liability on pages 32 and 33.

Accounting policies

There have been no changes to accounting policies and they remain appropriate.

The financial statements have been appropriately prepared on a going concern basis, having due consideration of the agreement of Scottish Government funding and contribution from constituent local authorities in respect of 2015-16.

Accounting framework and application of accounting policies

Area	Summary observations	Audit findings
Accounting policies	There have been no changes to accounting policy applied by the Partnership in 2014-15 No newly effective accounting standards are expected to have a material impact on the 2015-16 financial statements.	We are satisfied that the accounting policies adopted remain appropriate to the Partnership.
Financial reporting framework	■ The partnership prepared the financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15 (“the Code”) which is based upon International Financial Reporting Standards (“IFRS”). ■ Changes to the Code in 2014-15 include changes in respect of the restated opening balance sheet, adopting new group accounting standards and changes to the requirements for accounting for combinations of bodies and transfer of functions. None of these changes are relevant to the Partnership.	We are satisfied that the Partnership has prepared the financial statements in accordance with the Code.
Going concern	■ The financial statements of the Partnership have been prepared under the assumption that the organisations are a going concern. ■ SPT has net assets as at 31 March 2015 of £155.9 million, including cash of £98.7 million. The Partnership’s main sources of funding are government grants, funding from constituent local authorities and subway generated income. Government grants and local authority requisitions are agreed in advance of 2015-16 and therefore there is reasonable certainty over those sources of income.	We are satisfied that it is appropriate for the Partnership to prepare the financial statements under the going concern assumption

Management reporting in financial statements

Our review of the management commentary, annual governance statement and remuneration report found them to be consistent with the financial statements.

Area	Summary observations	Audit findings
Annual report, including the management commentary and governance statement	The financial statements form part of the annual report of the Partnership for the year ended 31 March 2015. We reviewed the contents of the management commentary and governance statement against the disclosure requirements and are content with the proposed reports. We provided management with some minor suggestions relating to how the reports could be enhanced and / or where additional information disclosures should be made.	We are required to consider the explanatory foreword and governance statement, and provide our opinion on the consistency of it with the financial statements. We are satisfied that the information contained within the management commentary, governance statement and remuneration report is consistent with the financial statements.
Remuneration report	The remuneration report was included within the draft financial statements and supported by good quality information and working papers. We have in prior years recommended that the Partnership include the remuneration report as a statement in its own right, in line with local government guidance. SPT continues to include the remuneration report after the primary statements and notes, at the back of the financial statements. While not out of line with some other local authorities, we remain of the view that it is inconsistent with our experience of good practice in other sectors and Scottish Government guidance.	We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the financial statements.

Governance and narrative reporting

Our overall perspective on narrative reporting, including the remuneration report and annual governance statement

Update on controls findings from our audit

Corporate governance arrangements

Over-arching and supporting corporate governance arrangements remain primarily unchanged and provide a sound framework for organisational decision-making.

Area	Summary observations	Audit findings
Annual governance statement and governance arrangements	The statement for 2014-15 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the Partnership's governance framework, operated internal controls, the work of internal audit and assurance, internal financial controls and risk management arrangements and analyses the efficiency and effectiveness of these elements of the framework. SCTSJC, as a separate legal entity maintains its own governance arrangements which are appropriate for its size and complexity, however due to the administrative relationship between SCTSJC and SPT, there are a number of shared systems between the two bodies. The corporate governance and financial control frameworks that govern SCTSJC are also that of SPT. The Partnership maintains an integrated governance framework to provide an appropriate structure for maintaining decision-making, accountability, control and behaviour. The Partnership is supported by four other committees, with meetings of the Partnership receiving the minutes from each of the other committees. The strategy group has responsibility for overseeing the implementation of the Partnership's risk management policy and strategy. The corporate risk register is considered on a monthly basis by the strategy group and updated as required, and reviewed by the audit and standards committee. The internal audit and assurance team operated in accordance with the Public Sector Internal Audit standards. We have considered the work of internal audit and assurance to inform our risk assessment and consider the work as appropriate.	We have updated our understanding of the governance framework and documented this though our overall assessment of the Partnerships risk and control environment. We consider the governance framework and annual governance statement to be appropriate for the Partnership and that the governance statement is in accordance with guidance and reflects our understanding of the organisation.

Corporate governance arrangements (continued)

Our testing of the design and operation of financial controls over significant risk points undertaken as part of our interim work identified only minor issues.

We raised two low graded recommendations in the interim audit report, in respect of high level review of bus operator payments and journal system controls.

Area	Summary observations	Audit findings
Internal controls	Management is responsible for designing and implementing appropriate internal control systems to ensure a true and fair view of operations within the financial statements. Our testing, combined with that of internal audit and assurance, of the design and operation of financial controls over significant risk points confirms that controls relating to financial systems and procedures are designed appropriately and operating effectively. The findings of our controls testing relate only to those matters identified during our normal audit work, in accordance with the Code, and there may still be weaknesses or risks within the control environment which have not been identified through this work. KPMG's identification of weaknesses, where applicable, does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control. As part of our interim audit report, we raised two minor control observations. These were due to be implemented by July 2015, following the conclusion of our on-site fieldwork and as such no follow-up has been performed. We will consider the implementation of recommendations as part of our 2015-16 audit.	Our work concluded that that controls relating to financial systems and procedures are designed appropriately and operating effectively. Since the conclusion of our interim work there have been no changes to the operation of the operation of the controls subject to review.
Prevention and detection of fraud	No material fraud or other irregularities were identified during the year and we consider that the Partnership has appropriate arrangements to prevent and detect fraud. The arrangements include policies and codes of conduct for staff and Partnership members, supported by a fraud prevention policy and response plan.	We consider that Partnership has appropriate arrangements to prevent and detect fraud.
Arrangements for maintaining standards of conduct and the prevention and detection of corruption	The Partnership has arrangements including policies and codes of conduct for staff and Partnership members, supported by a whistleblowing policy. Partnership members are responsible for setting the 'tone at the top' and are responsible for abiding by the code of conduct and disclosing interests which may be of importance, material or otherwise, to their work at the Partnership.	We consider that the Partnership has appropriate arrangements to prevent and detect inappropriate conduct and corruption.

Corporate governance arrangements (continued)

Area	Summary observations	Audit findings
Internal audit	Internal audit is provided by the internal audit and assurance team and supports management in maintaining sound corporate governance and internal controls through the independent examination and evaluation of control systems and the reporting of any weaknesses to management for action. Audit Scotland's Code of Audit Practice sets out the wider dimension of public sector audit. It requires external auditors to perform an annual assessment of the adequacy of the internal audit function. We considered the activities of internal audit against the requirements of Public Sector Internal Audit Standards ('PSIAS'), focusing our review on the public sector requirements of the attribute and performance standards contained within PSIAS. This included a review of the internal audit charter, reporting lines, independence, objectivity and proficiency and the range of work carried out by internal audit. From this assessment, and considering the requirements of International Standard on Auditing 610 *(Considering the Work of Internal Audit)*, we can apply internal audit's work to inform our procedures, where relevant. The review of internal audit reports and conclusions did not indicate additional risks and there is no impact on our planned substantive testing. Internal audit and assurance have completed its agreed plan for the year ended 31 March 2015, and the annual report states that *"it is the opinion of the Audit and Assurance Manager that reasonable assurance can be placed upon the adequacy and effectiveness of the Partnership's framework of governance, risk management and control in the year to 31 March 2015".*	We have concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards. Internal audit has concluded that the Partnership has a framework which supports management of key risks.
National Fraud Initiative ("NFI")	The National Fraud Initiative ("NFI") is a data matching exercise which compares electronic data within and between participating bodies in Scotland to prevent and detect fraud. This exercise runs every two years and provides a secure website for bodies and auditors to use for uploading data and monitoring matches. Our review of the Partnership's NFI participation resulted in a satisfactory grading. Overall, we are satisfied with the Partnership's participation in the NFI exercise and have no recommendations to make in this regard. Summary results from the 2014-15 NFI exercise were reported to the Audit and Standards Committee on 19 June 2015.	We consider that Partnership has participated appropriately in the NFI process following up all higher risk actions in a timely manner.

Performance management

Our perspective on the performance management arrangements, including follow up work on Audit Scotland reports

Performance management

Our work has identified that Partnership's Best Value and performance management arrangements are generally robust.

Area	Summary observations	Audit findings
Performance management and Best Value	Scottish Government requirements in respect of Best Value in public services requires a systematic approach to self-evaluation and continuous improvement. Guidance identifies the themes an organisation needs to focus on in order to deliver the duty of Best Value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business. To consider the controls and processes to support Best Value aims, internal audit and assurance performed a review in the year to 31 March 2015 specifically with a value for money objective, identifying some areas for improvement and with a "reasonable assurance" grading provided. Financial performance of the Partnership is monitored via revenue and capital monitoring reports presented to the strategy and programmes committee. Operational performance relating to transport services is reported to the operations committee. Ultimately, both of the above areas are reported to meetings of the Partnership. Financial monitoring reports are detailed and include comparison of forecast outturn against the original or revised budget as appropriate. Actions required to be taken in response to significant variances are summarised within the reports.	We consider that the Partnership has appropriate arrangements to effectively manage performance.
Local response to national studies	Audit Scotland periodically undertakes national studies on topics relevant to the performance of public sector bodies. To ensure that added value is secured through the role of Audit Scotland and its appointed auditors, auditors will continue to ensure that audited bodies respond appropriately to reports from Audit Scotland's programme of national performance audits. The Partnership's audit and assurance function completed reviews of four Audit Scotland national reports: Options Appraisal: Are you getting it right?; An Overview of Local Government in Scotland 2014; Scotland's Public Finances – A follow up report; and The National Fraud Initiative in Scotland. The reviews were reported to the audit and standards committee throughout the year and outlined the background to the report and the Partnership's response, including key recommendations in the report compared to the current practice at SPT. Areas for improvement were identified and a number of recommendations have been agreed and will be implemented by departmental management.	We consider that the Partnership has appropriate arrangements to effectively respond to national studies.

Performance management (continued)

Our work has identified that Partnership's Best Value and performance management arrangements are generally robust.

Area	Summary observations	Audit findings
Financial capacity in public bodies	Through the process of feedback through annual audit reports, current issues reports and sector meetings, Audit Scotland has identified that overall reductions in staff numbers in public bodies may be affecting the capacity of back-office functions and specifically finance. Audit Scotland requested the collation of baseline data across the public sector to inform sector specific overview reports and may inform a follow-up to the joint report on the public sector workforce which was published in November 2013 or support the development of the future performance audit programme. We have completed a return to Audit Scotland in respect of our findings. Our review in response to the request for data collection identified that there is appropriate financial capacity within the organisation to ensure effective management.	We consider that the Partnership has appropriate financial capacity to effectively manage the organisation.

Appendices

Mandatory communications

There were no audit adjustments required to the core financial statements and there are no unadjusted audit differences.

Area	Key content	Reference
Adjusted audit differences Adjustments made as a result of our audit	There were no audit adjustments required to the draft financial statements of SPT or SCTSJC.	-
Unadjusted audit differences Audit differences identified that we do not consider material to our audit opinion	We are required by ISA (UK and Ireland) 260 to communicate all uncorrected misstatements, other than those which are trivial, to you. There are no unadjusted audit differences.	-
Confirmation of Independence Letter issued to the Audit and Standards Committee	We have considered and confirmed our independence as auditors and our quality procedures, together with the objectivity of our audit director and audit staff.	Appendix two
Schedule of Fees Fees charged by KPMG for non-audit services	There were no non-audit fees in 2014-15.	-
Draft management representation letter Proposed draft of letter issued by The Partnership to KPMG	There are no changes to the standard representations required for our audit from last year.	-

Mandatory communications (continued)

There were no audit adjustments required to the core financial statements and there are no unadjusted audit differences.

Area	Key content	Reference
Materiality - SPT The materiality applied to audit testing.	We assessed materiality based on our knowledge and understanding of SPT's risk profile and financial statements balances. Materiality was determined at £1.8 million; approximately 2% of total revenue, and is broadly consistent with the materiality identified in our audit strategy. We designed our audit procedures to detect errors at a lower level of precision, i.e. £1.35 million. We report identified errors greater than £90,000 to the audit and standards committee.	-
Materiality - SCTSJC The materiality applied to audit testing.	Materiality for SCTSJC is consistent with that reported in the audit strategy at £85,000 which is approximately 2% of total expenditure in 2014-15. We design procedures to detect errors at a lower level of precision, £60,000. We will report identified errors greater than £3,000 to the audit and standards committee.	-

Auditor independence

Auditing standards require us to consider and confirm formally our independence and related matters in our dealings with the Partnership.

We have appropriate procedures and safeguards in place to enable us to make the formal confirmation in our letter included opposite.

Auditor independence

Professional ethical standards require us to provide to you at the conclusion of an audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed. This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence.

We have considered the fees paid to us by the Partnership and its related entities for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Regular communications
- Internal accountability
- Risk management
- Independent reviews

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the Partnership.

Confirmation of audit independence

We confirm that as of 25 August 2015, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This letter is intended solely for the information of the audit and standards committee and should not be used for any other purpose.

Yours faithfully

KPMG LLP

Defined benefit obligation

In respect of employee benefits, each of the assumptions used to value SPT's net pension deficit are within an acceptable range of KPMG's expectations.

Defined benefit pension liability		
Value (£000s)		
2014-15	2013-14	KPMG comment
(38,987)	(30,143)	In line with our established practice and in advance of the audit fieldwork, our actuarial specialists reviewed the approach and methodology of the actuarial assumptions used in the IAS19 pension scheme valuation.

Details of key actuarial assumptions are included in the table, along with our commentary.

Assumption	SPT	KPMG central	Comment
Discount rate (duration dependent)	3.1%	3.21%	The proposed discount rates are within an acceptable range of KPMG's central rates as at 31 March 2015.
CPI inflation	2% RPI less 0.9%	2.19% RPI less 1%	Acceptable – SPT's assumption is more prudent (higher liability) than KPMG's central rate, and is within the acceptable range.
Net discount rate (discount rate – CPI)	1%	1.02-1.05%	The proposed assumptions are within the acceptable range.
Salary growth (long term)	1% above RPI	0-1.5% above RPI/CPI inflation	The proposed assumptions are within the acceptable range.

The overall assumptions applied by management are considered to be reasonably balanced for a scheme with a liability duration of 17 years.

The closing deficit increased by £8.8 million from 2013-14, primarily due to the application of an updated discount rate. A reconciliation from opening to closing deficit is included on the next page.

Defined benefit obligation (continued)

The table opposite shows the reconciliation of the movement in the balance sheet.

Increases to the pension scheme surplus/deficit in the year have been driven by a decrease in the discount rate assumption.

	£000	Deficit / loss	Surplus / gain	Impact	Commentary
	Opening deficit			**(30,143)**	The opening IAS19 deficit for the Scheme at 31 March 2014 was £30.143 million (consisting of assets of £177.706 million and defined benefit obligation of £207.849 million).
I & E	Service cost			(4,438)	The scheme is open to accrual. The service cost represents the value of new benefits built up over the year.
I & E	Net interest charge			(1,253)	This is the difference between the expected return on assets of £7.196 million and the interest on the defined benefit obligation of £8.449 million.
Cash	Contributions			3,191	The Partnership made cash contributions of £3.191 million.
TCIE	Change in demographic assumptions			(4,812)	This represents an actuarial loss due to changes in demographic assumptions due to increases in mortality rates.
TCIE	Changes in financial assumptions			(13,609)	This represents an actuarial loss due to changes in financial assumptions, primarily due to a 1% decrease in the discount rate assumption as a result of falls in corporate bond yields.
TCIE	Other experience adjustments			7,779	This represents items such as longevity, new entrants, withdrawals, and ill health levels.
TCIE	Return on assets			4,298	The return on assets represents the dividends, interest, and capital gains generated by assets in the pension fund.
	Closing deficit			**(38,987)**	The closing IAS19 deficit for the Scheme at 31 March 2015 was £38.987 million, (consisting of assets of £184.664 million and defined benefit obligation of £223.651 million).

Source: KPMG analysis of scheme valuation movements. Volatility assessment based on KPMG's market experience.

I&E – impacts on surplus /(deficit)
Cash – cash-flow impact
TCIE – charged through total comprehensive income and expenditure

cutting through complexity