Tayside and Central Scotland Transport Partnership

Annual Audit Report to the Members of Tayside and Central Scotland Transport Partnership and the Controller of Audit for the year ended 31 March 2018

28 September 2018

Contents

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 Tayside and Central Scotland Transport Partnership ("the Partnership") and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

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 introduction and responsibilities sections 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 (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) 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.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Andy Shaw, who is the engagement leader for our services to the Partnership, telephone 0131 527 6673, email: andrew.shaw@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Hugh Harvie, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6682 or email to hugh.harvie@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Fiona Kordiak, Director of Audit Services, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Executive summary

Significant risks and audit focus areas

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– Retirement benefits	Page 10

We have concluded satisfactorily in respect of both matters.

Control recommendations

Appendix four

	Number
Current year control recommendations	2
Prior year control recommendations - completed	3

Conclusion

We issued an unqualified audit opinion on the annual accounts of Tayside and Central Scotland Transport Partnership ("Tactran").

Wider scope focus areas

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Our report sets out our view of the actions undertaken by Tactran in respect of both matters.

We note that during the year a new Partnership Director was appointed, with a three month deferred retirement period for the previous director. Through the development of the city deals, and an ongoing review of the National Transport Strategy, Tactran's objectives and remits are expected to evolve.

Financial position

Tactran is not permitted to accumulate general fund reserves, and works to an annual balanced budget. Total income was £729,000 for 2017-18, matched to expenditure of £729,000. £63,000 of income received as part of annual requisitions from constituent local authorities was deferred to support the 2018-19 budget.

Tactran had £174,000 net liabilities as at 31 March 2018 arising due to the pension deficit. We concur with management's assessment that Tactran is a going concern, as under the Transport (Scotland) Act 2005, the constituent local authorities have a legal obligation to meet all liabilities.

Scope and responsibilities

Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of Tayside and Central Scotland Transport Partnership ("the Partnership") under part VII of the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2016-17 to 2021-22, inclusive.

Our annual audit report is designed to summarise our opinions and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the Partnership and the Controller of Audit. The scope and nature of our audit are set out in our audit strategy document which was presented to the Partnership Board on 27 March 2018.

Audit Scotland's Code of Audit Practice (''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 wider scope areas.

Accountable officer responsibilities

The Code sets out the Partnership's responsibilities in respect of:

- corporate governance;
- financial statements and related reports;
- standards of conduct for prevention and detection of fraud and error
- financial position; and
- Best Value

Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code. Appendix one sets out how we have met each of the responsibilities set out in 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 report to those charged with governance and our presentation to the Partnership Board, together with previous reports to the Partnership Board throughout the year, discharges the requirements of ISA 260.

Financial position

This section of our report summarises the main features of the financial statements and key movements from the prior financial year.

Comprehensive income and expenditure

Incoming resources

Income for highways and transport services principally consists of Scottish Government Grant in Aid of £522,750, the value of which is consistent with 2016-17. Requisitions from the four constituent local authorities in the Tactran area were also approved to be at the same level as in the prior year, though Tactran did not utilise the value of the full requisitions. The amount not yet utilised will be used to support the 2018-19 budget and is a result of vacancies being unfilled during the year, awaiting clarification of the National Transport Strategy review process and City Deal proposals.

Resources expended

Expenditure remained broadly in line with the prior year. An increase in expenditure as part of the Active Travel project was offset by an underspend in staff costs as a result of vacancy rates during the first half of the financial year. Vacant posts in the revised staffing structure approved by the Partnership were filled in the final quarter of the financial year and it is anticipated that the staff base will be relatively stable during 2018-19

Comprehensive income and expenditure statement	2017-18 £000	2016-17 £000
Incoming resources		
Highways and transport services	(689)	(690)
Constituent council requisitions	(40)	(53)
Total incoming resources	**(729)**	**(743)**
Resources expended		
Highways and transport services	716	730
Corporate and democratic core	47	38
Financing and investment expenditure	18	15
Total resources expended	**781**	**783**
Deficit on provision of services	**52**	**40**
Re-measurement of the net defined benefit liability/ (asset)	**(555)**	**213**
Total comprehensive income and expenditure	**(503)**	**253**

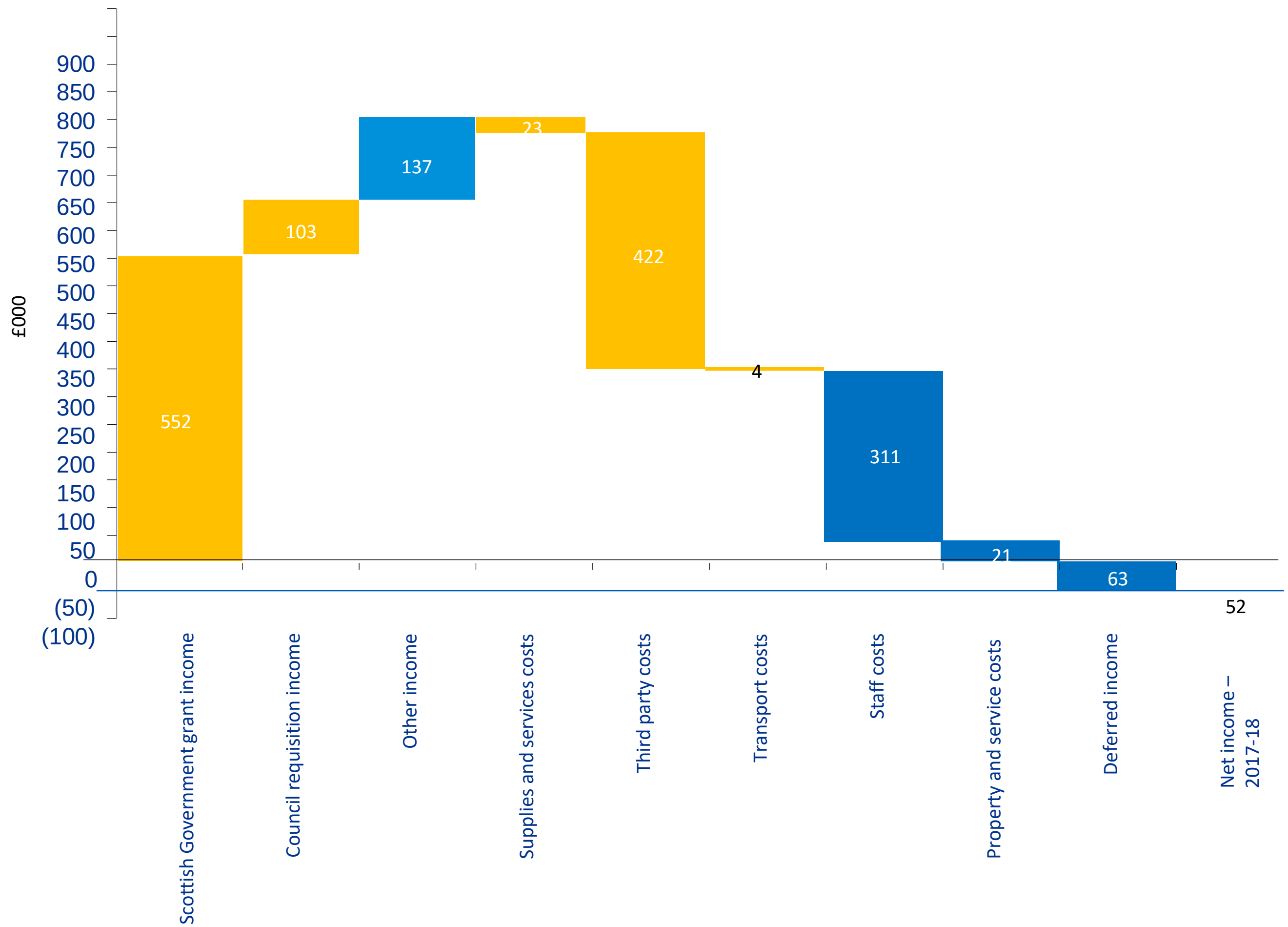
Source: Annual accounts 2017-18

Financial position (continued)

The graph presented opposite shows the sources of income and expenditure, resulting in a net £52,000 underspend against budget. The Partnership received £103,000 in cash from constituent council members, and recognised £40,000 through income. The remaining £63,000 was recognised as deferred income to be used in future years.

Where income increased or remained the same, or costs decreased, the bars are blue.

Where income decreased, costs increased, or costs remained the same, the bars are orange.



Financial position (continued)

Balance Sheet

Tactran had net liabilities of £174,000 as at 31 March 2018, which arises due to the application of IAS 19 (£168,000) and the accumulated absences reserve (£6,000). Creditors of £191,000, includes £134,000 deferred income from constituent council members which will be used in 2018-19 to assist in delivering Tactran's objectives.

Balance Sheet

	2018 £000	2017 £000
Current assets		
Debtors	40	92
Cash at bank and in hand	145	26
Liabilities		
Creditors: amounts falling due within one year	(191)	(126)
Other long term liabilities	(168)	(669)
Net liabilities	(174)	(677)
Financed by fund balances and unusable reserves:		
Pensions Reserve	(168)	(669)
Accumulated absence	(6)	(8)
Total	(174)	(677)

Source: Annual accounts 2017-18

In the prior year, there were significant prepayments that, due to timing changes, have not been required in 2017-18 resulting in a reduction in the level of debtors. Cash balances increased, relating primarily to an operational loan account with Perth and Kinross Council. Creditors increased as a result of the underspend against budget, which increased the deferred income creditor.

The pensions reserve decreased significantly as a result of changes in the actuarial assumptions covering financial and demographic forecasts, as set out on page 26.

Going concern

The Partnership had net liabilities of £174,000 *(2016-17 £677,000)* as at 31 March 2018. Net liabilities primarily decreased in year due to movements in pension assumptions (£555,000).

Management considers it appropriate to continue to adopt the going concern assumption for the preparation of the annual accounts, supported by a number of factors:

- Although the Partnership is in a net liability position, this has arisen due to the pension liabilities. These are long-term liabilities and will be met by future funding of the Tayside Pension Fund, and by returns on investments.
- Management also considers that the confirmed grant in aid and constituent member requisitions in 2018-19 to be sufficient to cover liabilities as they fall due over the next year.
- Under the Transport (Scotland) Act 2005, the constituent local authorities have a legal obligation to meet all liabilities borne by Tactran.

As the Partnership is unable to hold usable reserves, the Partnership manages underspends and overspends through the use of deferred income. The Partnership recognised a surplus deferred income balance in the year of £134,000 (an increase of £63,000 from 2016-17), providing further comfort over the Partnership's future financial sustainability.

The combined core and regional transport strategy budget for 2018-19 shows a breakeven position, with £749,000 gross expenditure planned in the year. This will be funded by agreed constituent council requisitions, and continued grant-in-aid funding from the Scottish Government.

Conclusion

The Partnership had net liabilities position of £174,000 as at 31 March 2018, due to an IAS 19 pension deficit.

The Partnership prepared a short term financial budget for 2018-19 which shows a breakeven position and is supported by sufficient levels of income to manage any liabilities as they fall due. We are content that the going concern assumption is appropriate for the Partnership, concurring with management's assessment noted above.

Materiality and summary of risk areas

Materiality

We summarised our approach to materiality in our audit strategy document. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that the level of materiality set at planning remained relevant.

We used a materiality of £15,000 for the Partnership's annual accounts. This equates to 2% of cost of services expenditure. We designed our procedures to detect errors in specific accounts at a lower level of precision than our materiality. We report all misstatements greater than £750.

Forming our opinions and conclusions

In gathering the evidence for the above opinions and conclusions we:

- performed substantive procedures to ensure that key risks to the annual accounts have been covered and reviewed estimates and accounting judgments made by management and considered these for appropriateness;
- considered the potential effect of fraud on the annual accounts through discussions with senior management to gain a better understanding of the work performed in relation to the prevention and detection of fraud; and
- attended Partnership meetings to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.
- communicated with the Partnership Director and Treasurer to ensure that all key risk areas which may be viewed to have an impact on the annual accounts had been considered;
- reviewed key governance and organisational documents, including minutes of Board meetings, to inform our understanding of the control environment;

Financial Statements preparation

Tactran prepares accounts in line with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ("the CIPFA Code"). We are satisfied that the financial statements have been prepared in line with this Code. We received the unaudited accounts and working papers in advance of the 30 June 2018 statutory deadline.

Working papers were provided as agreed at the start of the audit fieldwork on 27 June 2018, along with draft accounts and the management commentary. Audit queries were answered in a timely manner, with supporting documentation and explanations provided as required.

In the prior year, we made recommendations over the quality and detail included within the working papers. We note that this was improved and faced no such difficulties in 2017-18.

Significant risks and other focus areas in relation to the audit of the financial statements

We summarise below the risk of material misstatement as reported within the audit strategy document.

Significant risk:

- Management override of controls fraud risk.

Audit focus area:

- Retirement benefits.

Wider scope other focus areas:

- Governance: future leadership capacity
- Governance: future strategy and purpose

No further significant risks or other matters were identified during our audit work.

We rebutted the assumed fraud risk in respect of revenue recognition, as set out on the next page.

Significant risks and focus areas

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Fraud risk from management override of controls Professional standards require us to communicate the fraud risk from management override of controls as a significant risk; as management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls.	Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to the audit of Tactran. Strong oversight of finances by management provides additional review of potential material errors caused by management override of controls. In line with our methodology, we carried out appropriate substantive procedures, including over cash book entries, accounting estimates and significant transactions that are outside the organisation's normal course of business, or are otherwise unusual.	*Our work did not identify any control overrides, or matters that required adjustment in the annual accounts or which require to be brought to your attention.*
Fraud risk from income revenue recognition (rebutted) Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.	Tactran receives funding requisitions from Perth and Kinross Council, Stirling Council, Dundee City Council and Angus Council. These are agreed in advance of the year. Other funding comes from grant in aid from Scottish Government. Therefore, as set out in the audit strategy document, as there is no estimation or judgement in recognising these income streams and we do not regard the risk of fraud to be significant. We agreed the income presented in the annual accounts to grant-in-aid letters, requisitions and bank statements where relevant.	*Our conclusion is that income is appropriately stated.*

Significant risks and focus areas (continued)

Audit focus area	OUR RESPONSE	AUDIT CONCLUSION
Pension liabilities The Partnership accounts for its participation in the Tayside Pension Fund and in accordance with IAS 19 *Retirement benefits*, using information obtained in a valuation report prepared by actuarial consultants. 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. IAS 19 requires the discount rate to be set by reference to yields on high quality corporate bonds of equivalent term to the liabilities. The calculation of the pension liability is inherently judgemental.	As set out in our audit strategy document, our work consisted of: Benchmarking assumptions: — Challenging, with the support of our own actuarial specialists, the key assumptions applied, being: the discount rate; inflation rate; and mortality/life expectancy against externally derived data. — Challenging the rate of increase in pensionable salaries assumption, by comparing it to other evidence such as business plans and our understanding of Government and staff expectations. Assessing transparency: — Considering the adequacy of the disclosures in respect of the sensitivity of the deficit to these assumptions. — Testing the assets recorded and disclosed, using our actuarial team. — Assessing if the disclosures within the financial statements are in accordance with the Code's requirements.	We are satisfied that the retirement benefit obligation: — is correctly recognised on the balance sheet as at 31 March 2018; — has been accounted for and disclosed correctly in line with IAS19 Retirement benefits; and — assumptions used in calculating this estimate and management's judgements are appropriate and within the acceptable KPMG range. We set out further information and results of the review by KPMG actuaries in respect of the defined benefit obligation in appendix six. The net liability in the balance sheet decreased by £555,000 compared to 31 March 2017, driven by changes in assumptions. During the audit we requested that management obtained an update in respect of the assets of the Tayside Pension Fund, as the actuary uses an estimate of the asset values when preparing the IAS 19 valuation. Our experience from other audits is that market volatility in the last quarter of the financial year can give rise to material movements in asset values. The actuary provided an updated estimate of asset values which gave rise to a £25,000 increase in the net pension liability. We highlight that this represents a revised estimate which was not available for management to apply when it prepared the draft financial statements.

Other focus areas

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
Governance - future leadership capacity The Partnership Director was on flexible retirement until 29 June 2018, with a view to providing a managed transition and maintaining leadership capacity whilst the Partnership recruited for the position. The departure of the director provides some risk to the Partnership.	We considered the Partnership's and management's ongoing actions and achievements in respect of maintaining leadership capacity beyond the retirement of the current Partnership Director, and considered the handover work and transfer of knowledge which took place.	The Partnership Director retired on 30 June 2018, and the new Partnership Director joined Tactran on 1 July 2018 with a three month handover period from April 2018. By deferring the retirement of the from 31 March 2018, Tactran adequately implemented its three month succession plan, which gave time for knowledge transfer to the incoming Partnership Director. The appointment of a full time permanent Partnership Director demonstrates Tactran's ability to continue delivering its statutory responsibilities.
Governance - future strategy and purpose There is an ongoing review of the purpose and responsibilities of Regional Transport Partnerships and other transport agencies/bodies associated with the National Transport Strategy review, and also the potential for changes to current regional governance arrangements through the two emerging City Deals. We note that the Strategy Review is not expected to publish any findings until June 2019, so any conclusion will impact on Tactran over the medium term.	Our approach in respect of this focus area was to discuss with management the potential impact of the National Transport Strategy Review and the two City Deals covering Tayside and Stirling on the strategy and purpose of the Partnership. We also considered reports on the topic in order to consider the actions taken to address the strategy.	As the Tay and Stirling & Clackmannanshire Region City Deals develop, Tactran continues to discuss with relevant public bodies to ensure that Tactran is discharging its responsibilities with respect to transport planning for the region. In addition, the newly appointed Partnership Director worked with the Tay City Deal prior to appointment. This experience should increase Tactran's ability to contribute to, and shape, the City Deals in support to Tactran's statutory objectives. Management continues to expect the review of the Regional Transport Partnerships to be completed and reported in June 2019, and as such, no expected changes to regional governance arrangements are anticipated.

Audit conclusions

Audit opinion
We issued an unqualified opinion on the truth and fairness of the state of the Partnership's affairs as at 31 March 2018, and of the deficit for the year then ended. There are no matters identified on which we are required to report by exception.
Financial reporting framework, legislation and other reporting requirements
The Partnership is required to prepare its annual accounts in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ("the CIPFA Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the annual accounts have been prepared in accordance with the CIPFA Code and relevant legislation.
Statutory reports
We have not identified any circumstances to notify the Controller of Audit that indicate a statutory report may be required.
Other communications
We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.
Audit misstatements
There were no adjusted misstatements, and there are no unadjusted audit misstatements. There were minor presentational adjustments made, relating to operating leases, and the Management Commentary.
Written representations
Our representation letter does not include any additional representations to those that are standard as required for our audit.

Management reporting in financial statements

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
Management commentary	The Local Authority Accounts (Scotland) Regulations 2014 require the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements. The requirements are outlined in the Local Government finance circular 5/2015. We considered the management commentary to ensure that management's disclosure is consistent with the annual accounts, and that management has disclosed that which is required under the Local Government finance circular 5/2015.	We are satisfied that the information contained within the management commentary is consistent with the annual accounts. We reviewed the contents of the management commentary against the guidance contained in the Local Government finance circular 5/2015 and are content with the proposed report.
Remuneration report	The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.	We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made. Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.
Annual governance statement	The statement for 2017-18 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the Partnership's governance framework, review of effectiveness, continuous improvement agenda, and analyses the efficiency and effectiveness of these elements of the framework. We consider the Annual Governance Statement to ensure that management's disclosure is consistent with the annual accounts, and that management have disclosed that which is required under the Delivering Good Governance in Local Government Framework.	We consider the governance framework and annual governance statement to be appropriate for the Partnership and that it is in accordance with guidance and reflects our understanding of the Partnership.

Qualitative aspects and future developments

Qualitative aspects

ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

We consider the accounting policies adopted by Tactran to be appropriate. There are no significant accounting practices which depart from what is acceptable under IFRS or the CIPFA Code.

Financial statement disclosures were considered against requirements of the CIPFA Code, relevant legislation and IFRS. No departures from these requirements were identified.

There were no new accounting standards adopted by the Local Authority Accounting during 2017-18 which affected Tactran.

There are no significant accounting estimates other than those relating to the calculation of the pension assets and liabilities previously summarised.

Future accounting and audit developments

CIPFA / LASAAC consulted on amendments to the CIPFA code for IFRS 9 *Financial instruments* and IFRS 15 *Revenue from contracts with customers.* A separate publication *Forthcoming Provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Local Practice on Local Authority Accounting in the United Kingdom 2018/19* was issued as a companion publication to the Code setting out the approach to these two standards.

IFRS 16 Leases will bring a significant number of operating leases onto the balance sheet unless they are low value or have less than a year to run.

There are also minor disclosure changes that will come into effect as a result of amendments to *IAS 7 Statement of Cash Flows:* Disclosure Initiative.

CIPFA/LASAAC will revisit accounting for PFI liabilities which are currently under finance lease accounting rules of IAS 17, which is being replaced by the new standard.

Audit dimensions

Introduction

The Code of Audit Practice sets out four audit dimensions which, alongside Best Value in the local government sector, set a common framework for all the audit work conducted for the Controller of Audit and for the Accounts Commission: financial sustainability; financial management; governance and transparency; and value for money.

It remains the responsibility of the audited body to ensure that it has proper arrangements across each of these audit dimensions. These arrangements should be appropriate to the nature of the audited body and the services and functions that it has been created to deliver. We review and come to a conclusion on these proper arrangements.

During our work on the audit dimensions we considered the work carried out by other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the Code of Audit Practice.

Conclusion

In summary, we were satisfied with the arrangements in place for ensuring Best Value at Tactran. We include two recommendations to improve the transparency and efficiency of the entity, but do not consider these to be significant.

Financial Sustainability

Tactran receives grant income from the Scottish Government and requisitioned income from the constituent councils to meet its expenditure.

The risks arising from the ongoing review of the National Transport Strategy and emerging City have been sufficiently discussed and considered by the entity.

Financial management

Tactran has appropriate processes in place to manage its finances and resources which aid effective financial planning and budget setting.

Tactran has appropriate financial oversight and capacity.

Tactran

Governance and transparency

We consider that Tactran has appropriate governance arrangements in place for an entity of its size and they provide a framework for effective organisational decision making.

A Partnership Director has been recruited, with a sufficient handover period with the retiring director.

Value for money

We consider that Tactran has appropriate arrangements for using resources effectively and monitoring progress against the Regional Transport Strategy ("RTS").

Audit dimensions (continued)

Financial sustainability

Tactran receives Scottish Government grant in aid and funding requisitions from Perth and Kinross Council, Dundee City Council, Stirling Council and Angus Council. As with many public sector bodies, Tactran faces financial challenges as a result of reduced available funding, which in turn impacts on the Partnership's ability to progress delivery of the RTS.

The Transport (Scotland) Act 2005 provides Tactran with guarantees that liabilities faced by the Partnership will be met by the local authorities, which supports the going concern approach to the preparation of accounts is appropriate.

The National Transport Strategy review and Tay Cities Deal, covering Angus, Dundee City, Perth & Kinross and North East Fife, and the Stirling and Clackmannanshire City Region Deal, raise questions about the future role of Tactran. With a focus on improving transport and connectivity and aspirations for new approaches to regional governance, the Tay Cities Deal has proposed changes to regional transport planning and delivery matters which are currently the statutory role and responsibility of Tactran.

Discussions are ongoing between the Partnership Director and City Deal officials to establish the most effective way forward, which we confirmed as continuing through our meetings with management in 2017-18. The ongoing review of the National Transport Strategy, currently scheduled for completion in summer 2019, includes a review of transport roles and responsibilities. Management's current expectation is that much of the City Deal funding will be attributable to transport, and in order to effectively manage the funding, Tactran will maintain strong links with City Deals officials and other parties to ensure that Tactran's experience and knowledge is used effectively to support the City Deal.

Control environment

Tactran has a robust control environment for an organisation of its size. There is regular, detailed reporting on a quarterly basis to the Board on issues facing the Partnership.

Expected policies are established, including a code of conduct for members, risk management and financial regulations. Tactran benefits from a close relationship with Perth and Kinross Council, which supports the control environment through the provision of democratic support, legal expertise, and financial oversight as well as human resources and information technology support.

Governance and transparency

Tactran embraces public transparency through its website, which provides access up-to-date financial and strategic information regarding its activities, including Board meeting minutes, annual accounts and reports.

The Partnership Board is comprised 15 members, with councillors participating from each of the constituent councils. This arrangement ensures that all councils have the ability to input and contribute to transport planning.

In terms of the Partnership's Code of Conduct, Board members are required to complete a notice of registerable interests covering the member's financial and non-financial interests, which are also made publicly available on the website.

Our audit work identified that five of the 14 councillor members who had served in the year had not submitted this return.

Recommendation one

Audit dimensions (continued)

Risk management

Risks are managed through the implementation of the risk management policy. Identified risks are recorded, assessed and tracked in the risk register. Principal risks relate to delivery of the RTS, management and operation of the Partnership, and financial risks. The Partnership Board reviews the risk register at least annually; this was completed most recently at the meeting on 27 March 2018. In line with best practice, the management report discloses the key risks in sufficient detail to enable a reader to sufficiently understand them.

Leadership

The Partnership Director has retired under the flexible retirement agreement, effective 29 June 2018. A new Partnership Director took over effective 1 July 2018 (albeit with a handover period), and brings experience of the Tay Cities Deal, which Tactran is expected to contribute towards as the deal develops.

Financial management

During the course of the external audit, we confirmed that the financial management arrangements are appropriate for an organisation the size of Tactran. The arrangements in place allow Tactran to manage its finances and resources which aids effective financial planning and budget setting. The Treasurer, as section 95 officer, is responsible for ensuring proper accounting records are kept.

The budget for the Partnership is agreed in advance of the financial year by the Board, taking account of any expected changes to funding, or new activities. During budget setting, there is consultation with staff and Board members, which supports effective financial management.

Tactran operates a one year budget setting cycle, which, given the size and remit of the body, is viewed as sufficient. The budget setting cycle commences sufficiently early on in the preceding year to be viewed as reasonable.

Analysis of forecast income and expenditure against agreed budget and actuals year to date is presented quarterly to the Board. The discussion over performance against budget demonstrates concern with securing value for money in the delivery of the Partnership's activities. Review of the final position for 2017-18 to budget demonstrated minimal variances, with the exception of significant underspends against staff costs. This was due to higher than planned vacancy rates during the first half of the financial year.

Value for Money

Tactran's focus for delivering value for money is the implementation of the RTS. A comprehensive update of the RTS was completed during the year, drawing on consultations with partner councils and other key stakeholders.

The RTS monitoring framework provides assurance over the delivery of the strategy; there is annual reporting against the framework indications, and periodic reporting against strategic actions identified within the RTS.

Operationally, Tactran works with a small and efficient body of staff. As reflected in the prior year audit report, efficiency savings have been identified in the past seven years, with limited opportunities for further significant savings. The Partnership Board minutes and reports demonstrate an ongoing commitment to reviewing the staffing and operating model to ensure activities are delivered as efficiently as possible.

We identified the use of cheques as a primary method for settling liabilities. The use of cheques can be cumbersome, and we make a recommendation to consider investigating other payment methods such as BACS to reduce the workload on Tactran.

Recommendation two

Appendices

Appointed auditor's responsibilities

AREA	APPOINTED AUDITOR'S RESPONSIBILTIES	HOW WE HAVE MET OUR RESPONSIBILITIES
Statutory duties	Undertake statutory duties, and comply with professional engagement and ethical standards.	Appendix two outlines our approach to independence.
Financial statements and related reports	Provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions. Review and report on, as appropriate, other information such as annual governance statements, management commentaries, and remuneration report.	Page 12 summarises the opinions we have provided. Page 13 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report
Financial statements and related reports	Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.	Reviewed and concluded on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.
Wider audit dimensions	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies': - Effectiveness in the use of public money and assets; - Suitability and effectiveness of corporate governance arrangements; - Financial position and arrangements for securing financial sustainability; - Effectiveness of arrangements to achieve best value; - Suitability of arrangements for preparing and publishing statutory performance information	We have set our conclusions over the audit dimensions on page 15.

Auditor independence

Assessment of our objectivity and independence as auditor of Tayside and Central Scotland Transport Partnership ("the Partnership")

Professional ethical standards require us to provide to you at the conclusion of the 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 and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

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 partners 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 FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the entity for professional services provided by us during the reporting period.

There were no non-audit services provided during the year to 31 March 2018.

Independence and objectivity considerations relating to other matters

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

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Partnership Board of the company and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Required communications with the Partnership Board

Type	Response
Our management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018
Adjusted audit differences	There were no adjusted audit differences.
Unadjusted audit differences	There were no unadjusted audit differences
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	All control deficiencies identified are included within this report.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	No actual or suspected fraud involving group or component management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.

Type	Response
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	None.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	No material inconsistencies were identified related to other information in the annual accounts, management commentary and annual governance statement. The management commentary is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	No matters to report. The engagement team has complied with relevant ethical requirements regarding independence.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of Tayside and Central Scotland Transport Partnership's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Key audit matters discussed or subject to correspond-dence with management	The key audit matters (summarized on pages nine through 11) from the audit were discussed with management.

Action plan

The action plan summarised specific recommendations arising from our work, together with related risks and management's responses.

We present the identified findings across four audit dimensions:

— financial sustainability

— financial management

— governance and transparency

— value for money

Priority rating for recommendation		
Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.	**Grade two** (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.	**Grade three** (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Action plan (continued)

Finding(s) and risk(s)	Recommendation	Agreed management actions
1. Notice of Registerable Interests *Audit dimension: governance and transparency*		**Grade three**
In the prior year, we raised a recommendation over the members of the Partnership Board completing the Notice of Registerable Interests. As set out on page 16, five members of the Partnership Board had not completed a return for 2017-18. There is a risk that Tactran's Partnership Board cannot demonstrate full transparency, and that members are not complying with Tactran's Code of Conduct.	We recommend that members complete the Notice of Registerable Interest on an annual basis. A further reminder should be provided to all members.	Members will be reminded of their responsibility and personal interest in ensuring full compliance with the aspect of the Code of Conduct relating to the completion and maintenance of registerable interests. **Implementation date:** 31 October **Responsible officer:** Partnership Secretary
2. Use of Cheques *Audit dimension: financial management/value for money*		**Grade three**
During our testing over expenditure and cash, we identified a significant balance of £122,000 relating to cheques issued but not cashed. From this we determined that Tactran continues to use cheques as a primary method of settling balances with service providers. The system of internal control was found to be satisfactory, and we found no errors in the cheques issued but not cashed listing, however we note that the use of cheques is inefficient and can bring a fraud risk.	It is recommended that management considers the use of BACS are the primary method to settle future invoices. By moving to BACS, there is an improved audit trail both within the banking system, and to Tactran's own accounting records.	Agreed **Implementation date:** 31 December **Responsible officer:** Treasurer

Prior year recommendations

We follow up prior-year audit recommendations to determine whether these have been addressed by management. The table below summarised the recommendations made during the 2016-17 final audit and their current status.

Grade	Number recommendations raised	Implemented	In progress	Overdue
Final	3	2	-	1

We have provided a summary of progress against 'in progress' actions below, and their current progress.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
1. Accounts preparation	**Grade Three**		
Tactran does not use a general ledger and journal system due to its size and small number of transactions. Monthly income and expenditure accounts are prepared from transactions listings, which are reconciled to the bank account. These are collated to form the final accounts. Separate listings are maintained of creditors, debtors, and prepayments. In the course of the audit it was found the supporting schedules could not be easily reconciled to the accounts. *Risk:* Tactran does not provide a clear audit trail to support figures in the financial statements. It may therefore be challenging to resolve identified errors or omissions.	It is recommended that supporting schedules are reviewed to ensure they can be easily reconciled to the accounts, and there is a clear audit trail.	Management response A review of the system will be undertaken. Implementation date: 31 March 2018 Responsible officer: Treasurer	**Implemented** During our audit, we observed our recommendations were actioned, and that sufficient supporting documentation for key account balances was provided in advance.

Prior year recommendations (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
2. Creditors rounding difference	**Grade Three**		
In the course of the audit a rounding difference of £4,000 in the creditors balance was identified . It was not possible to identify any further reason for the difference, and due to the nature of the reserves policy it was not possible to make an adjustment to correct for this (i.e. reserves are not permitted to be held) *Risk*: The financial statements cannot be readily reconciled to underlying records.	It is recommended that the procedures for accounts preparation are reviewed, as recommended above. In addition Tactran should consider preparing accounts to the nearest pound, rather than rounding to the nearest £1,000. Given the small size of balances in the accounts this should minimise the risk of rounding differences occurring which culminate in a material difference from supporting schedules.	Management response: Noted Implementation date: Implemented Responsible officer: N/A	**Implemented** During the course of the year, the Senior Accountant and Accounting Technician identified the reasons for the error. The amount was corrected during 2017-18, and we were satisfied with the approach undertaken. The closing creditors balance therefore reconciled to the underlying records.
3. Notice of Registerable Interests	**Grade Three**		
Board members are required to complete a notice of registerable interests covering the member's financial and non-financial interests, which are also made publicly available on the website. Our audit work identified that four of sixteen members who had served in the year had not submitted this return. *Risk:* There is a risk that members are not complying with the Partnership's code of conduct	It is recommended that Partnership Board members are reminded of the importance of completing the notice of registerable interests, in the interests of transparency and accountability.	Management response: Comprehensive induction training, which included highlighting the importance of all Board members completing and maintaining their Register of Interests for the Partnership, as distinct from their parent Council or other organisations, was delivered by the Secretary, Treasurer and Director at the Partnership meeting on 13 June 2017. A personal request/reminder to complete the register of interests was issued to each Board member soon after that meeting. Members are regularly reminded of their responsibility and personal interest in ensuring full compliance with this aspect of the Code of Conduct. Implementation date – ongoing Responsible officer - Partnership Secretary	**Overdue** Our audit identified returns that were not completed in 2017-18, despite management actions being undertaken as reported in the prior year annual audit report. This is discussed further in recommendation one on page 23.

Pension assumptions review

Level of prudence compared to KPMG central assumptions

Outside normally acceptable range | *Cautious* | *Balanced* | *Optimistic* | *Outside normally acceptable range*

Acceptable range

Fund: **Tayside Pension Fund** **Fund Actuary:** **Barnett Waddingham**	**OVERALL ASSESSMENT OF ASSUMPTIONS FOR IAS 19** The overall set of assumptions proposed by the Employer can be considered to be balanced relative to our central rates for a typical UK scheme with a duration of 19 years and within our normally acceptable range.			*Balanced*
Assumption	**Entity**	**KPMG central**	**Commentary**	**Assessment vs. KPMG central**
Discount rate	2.55%	2.51%	The Employer's proposed assumption is considered to be balanced and within our normally acceptable range.	
Pension Increase Rate	2.30%	2.15%	The Employer's proposed assumption is considered to be cautious but within our normally acceptable range.	
Salary increases	CPI plus 1.0%	CPI plus 0% to 2.0%	The salary inflation assumption is within our acceptable range and is in line with management's expectations of salary inflation.	
Life expectancy at retirement **Males currently aged 45 / 65** **Females currently aged 45 / 65**	22.1 / 20.3 24.1 / 22.2	23.5 / 22.1 25.4 / 23.9	The life expectancies are consistent with those used in the most recent LGPS valuation and can be considered acceptable.	

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