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 2022

28 October 2022

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 Michael Wilkie, who is the engagement leader for our services to the Partnership, telephone 0141 300 5890, email: michael.wilkie@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 Diane McGiffen, 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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- Management override of controls fraud risk — Page 9
- Retirement benefit obligations — Page 10

We have concluded satisfactorily in respect of both matters.

Control recommendations

Appendix four

	Number
Current year control recommendations	1

Conclusion

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

Wider scope focus areas

Page 16

- Governance and transparency — Page 17
- Financial sustainability — Page 18

We have concluded that it is appropriate to adopt the small body clause in relation to the full application of the wider scope work due to Tactran's size. As a minimum the code requires annual audit work to focus on financial sustainability and governance and transparency.

Financial position

Page 5

Tactran is now permitted to accumulate a general fund reserves due to amendments made in the Transport (Scotland) Act 2019. Total income was £1,506,000 for 2021-22, matched to expenditure of £1,595,000.

Tactran had £43,000 net assets as at 31 March 2022 arising due to the reduction in the net pension liability. 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 by requisition under the Act.

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 engagement was extended by Audit Scotland to 2021-22 in order to mitigate any potential impact of Covid-19 on the process for the next period of appointment.

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 15 March 2022.

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 and 'Other Income' of £983,250 . Income decreased in comparison with the prior year, due to additional income of £137,000 from Central Government in the prior year. Requisitions from constituent local authorities remain consistent year on year at £103,000.

Resources expended

Expenditure is largely in line with the prior year.

The provision of services have moved from a £32,000 surplus to a deficit of £89,000 in the current year, primarily due to the decrease in income with expenditure remaining consistent with the prior year. The total comprehensive income and expenditure statement was £217,000 which reflects the accounting entries in respect of changes in pension assumptions and valuation of pension assets (see page ten for more details) and accumulated absences.

Comprehensive income and expenditure statement	2021-22 £000	2020-21 £000
Incoming resources		
Highways and transport services	(1,403)	(1,528)
Constituent council requisitions	(103)	(103)
Total incoming resources	**(1,506)**	**(1,631)**
Resources expended		
Highways and transport services	1,539	1,544
Corporate and democratic core	51	51
Financing and investment expenditure	5	4
Total resources expended	**1,595**	**1,599**
Deficit/(Surplus) on provision of services	**89**	**(32)**
Re-measurement of the net defined benefit liability/ (asset)	**(306)**	**14**
Total comprehensive (income) / expenditure	**(217)**	**(18)**

Source: Audited annual accounts 2021-22

Financial position (continued)

The graph presented opposite shows the sources of income and expenditure, resulting in a small deficit at year end. The Partnership received £103,000 from constituent council members,

Where income increased or remained the same compared to 2020-21, or costs decreased, the bars are blue.

Where income decreased compared to 2020-21, costs increased, or costs remained the same, the bars are orange.

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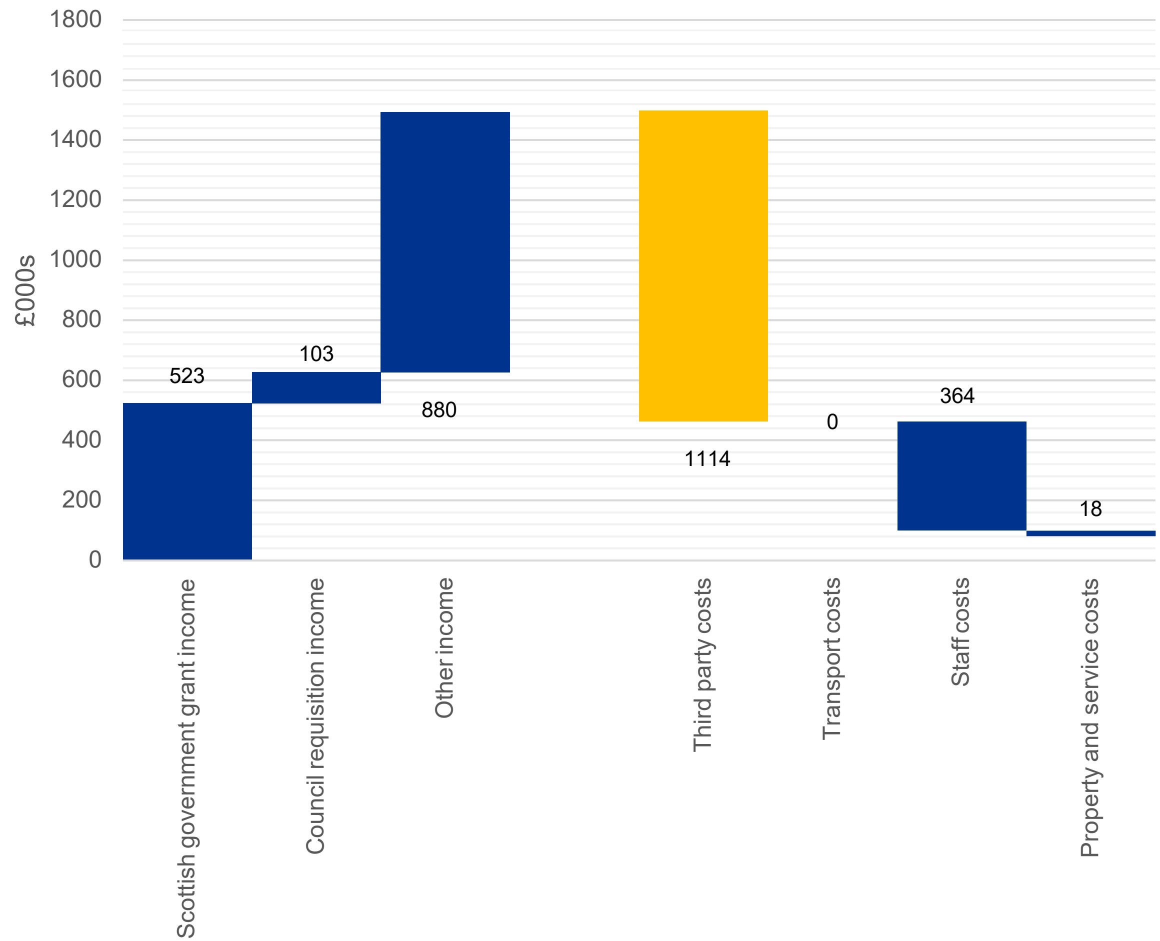

Financial position (continued)

Balance Sheet

Tactran had net assets of £43,000 as at 31 March 2022, which arises due to the application of IAS 19 (£48,000), accumulated absences reserve (£9,000) and general fund reserve £100,000.

Balance Sheet	2021-22 £000	2020-21 £000
Current assets		
Debtors	219	211
Cash at bank and in hand	160	51
Liabilities		
Creditors: amounts falling due within one year	(288)	(164)
Other long term liabilities	(48)	(272)
Net Assets/(liabilities)	**43**	**(174)**
Financed by fund balances and unusable reserves:		
General Fund Reserve	100	102
Pensions Reserve	(48)	(272)
Accumulated absence	(9)	(4)
Total	**43**	**(174)**

Source: Audited annual accounts 2021-22

Debtors have stayed constant in the year, while in contrast cash and creditors both increased as a result of the timing of creditors at year-end. In particular, Tactran received advance notification in late 2021 of additional funding from Transport Scotland (ultimately confirmed and received by 31 March 2022). As a result, it progressed the identification and award of funding to additional projects during the year, from early 2022. A number of these were not paid over to relevant bodies by 31 March 2022 and consequently reflected within creditors. The pensions reserve decreased as a result of changes in the actuarial assumptions covering financial and demographic forecasts, as set out on page 25.

Going concern

The Partnership had net assets of £43,000 (2020-21 liability £174,000) as at 31 March 2022. The significant movements against 2020-21 were due to increases in cash deposits (£109,000) and to the accounting requirements of IAS19 (£224,000).

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

- Although the Partnership has moved into a net asset position, this has arisen as a result of the accounting requirements of International Accounting Standard ("IAS") 19 *Employee Benefits*. These are long-term liabilities and will be met by future funding to the Tayside Pension Fund, and by returns on investments.
- Management also considers that the confirmed grant in aid and constituent member requisitions in 2022-23 to be sufficient to cover liabilities as they fall due. For 2022-23 Management believe it reasonable to assume that the level of funding seen in the previous years will continue.
- Under the Transport (Scotland) Act 2005, the constituent local authorities have a legal obligation to meet all liabilities borne by Tactran.

Due to the change in legislation the Partnership is now able to hold useable reserves. The Partnership recognised a general fund reserve of £100,000 in the year, providing further assurance over the Partnership's future financial sustainability.

The approved core budget for 2022-23 shows a net deficit of £14,000 funded through the general reserve, with £508,761 gross expenditure. This will be funded by agreed constituent council requisitions, and expected grant-in-aid from Scottish Government.

Conclusion

The Partnership had net asset position of £43,000 as at 31 March 2022, primarily due to an IAS 19 pension deficit which does not impact on service delivery.

The Partnership prepared a short term financial budget for 2022-23 which shows a small deficit funded through the general reserve 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 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 £25,000 (2020-21: £25,000) for the Partnership's annual accounts. This equates to 1.6% of 2021-22 gross expenditure. We designed our procedures to detect errors in specific accounts at a lower level of precision than our materiality set at £18,750 (2020-21: £18,750). We report all misstatements greater than £1,250.

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;
- 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; and
- 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 2021-22 ("the CIPFA Code").

We are satisfied that the financial statements have been prepared in line with this CIPFA Code. We received the unaudited accounts and working papers in advance of the statutory deadline.

Working papers were provided as agreed at the start of the audit fieldwork in August 2022, along with draft accounts and the management commentary. Audit queries were answered in a timely manner, with supporting documentation and explanations provided as required.

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:

- Fraud risk from management override of controls;
- Fraud risk from income revenue recognition and expenditure (rebutted); and
- Retirement benefits obligations.

Other Risks:

- Completeness and accuracy of expenditure; and

Wider scope other focus areas:

- Governance and transparency; and
- Financial sustainability.

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

Significant risks and focus areas

Significant risk	Our response	Audit conclusion
Fraud risk from management override of controls* Professional standards (ISA 240 *The Auditor's responsibilities relating to fraud in an audit of financial statements*) require us to communicate the presumed 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 that otherwise appear to be operating effectively.	— 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. — We reviewed the 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. — In line with audit standards, we carried out an assessment of the design and implementation of controls surrounding the preparation and posting of journals within Xero.	*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 and expenditure (rebutted) Professional standards (ISA 240 and Practice Note 10 ("PN10") Audit of financial statements of public sector bodies in the United Kingdom require us to make a rebuttable presumption that the fraud risk from revenue recognition and expenditure are significant risks.	— Tactran receives funding requisitions from Perth and Kinross Council, Stirling Council, Dundee City Council and Angus Council, with grant in aid provided by the Scottish Government. These are agreed in advance of the year. There is no estimation or judgement in recognising these income streams and we do not regard the risk of fraud to be significant. We do not consider the other sources of income to be significant. — There is no estimation or judgement in recognising expenditure to these bodies, and we do not regard the risk of fraud to be significant. We consider that there is not a risk of improper recognition of expenditure in respect of payroll, rent, insurance and management costs. These costs are routine in nature and not at risk of manipulation. — We recognised that other operating expenditure was material during the year, and this was reflected in our risk assessment and audit procedures. We considered that the expenditure undertaken by Tactran is on projects which are supported by both constituent bodies and external funders. We did not consider there to be a risk of fraud over this operating expenditure as these costs do not require judgement or estimation.	*We rebutted the presumed risk of fraud over income streams , and expenditure as set out in our Audit strategy. Our conclusion remains unchanged.* *Our conclusion is that income and expenditure is appropriately stated, in line with the CIPFA Code.*

** We set out above the significant risk identified in the audit, together with our conclusion. The audit opinion within the annual accounts includes a reference to the most significant assessed risks of material misstatement, which is the significant risk included in this annual audit report. This annual audit report does not constitute our audit opinion; the opinion is included within the annual accounts.*

Significant risks and focus areas (continued)

Significant risk	Our response	Audit conclusion
Retirement benefit obligations Tactran 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 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 calculation of the pension liability is inherently judgemental.	As set out in our audit strategy document, our audit approach included: **Control design:** — Testing the design and operating effectiveness of controls over the provision of membership information to the actuary who uses it, together with management's review of assumptions, to calculate the pension obligation.	As part of its own processes in respect of pensions, Perth and Kinross Council carries out an assumptions review which is also applicable to Tactran. Following our recommendation to the Council in the 2019-20 audit in respect of assumption review, management introduced a high level review of the assumptions recommended by the fund's actuary, and adopted in respect of the Council's participation in the fund. This review is intended to identify any significant differences between the assumptions adopted which are specific to the Council against the publicly available market data, in order to allow appropriate challenge management should the need arise. In order to gain expert advice, management engage an actuary through the pension fund to provide these assumptions which management may or may not choose to adopt. While the control environment has been strengthened as a result of the introduction of this control, we consider that in order for us to rely on it, it would need to be informed by an additional independent experienced actuary. The prior year recommendation thus remains. ***Appendix 4 – prior year recommendations***

Significant risks and focus areas (continued)

Significant risk	Our response	Audit conclusion
Retirement benefit obligations (continued) Significant Risks identified during the year Two significant court cases were concluded upon in 2019, relating to Gross Minimum pensions equalisation, and the McCloud case. Both judgements are considered by KPMG to have an impact on the pension liability due to the level of estimation and assumptions used by management and the actuary. We therefore included these areas within our significant risk. In addition, CIPFA issued guidance during the year relating to the Goodwin case, which relates to a male survivor of a female scheme member and is alleging direct sexual orientation discrimination.	As set out in our audit strategy document, our audit approach included: **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.	Continued… *We are satisfied that the retirement benefit obligation:* — *is correctly recognised on the balance sheet as at 31 March 2022;* — *has been accounted for and disclosed correctly in line with International Accounting Standard ("IAS") 19 Retirement benefits; and* — *assumptions used in calculating this estimate and management's judgements are appropriate and within a range which we consider to be acceptable (see Appendix five)* Results of testing of controls in respect of provision of information to the actuary and management review of assumptions were satisfactory. The disclosures in the annual accounts are in line with the CIPFA Code's requirements, including relevant sensitivity analysis.

Significant risks and focus areas (continued)

Significant risk	Our response	Audit conclusion
Retirement benefit obligations (continued)	Continued… **GMP:** We discussed with management any updates regarding this matter, and how these impacted the audit. On 20 November 2020, the High Court handed down a further judgment on the Guaranteed Minimum Pension ('GMP;) equalisation case in relation to the Lloyds banking group pension schemes. This follows from the original judgment in October 2018 which confirmed that schemes need to equalise pensions for the effect of unequal GMPs between males and females. This latest judgment confirms that Defined Benefit (DB) schemes which provide GMPs need to revisit and where necessary top-up historical Cash Equivalent Transfer Values that were calculated based on unequalised benefits. **McCloud:** CIPFA issued a supplement to CIPFA Bulletin 5 to provide an update on the McCloud and Goodwin cases in respect of pension liabilities. It confirmed that the Scottish Government consultation on proposals to provide a remedy to the McCloud and Sargeant cases as an adjusting event. As noted in our previous year's annual audit report, no further changes were made to the calculation of the pension liability, however, we continue to monitor the Scottish Government's consultation to determine whether further changes are required. **Goodwin, Brewster and Langford:** For the Goodwin case, although proposals have not yet been published, a statement from the Treasury confirmed that changes will be required that will increase pension liabilities. A contingent liability was disclosed in the 2019-20 annual accounts in respect of the Goodwin case, and we agreed that no disclosure was required in respect of the 2020-21 annual accounts due to the materiality of the impact, but we will continue to consider any guidance or statements from government which may quantify a change in liability. The other two cases apply to a small proportion of member's benefits payable in certain circumstances.	Continued… Guaranteed minimum pensions ('GMP') equalisation Full allowance for the 2018 GMP equalisation ruling was taken into account by the Partnership during 2019-20, and we are satisfied no further consideration is required. McCloud consultation The Partnership recognises an additional liability of 0.4% of the DBO for McCloud in 2019, which we assessed for year end 2019. This adjustment has been carried forward to 31 March 2022. There has been no change to the long term future salary increase assumption or active membership profile. There have been no changes Goodwin, Brewster and Langford cases The recent rulings in relation to public sector schemes – e.g.. Goodwin, Brewster, Langford, each relate to a small proportion of members' benefits payable in certain circumstances. Each of these rulings is expected to have a small impact on a small number of members' benefits. These rulings have been discussed with each of the LGPS Actuaries, who confirmed that they have made no allowance for them on the grounds of materiality.

Other focus areas

Other focus area	Our response	Audit conclusion
Completeness and accuracy of expenditure The Partnership receives expenditure forecasts from Perth and Kinross Council, Stirling Council, Dundee City Council and Angus Council as part of the annual budgeting process. There is a risk that actual expenditure and resulting funding requisition income is not correctly captured.	Our approach in respect of this includes: —Vouching a sample of expenditure items to supporting documentation to test accuracy and existence of expenditure; and —Reviewing a sample of the largest expenditure items post year end to ensure these were recorded in the correct period.	We have concluded that that expenditure is appropriately recognised. No exceptions were identified in respect of expenditure testing and testing of high risk expenditure journals. Our testing of this exercise did not identify errors in expenditure cut-off.

Audit conclusions

Audit opinion
We have issued an unqualified opinion on the truth and fairness of the state of the Partnership's affairs as at 31 March 2022, 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 2021-22 ("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.
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 in line with the 2014 regulations. 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 2021-22 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 Tactran's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
We consider the accounting policies adopted by the Council to be appropriate. There are no significant accounting practices which depart from what is acceptable under IFRS or the CIPFA Code.

Significant accounting estimates relate to the present value of defined benefit obligations. For defined benefit obligations, the estimate is calculated under IAS 19 (as calculated by the Council's actuary, Barnett Waddingham using agreed financial assumptions). With the assistance of our internal actuarial specialists we found the assumptions and accounting for pensions to be appropriate (page 25).

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

Future accounting and audit developments

In April 2022, CIPFA/LASAAC agreed to delay the implementation of IFRS 16 *Leases* until the 2024-25 financial year as a result of delays in the publication of audited local authority statement in England. The standard removes the previous classifications of operating and finance leases for lessees (with exemptions for short-term and low value leases) and requires a right-of-use asset to be recognised, with a corresponding lease liability.

Tactran leases its buildings, Bordeaux House, which will require consideration in 2024-25. The impact will be material to Tactran's financial statements.

The entity is currently assessing the impact of the new standard and plans to adopt the standard for the 2024-2025 financial year.

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.

The Code of Audit Practice allows for an exemption from the requirement of a full wider scope of audit to apply to all bodies where the auditor judges that it is not appropriate due to size, nature and risks of the body. Due to Tactran's co-ordination role, the transactions in the accounts are routine and consequently, we have concluded that the small body clause is appropriate and therefore our work over wider scope will be restricted to Financial Sustainability and Governance and Transparency.

Conclusion

In summary, we were satisfied with the arrangements in place for ensuring Best Value at Tactran in both respect of its governance arrangements and its processes and procedures in respect of ensuring financial sustainability.

Governance and transparency

Openness 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 has 10 councillor members and 5 non-councillor members.

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 15 March 2022. In line with best practice, the management commentary discloses the key risks in sufficient detail to enable a reader to sufficiently understand them and for appropriate actions to be taken.

Annual governance statement

We consider the appropriateness of disclosures included in Tactran's annual governance statement as part of our routine audit.

Scottish Local Government elections were held in May 2022 which led to the return of 10 councillor members to the Partnership board. The appointment of a chairperson and deputy chairperson was dealt with during the June 2022 partnership board meeting.

As highlighted on page 15, we are satisfied the annual governance statement makes appropriate disclosure in line with legislation and CIPFA's Delivering Good Governance in Local Government Framework.

KPMG

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. 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. 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 NTS was published by Transport Scotland on 05 February 2020. The review sets out the vision for the next 20 years in terms of redefining investment priorities and putting sustainable and public transport at the heart of decision making. Scottish ministers agreed that a regional approach to transport governance should be the way forward.

The collaboration work with Tay Cities has continued. Tactran was given the lead role in relation to the Regional Transport Partnership, acts as the Secretariat for the Tay Cities Regional Transport Working Group ("RTWG") and provides logistical support for the Forth Valley RTWG. All of these developments strengthen the regional approach to transport planning and its integration with strategic planning and economic development.

These developments provide an opportunity to strengthen the regional collaboration and partnership that Tactran embodies and advocates.

Impact of COVID-19 on services and going concern

We consider that the going concern assessment made by management, and its basis of preparation paragraph to be reasonable. The Partnership prepared a short term financial budget for 2022-23 which shows a small deficit funded through the general reserve and is supported by sufficient levels of income to manage any liabilities as they fall due. The 2022-23 budget reflects income of £494,761 and expenditure of £508,761.

Tactran continued to work through-out the pandemic. They continue to engage and advise with Transport Scotland, ScotRail, other RTP's and public transport operators to co-ordinate an approach to planning and to support economic recovery.

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.

Tactran migrated to the accounting package Xero as of 01 April 2020, which serves to strengthen the control environment by reducing the risk of human error and processing time.

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.

Appendices

Appointed auditor's responsibilities

AREA	APPOINTED AUDITOR'S RESPONSIBILITIES	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 14 summarises the opinions we provided. Page 15 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 smaller audited bodies': - appropriateness of the disclosures in the governance statement - financial sustainability of the body and the services that it delivers over the medium to longer term.	We have set our conclusions over the audit dimensions on page 17.

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.

Total fees charged by us for the period ending 31 March 2021 can be analysed as follows:	2021-22 £	2020-21 £
Audit of Tactran' financial statements	16,630	16,340
Total audit services	**16,630**	**16,340**
Non-audit services	-	-
Total	**16,630**	**16,340**

There were no non-audit services provided during the year to 31 March 2022.

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	OK	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 2022.
Adjusted audit differences	OK	There were no adjusted audit differences.
Unadjusted audit differences	OK	There were no unadjusted audit differences.
Related parties	OK	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	OK	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	OK	All control deficiencies identified are included within this report.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	OK	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	OK	No significant difficulties were encountered during the audit.
Modifications to auditor's report	OK	None.
Disagreements with management or scope limitations	OK	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	OK	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	OK	No matters to report. The engagement team has complied with relevant ethical requirements regarding independence.
Accounting practices	OK	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	OK	The key audit matters (summarized on pages nine through 12) from the audit were discussed with management.

Prior year recommendations

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

Priority rating for recommendations		
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 Council 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.

Original finding and risk	Recommendation	Original Actions	Status
1. Management Review of Manual Journal Entries	**Grade Three**		
Testing of the design and implementation of the management review of journal entries identified that while the control has been strengthened by the implementation of Xero, it does not meet the high bar KPMG require to rely upon it as a single individual has the ability to initiate, authorise and record a transaction, such that they are able to perpetrate and conceal an error or irregularity. The control does not therefore have sufficient segregation of duties.	We recommend that a control is implemented that prohibits the ability of one employee being able to initiate, authorise and record a manual journal entry., with the recording and authorisation of the journal entry being carried out by separate individuals.	**Management response**: Journal sign off process will be improved with documentary evidence showing a request and authorisation of all inputs and amendments to manual journals within Xero. The request and authorisation will be undertaken by different individuals. **Implementation date:** 30 September 2021 **Responsible officer:** Treasurer	Implemented

Prior year recommendations (continued)

Original finding and risk	Recommendation	Original Actions	Status
2. Management Review of Pension Assumption	**Grade Three**		
Testing of the Management review of Pension assumptions identified that while the control environment has strengthened, it does not meet the high bar required to enable KPMG to rely upon it. Auditing standards require auditors to identify a management control where there is a significant risk. In the case of the defined benefit pension liability significant risk, we have not been able to identify a management control which is carried out to an acceptable level of expertise as required by the auditing standards. Due to the specialist nature of pension assumptions, we consider that the officer carrying out the review does not have the necessary specific expertise to fully review and challenge the assumptions and estimates that the Actuary suggested for the Defined Benefit Obligations.	We recommend that should management wish to meet this requirement, that they will need to carry out a predictive review of the methodology and assumptions that are being proposed to calculate the net liability of the defined benefit pension scheme held by the Council. This would require the services of an additional independent actuary. This control point does not impact upon our planned audit approach and is a common audit finding across our portfolio.	**Management response:** Tayside Pension Fund engages independent actuaries to undertake an annual review of the Fund. Tactran places reliance on the professional, independent judgement of the actuaries to ensure that the assumptions remain reasonable. Tactran will not be incurring additional cost to review the work of the independent actuary. Tactran will, however, continue to undertake an inhouse review of the pension assumptions to ensure that they are reasonable. **Implementation date:** n/a **Responsible officer:** n/a	Not implement. Due to the high level of precision required to meet the “management review control” requirement of the auditing standards, this finding remains.

Pension assumptions review

Level of prudence compared to KPMG central assumptions

Outside normally acceptable range | *Cautious* *Balanced* *Optimistic* (*Acceptable range*) | *Outside normally acceptable range*

Overall assessment of assumptions for IAS 19 for audit consideration

The overall assumptions adopted by the Employer are considered to be balance relative to our central rates and with our normally acceptable range overall

Balanced

Underlying review of individual assumptions		Methodology	Consistent methodology to prior year?	Compliant methodology with IAS 19?	Employer	KPMG Central	Assessment vs KPMG Central	Significant Assumption
Discount rate		AA Yield curve	✓	✓	2.60%	2.64%		✓
CPI inflation		Deduction to inflation curve	No, See explanation on page 10	✓	3.20%	3.22%		✓
Salary increases		Employer best estimate	✓	✓	4.20%	In line with long-term remuneration policy		✓
Pension increases		In line with CPI	✓	✓	3.20%	Employer's CPI assumption		
Mortality	Base tables	In line with most recent Fund valuation	✓	✓	110% of the SAPS Series 3 Heavy tables	In line with best-estimate Fund experience		✓
	Future improvements	Latest available CMI model	✓	✓	CMI 2020 projections model, 1.25% long-term trend rate, smoothing parameter of 7.5, default initial addition parameter and a 2020 weight parameter of 25%	CMI 2021 projections model, 1.25% long-term trend rate and default smoothing and Company specified initial addition parameters		✓
Other demographics		In line with most recent Fund valuation	✓	✓	Members assumed to commute 50% of the maximum tax-free cash	In line with Fund experience		

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