

South West Scotland Transport Partnership

Annual report on the 2010/11 audit



Prepared for Members and the Controller of Audit
October 2011

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Key messages

2010/11

In 2010/11 we looked at the key strategic and financial risks faced by South West Scotland Transport Partnership ("the partnership"). We audited the financial statements and looked at aspects of governance, use of resources and performance. This report sets out our main findings, summarising key outcomes from the 2010/11 audit and the outlook for the period ahead.

We have given an unqualified opinion that the financial statements of South West Scotland Regional Transport Partnership for 2010/11 give a true and fair view of the state of the affairs of the board as at 31 March 2011 and of the income and expenditure for the year then ended.

Revenue expenditure for 2010/11 was £4,445k. For its revenue expenditure the partnership recorded a year end breakeven for 2010/11, with an overall underspend of £430k on the capital programme which was carried over to 2011/12.

Our review of the partnership's governance arrangements found they were sound overall; however several areas could be improved. A number of issues had been progressed by the board meeting of July 2011 and the Lead Officer has agreed to ensure that the outstanding areas, three year revenue budgeting and regular reporting of bus contracts performance, will be resolved by March 2012.

In 2009/10 we reported that slippage against the partnership's capital plan was continuing and was around 35%. In 2010/11 this improved to 25%, however it is important that this continues to be closely monitored and reported to the board.

During 2010/11 the partnership has continued to develop its performance management arrangements, including the agreement of a range of indicators to monitor the Regional Transport Strategy.

Under the Public Services Reform Act 2010 the partnership has reported expenditure in the specified categories to the July board meeting and this will be published in the forthcoming Annual Report.

Outlook

Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in the UK Comprehensive Spending Review indicate that significant budget reductions will be required in these years and it is estimated that by 2013/4 the Scottish Government's revenue budget could be around 11.9% less than its 2009/10 peak in real terms.

The partnership has a considerable challenge in effectively delivering services with decreasing levels of income. The forthcoming tendering round will be informed by the Root and Branch review findings, due to report to the board in November 2011. Future tender prices are expected to be significantly more than the tenders currently in place.

Board members and officers have recognised these challenges and continue to take steps to make savings. The partnership's revenue budget for 2011/12 is £4,177k and shows a slight increase in funding in cash terms.

The co-operation and assistance given to us by board members and officers is gratefully acknowledged.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of South West Scotland Transport Partnership ("the partnership"). The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. Appendix A provides details of our reports issued during 2010/11. We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of the organisation.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the organisation understands its risks and has arrangements in place to manage these risks. The partnership board should ensure that it is satisfied with the proposed management action and has a mechanism in place to assess progress.
4. This report is addressed to members and the Controller of Audit. It should be made available to the public and other stakeholders. Audit is an essential element of accountability and the process of public reporting. This report will be published on our website after consideration by the board.
5. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

6. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
7. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
8. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, statement on the systems of internal financial control and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit of the financial statements.

Audit opinion

9. We have given an unqualified opinion that the financial statements of South West Scotland Transport Partnership for 2010/11 give a true and fair view of the state of the affairs of the partnership as at 31 March 2011 and of the income and expenditure for the year then ended.

Legality

10. Through our planned audit work we consider the legality of the organisation's financial transactions. In addition the treasurer has confirmed that, to the best of his knowledge and belief, the financial transactions were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Statement on the system of internal financial control

11. We are satisfied with the statement on the system of internal financial control and the adequacy of the process put in place by the partnership to obtain assurances on the system of internal control.

Remuneration report

12. 2010/11 was the first year that local authority bodies were required to produce a remuneration report as part of the financial statements. This disclosed the payments made and the pension benefits accrued for key officers and also for members. The partnership did not produce a remuneration report for 2010/11 as it does not directly employ any staff, the Lead Officer and others being seconded from Dumfries and Galloway Council and the time of other support

staff cross charged. No board members, either elected councillors or external appointees, received any additional remuneration for their time. This is explained in a note to the accounts.

Accounting issues

13. Local authorities in Scotland are required to follow the 2010 Code of Practice on Local Authority Accounting in the United Kingdom (the 2010 Code), including for the first time in 2010/11 the application of International Financial Reporting Standards (IFRS). We were satisfied that the accounts were prepared in accordance with the 2010 Code.

Accounts submission

14. The partnership's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2011. A comprehensive working papers package was also available by this date. This enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2011. The financial statements are now available for presentation to members and publication.

Presentational and monetary adjustments to the unaudited accounts

15. There were no audit adjustments required to the financial statements as a result of our audit findings however a number of presentational changes were identified and these have been corrected by the treasurer as appropriate.

Prior year adjustments

16. The 2010/11 financial statements have been prepared in accordance with the 2010 Code which is based on International Financial Reporting Standards (IFRS) instead of the previous practice of preparing financial statements under UK Generally Accepted Accounting Practice (GAAP). This transition required a prior year adjustment to the 2009/10 audited financial statements and the restatement of the 1 April 2009 opening balance sheet position. The only area that required restatement was the treatment of capital grants.

Acquisition of fixed assets

17. 2009/10 was the first year the partnership acquired any fixed assets when it purchased four Disability Discrimination Act compliant vehicles at a cost of £405k for leasing to contractors to provide bus services. During 2010/11 it acquired seven further vehicles at a cost of £648k. We have confirmed that arrangements for the maintenance of the asset register and accounting for depreciation were in line with Code requirements.

Audit appointment for 2011/12

18. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment. The procurement process for the next five years was completed in May 2011. From next year (2011/12) the Accounts Commission has appointed a new audit team from PWC to audit the partnership.

Financial position

19. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
20. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
21. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

22. The net operating expenditure for the partnership in 2010/11 was £4,445k, a breakeven position against budget. There were minor underspends and overspends on budget lines however the vast majority of spending was on payments to bus operators.
23. There were no revenue funds held by the partnership at year end 31 March 2011. There was a £430k underspend on capital programme, which was carried into the 2011/12 capital programme. This is examined in more detail at paragraph 53.

2011/12 budget

24. A revenue budget of £4,177k was agreed on 25th March 2011 for the 2011/12 financial year, a slight increase against the 2010/11 original published budget. The budget monitoring reported to the partnership for the period to 31 August 2011 showed that a breakeven position is projected for 2011/12. The latest budget reports show that further grant funding of £93K has been identified for GoSmart Dumfries.

Financial forecasts beyond 2011/12

25. Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in the UK Comprehensive Spending Review indicate that significant budget reductions will be required in these years, with the overall Scottish Government 2013/14 revenue budget likely to be around 11.9% below the 2009/10 budget and the capital budget likely to fall 12% in real terms in each of the three years to 2013/14. The business plan only projects a budget for 2011/12; however it acknowledges that several longer term capital projects are unlikely to be funded in this period.

26. Subsidies for bus services constituted around 94% of the partnership's revenue budget for 2011/12. If the partnership's budget falls in line with the general projection forecast for the Scottish Government budget, there will be pressure to make reductions in the level of services provided. With three quarters of the bus service contracts due for renewal in April 2012, and given significant rises in fuel prices (leading to a 44% rise in the new contracts agreed in April 2010 compared to previous ones) it is expected there will be substantial rises in the contract prices offered. There is consequently a risk that existing service levels cannot be maintained.

Refer Action Plan no. 1

Governance and accountability

27. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
28. Through its board, chief executive/lead officer and proper officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
29. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
30. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

31. The partnership board met seven times in 2010/11 to consider reports and issues such as budget approval, budgetary control and performance. The board's membership consists of five councillors and two external appointments and meetings are generally well attended, including observers from a range of interests. The standard of reports put to the board are in general good.
32. The partnership does not have an audit committee with internal and external audit reports being considered by the full board as appropriate.

Internal control

33. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
34. The organisation's financial systems are the same as those operated by Dumfries and Galloway Council. Our review of the council's financial systems did not identify significant issues relating solely to the partnership.

35. There were no disclosures regarding control weaknesses or other issues in the Statement on the System of Internal Control.
36. Our review of internal management policies found several areas, including reporting to the board on progress with the risk register, reporting on the RTS Delivery Plan and development of three year revenue budgets, need further development and these were reported in our Governance Report for 2011/12. A number of the actions were progressed for the July 2011 board meeting and the remaining two, regarding three year revenue budgeting and reporting of the performance of bus contracts, have been agreed to complete in March 2012.
37. Going forward, while the partnership still has some corporate governance arrangements to develop it has made good progress in this area since its inception.

Best Value, use of resources and performance

38. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
39. Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
40. As part of their statutory responsibilities, the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
41. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments
42. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
43. This section includes a commentary on the Best Value and performance management arrangements within the partnership. We also note any headline performance measures used.

Performance management

44. The partnership measures its performance through revenue and capital budget reporting, the monitoring of the Regional Transport Strategy, and reporting progress on the risk register. In September 2011 the board considered a set of baseline key performance indicators (KPIs) in the areas of transport activity, greenhouse gas emissions and public transport use. These will now be reported to the board regularly, however there are gaps in the data, time delays of up to two years for some measures and some issues regarding modelling work to understand the implications of some of the data. How to address these issues and how to set targets for the KPIs where appropriate will have to be agreed at a future board meeting.

Refer Action Plan no. 2

45. An annual report is also presented to the board and is made available to the public; however the content to date has not included much in the way of performance measures. It is intended

to develop the reporting of performance in the annual report in parallel with the development of the performance measures described above.

Community/user engagement

46. The Real Time Passenger Information project has introduced message systems at bus stops to inform passengers of real time bus movements. A Passenger Perception Survey was undertaken, both before and after project implementation. The pre-implementation findings suggested that passengers would find the addition of the system a positive move. The post implementation results show that the level of information provided is viewed as a good improvement to the bus service provision.

Overview of performance in 2010/11

The partnership's performance measurement outcomes

47. Without clear performance targets during 2010/11 it is difficult to conclude how the partnership performed, however the business plan will be next reviewed in 2012 and by that time the KPIs, targets and modelling should be far better established to assess performance.
48. The partnership's programme of work, detailed in the business plan described below, is based on prior year achievements, resource pressures and anticipated workload in other areas. Developing a performance reporting system and analysing the data from it will have to be absorbed in the existing revenue budget.

Business Planning

49. In July 2011 the board agreed a revised three year business plan for 2011-14. It is intended to address the Priority Interventions identified in the Regional Transport Strategy and progressed through the programme of projects listed in the business plan. It will be revised annually and altered as the implications of future public sector budget pressures and savings emerge.

Financial Constraints and the Root and Branch Review

50. As reported above, the funding situation for the partnership for the foreseeable future is very constrained. An additional factor which gives rise for concern is that around three quarters of the local bus contracts are due to be retendered for commencement in April 2012. Costs in the remainder of the contracts, which recommenced in April 2010, had risen by an eventual figure of 44% over the previous budgets, mainly due to fuel cost rises, and a similar rise is anticipated for the current round. The vast majority of the partnership's expenditure is on subsidies for rural bus services so it is unlikely that the existing service level could be maintained in these circumstances. To assess the key priorities for future services the partnership is conducting a Root and Branch Review of bus services. This has included a public consultation exercise involving asking the public to prioritise the sort of service user needs it thinks are most important to fund (employment, education, health, transport links,

retail, personal activity) This has resulted in the production of a hierarchy of travel needs. The review, which is still in progress, will produce a framework in which the unsustainable costs associated with the procurement of the existing local bus network can be addressed. This is due to go to the board at its November 2011 meeting and is crucial to informing the tendering process for services beginning in April next year.

Refer Action Plan no. 3

51. Since 2009/10 the partnership has acquired a number of buses which have been offered to contractors who tender to run subsidised services. One of the main aims of this arrangement was to secure savings and the partnership has estimated that to date the practice of purchasing buses and then leasing them out to operators has generated savings. Providing a vehicle to operators is also designed to remove one of the barriers to tendering for a service. Given the funding situation going forward and the likely substantial increase in tender prices it is important that the partnership should review the success of this approach in securing planned efficiencies given that in 2011/12 it is planned to purchase further vehicles using £550k of the partnership's capital budget.

Refer Action Plan no. 4

Monitoring of GoSmart project

52. GoSmart is a major, high profile capital project with total funding of £6.68 million over four years. Some concern had been expressed by internal audit about the frequency of reporting to the partnership board on progress with the project. It was agreed that more frequent reports should be made and over the past 12 months there have been three reports giving details of key milestones passed and the level of financial expenditure made. The latest progress report to the board in May 2011 showed that most aspects of the project were progressing according to plan although there were some delays in capital projects as described in paragraph 53 below. A successful bid for ERDF/LUPS grant funding has extended the project from a three to a four year timescale and there are a number of project elements still to be progressed in 2011/12. It is important that progress continues to be monitored and reported to the partnership board.

Capital Slippage

53. During 2009/10 we reported that 35% of the partnership's capital expenditure remained unspent. In 2010/11 the year end position was that £430k was carried forward out of a total budget of £1.735m, slippage of around 25%. This was due to various factors such as delays in consultation processes, the need to prioritise Scottish Government funded projects as funding would be lost if there was slippage, and a delay in an EU decision for a specific project. Slippage is less than the previous year however the partnership needs to continue to monitor the capital programme tightly.

Refer Action Plan no. 5

Risk Management

54. During 2010/11 the partnership further developed its risk management arrangements, presenting a Risk Management Plan to the board in July 2011. This included a fully populated risk register and follows council's own guidance on risk management. Awareness training is planned for RTP officers and the risk register will be reviewed at regular intervals, at least annually.

National performance reports

55. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of interest are detailed in Exhibit 1:

Exhibit 1: A selection of national performance reports 2010/11

- | | |
|---|--|
| <ul style="list-style-type: none">• Scotland's public finances: responding to the challenges• Improving energy efficiency: a follow-up report• Transport for Health and Social Care | <ul style="list-style-type: none">• An overview of local government in Scotland 2010 |
|---|--|

Source: www.audit-scotland.gov.uk

56. Officers should review national performance reports as they become available and consider the impact of the findings on the board. We are pleased to see that the September board meeting included two of the above reports ("Transport for Health and Social Care" and "Scotland's Public Finances - Addressing the Challenge") on its agenda for consideration.

Appendix A: audit reports

External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented
Annual audit plan	8 March 2011	25 March 2011
Review of the internal control system	29 June 2011	22 July 2011
Report on financial statements to those charged with governance	14 September 2011	23 September 2011
Audit opinion on the 2010/11 financial statements	30 September 2011	23 September 2011

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	26	<p>It is likely that tender prices for bus service contracts from April 2012 will be significantly higher than existing contracts.</p> <p>Risk: <i>The partnership is unable to sustain the existing level of service.</i></p>	It is intended that this will be considered initially as part of the tendering process.	Lead Officer	April 2012
2	44	<p>The data set and targets for KPIs to monitor the Regional Transport Strategy have been set but reporting is not yet fully established.</p> <p>Risk: <i>The organisation cannot fully measure its own performance.</i></p>	It is intended to continue reporting KPIs and to develop them further as part of reviewing the business plan.	Lead Officer	July 2012
3	50	<p>The root and branch review and tendering of bus services has yet to be completed.</p> <p>Risk: <i>Any delays in this process would have a serious effect on the provision of services from April 2012.</i></p>	The tendering process will be reported on to the board in November and December 2011.	Lead Officer	November 2011
4	51	<p>The business cases for purchasing further buses should be robust in terms of projected cost savings.</p>	Business cases will be developed for any subsequent purchases as part of future capital programmes.	Lead Officer	July 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>Risk:</p> <p><i>The partnership could fail to use its resources in the most efficient and effective way.</i></p>			
5	53	<p>Capital expenditure continues to show slippage (although at 25% this was less than previous year's 35%).</p> <p>Risk:</p> <p><i>Key projects and their benefits are delayed and projects are more likely to go over budget.</i></p>	<p>Capital expenditure will continue to be monitored closely and the business plan will identify projects for future years.</p>	Lead Officer	Ongoing