

# Tay Road Bridge Joint Board

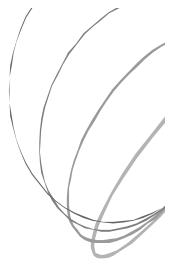
Report to Members on the 2005/06 Audit

September 2006



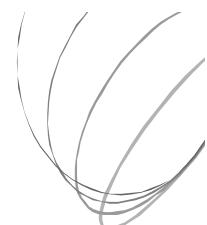
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# Key Messages

In 2005/06 we have audited the financial statements and looked at aspects of governance within Tay Road Bridge Joint Board. This report sets out our main findings. An interim report on capital expenditure was also issued in May 2006.

Overall, we found the financial stewardship of Tay Road Bridge Joint Board during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- An unqualified audit opinion has been issued on the financial statements for 2005/06
- Balances held at 31 March 2006 were in line with the limits set in the Tay Road Bridge Order Confirmation Act 1991
- Capital expenditure has been funded principally through capital grants received from the Scottish Executive
- The Statement on the System of Internal Financial Control included in the accounts complies with accounting requirements and is not inconsistent with audit findings
- Final accounts preparation procedures & working papers were good and this enabled the audit to progress smoothly
- Many aspects of a sound corporate governance framework are in place
- A corporate anti-fraud & corruption strategy, including a fraud response plan, is in place.

Bird Simpson, the Board's internal auditors, concluded that "...reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system in the year to 31<sup>st</sup> March 2006." The Board operates the corporate financial systems of Dundee City Council under a Service Level Agreement. As external auditor of the Council, we have also been able to take assurance from our work on these systems.

Key issues for the Board in the future include the outcome of the Tolled Bridge Review, financial pressures arising from the bearing replacement programme and the increasing cost of pension contributions, and financial reporting changes introduced by the 2006 SORP.

This is the final year of our current appointment to the audit of the Board. From 2006/07, however, Audit Scotland will remain as the Board's appointed auditor and Pearl Tate will continue as the engagement lead. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Board over the five years of our audit appointment.

**Audit Scotland  
September 2006**

# Introduction

1. The members and officers of the Board are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
  - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed;
  - the Board's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests;
  - the Board has adequate corporate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability;
  - the systems of internal control provide an appropriate means of preventing or detecting material mis-statement, error, fraud or corruption;
  - the Board has proper arrangements for securing best value in its use of resources.
2. This report summarises the most significant issues arising from our work during 2005/06. A more detailed report to management on capital expenditure, including an agreed action plan, has also been submitted to officers during the year.

# Financial statements & financial position

3. In this section we summarise key outcomes from our audit of the Board's financial statements for 2005/06, aspects of the Board's reported financial position and performance to 31 March 2006, and provide an outlook on future financial prospects and financial reporting issues.

## Auditor's report

4. We have given an unqualified opinion on the financial statements of Tay Road Bridge Joint Board for 2005/06, concluding that:
  - the financial statements present fairly the Board's financial position at 31 March 2006 and income and expenditure during the year;
  - the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

## Financial position

5. The Board's actual surplus for the year was £297,000 compared to a budgeted surplus of £406,000. The Treasurer's report on pages 6 to 8 of the Statement of Accounts includes a summary of the main factors underlying the financial out-turn. The material transactions impacting on the overspend were lower toll revenue due to a reduction in the volume of bridge traffic and higher capital financing costs. The Tay Road Bridge Order Confirmation Act 1991, Part V 39 (3) set a limit of £3 million or such amounts as agreed by the Joint Board and the Secretary of State to be held in the general reserve. The closing balance on the general reserve was £2.161 million.
6. Capital expenditure totalled £4.059 million and was funded by capital receipts of £34,000 and capital grants of £4.025 million. The Board's capital grant from the Scottish Executive for 2005/06 was £5.1 million and £4.025 million of this was applied in the year, with the balance carried forward to 2006/07. The main area where slippage occurred was in respect of the bearings replacement work.

## Issues arising

7. The Board's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation procedures and working papers were good and this enabled the audit to progress smoothly.

8. Audited accounts were finalised prior to the target date of 30 September 2006 and are now available for presentation to the Board and for publication. The financial statements are an essential means by which the Board accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.
9. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom —A Statement of Recommended Practice (the ‘SORP’). The following accounting adjustments were made to the unaudited accounts provided for public inspection:
  - the cash flow statement and the notes to the cash flow were amended to accurately reflect capital expenditure of £544,000 which was included under revenue expenditure in the unaudited accounts;
  - Note 1 to the Balance Sheet was amended to accurately reflect £31,000 of disposals;
  - two minor rounding adjustments were made to two notes to the Revenue Account.

## Legality

10. Each year we request written confirmation from the Treasurer that the Board’s financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes and checklists. The Treasurer has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of members and officials of Tay Road Bridge, the financial transactions of the Board were in accordance with the relevant legislation and regulations governing its activities.
11. There are no additional legality issues arising from our audit which require to be brought to members’ attention.

## Statement on the system of internal financial control

12. The 2005/06 financial statements include a Statement on the System of Internal Financial Control which gives the Treasurer’s view that reasonable assurance can be placed upon the adequacy and effectiveness of the Board’s internal financial control system.
13. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.

## Future outlook

### *Impact of tolled bridge review*

14. The Scottish Executive announced the outcome of the Tolled Bridges Review Phase Two in March 2006. The review report highlighted that the main legislation relating to the Bridge requires the Board to repay all outstanding loans by 2016. The report also highlighted the financial pressures the Board face, including the bearing replacement programme, emphasising that this programme was not affordable without either substantial funding from the Scottish Executive or further borrowing by the Board. This latter action would require amendment to the legislation to remove the limit on the repayment date. Although no decision has yet been taken on any such amendment, the Board continues to actively pursue this with the Scottish Executive and has raised the issue directly with the Minister for Transport and Telecommunications.

### *Pension liabilities*

15. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. In addition there are proposals to amend the Local Government Pension Scheme which are designed to reduce the ongoing cost, although these have not yet been implemented. In accounting for pensions, Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised in the annual accounts.
16. The Board participates in the Local Government Superannuation Scheme (Tayside Superannuation Fund), a defined benefits scheme administered by Dundee City Council. Note 11 to the Balance Sheet highlights that the Board's net liabilities at 31 March 2006 total £1.846 million, a decrease of £0.05 million from the previous year. Although the Board's estimated pension liabilities increased by £0.5 million in the year this was offset by its pension fund assets increasing by £0.55 million as a result of improved stock market conditions.
17. The full triennial actuarial valuation of the Tayside Superannuation Fund was reported in early 2006. Factors such as the volatile stock market and increasing life expectancy have resulted in the funding level, calculated as the ratio of fund assets to past service liabilities, falling from 97% as at March 2002 to 91% as at March 2005. The actuary is required to make a 3-year assessment of the contributions that should be paid by the employing authorities as from April 2006 to maintain the solvency of the fund. The contribution levels are based on percentages of employee contributions, normally 5% - 6% of salary. The current 3-year assessment shows that budgeted contributions are expected to rise from 275% of employee contributions to 315% by 2008/09.

## *Financial reporting*

18. A number of changes have been made to the 2006 SORP, including:
  - replacement of the consolidated revenue account with a traditional income and expenditure account;
  - a new statement that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit;
  - replacement of the statement of total movement in reserves with a statement of total recognised gains and losses.
19. These changes will have a significant impact on the presentation of the 2006/07 annual financial statements to make them more consistent with the accounts of other public and private sector entities. The Board should take this opportunity to review the presentation of its budget and summary financial results to members and the wider public to ensure that financial planning and activity is fully transparent.

**Action point 1**

# Governance

20. In this section we comment on key aspects of the Board's governance arrangements during 2005/06 and provide an outlook on future governance issues.

## Overview

21. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. In previous years we have concluded that the Board has many aspects of a sound corporate governance framework in place and have reached the same conclusion this year.
22. In 2004/05 the Board's internal auditors carried out a risk assessment as part of a five year strategic plan which identified the high, medium and low risk areas for the Board. We noted that minor adjustments were made to the plan in June 2006.
23. Internal audit plays a key role in the Board's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. Bird Simpson, Chartered Accountants, have provided an internal audit service to the Board during 2005/06. We carry out an annual review of the Board's internal audit arrangements and, in 2005/06, concluded that these were well managed. However, the vast bulk of the 2005/06 planned audit work was not scheduled to take place until May to August 2006, limiting the reliance which we could place on it.
24. We note that, with effect from 2006/07, Dundee City Council's internal audit service will be the internal auditors for the Board.

## Anti-fraud and corruption arrangements

25. The Board has appropriate arrangements in place to prevent and detect fraud and corruption. These arrangements include the Councillors' Code of Conduct, an Anti-Fraud and Corruption Strategy and a whistle blowing policy.

## Systems of internal control

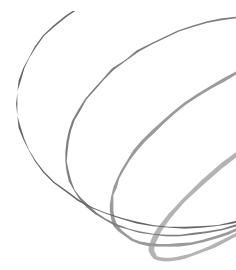
26. Bird Simpson, the Board's internal auditors, concluded that "...reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system in the year to 31<sup>st</sup> March 2006."
27. Our audit plan for 2005/06 included a review of capital expenditure at the Bridge. We focussed our work on the bearing replacement project which accounted for 95% of the budgeted capital expenditure in the year. The Board receives a capital grant from the Scottish Executive each

year and is currently actively pursuing an increase in the grant as the projected cost of the bearing replacement work has increased.

28. Our review highlighted that although the Board monitors capital expenditure against the agreed annual capital budget on a quarterly basis, there was no overall monitoring of projects which span more than one year. This presents a risk that total project costs and timescales could be exceeded. Management have agreed that full project monitoring will now be included within engineering reports and capital monitoring reports to the Board.
29. The Board operates the corporate financial systems of Dundee City Council under a Service Level Agreement. As external auditor of the Council, we have also been able to take assurance from our work on these systems.

## Future outlook

30. Internal audit forms an important part of the Board's internal control arrangements and in ensuring appropriate monitoring of risks and controls takes place. Internal audit arrangements have changed recently, with Dundee City Council's internal audit service taking over from Bird Simpson. We will undertake a review of the Board's new internal audit service and the work they undertake in the year with a view to placing reliance on the internal audit work carried out.



# Risk summary and action plan

No.	Issue & risk	Responsible officer	Response & agreed action	Action date
1.	<p><b>Financial reporting</b></p> <p>Changes have been made to the 2006 SORP which will have a significant impact on the presentation of the 2006/07 annual financial statements to make them more consistent with the accounts of other public and private sector entities. The Board should take this opportunity to review the presentation of its budget and summary financial results to members and the wider public to ensure that financial planning and activity is fully transparent.</p> <p><b><i>Risk: in the event of insufficient preparation, the 2006/07 financial statements may not comply with accounting requirements. Differences between financial reporting requirements and budget monitoring during the year may result in a lack of transparency for members and the public.</i></b></p>	<p>Treasurer</p> <p>Treasurer</p>	<p><u>2006 SORP</u> It is acknowledged that the changes included within the 2006 SORP will have a major impact on the presentation of the 2006/2007 Statement of Accounts. The Board's preparations for this are ongoing and will be co-ordinated through the Final Accounts Working Group.</p> <p><u>Presentation of Financial Information</u> The Board will review this for 2006/2007 and a statement reconciling the movements between the approved Revenue Budget and the adjusted budget, as shown in the Revenue Account, will be included in the 2006/2007 Statement of Accounts.</p>	<p><b>30 June 2007</b></p> <p><b>30 June 2007</b></p>