

# South West of Scotland Transport Partnership

Report to Members and the Controller of Audit  
on the 2006/07 Audit



October 2007



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# Key Messages

## Introduction

In 2006/07 we looked at the key business and financial risks faced by the South West of Scotland Transport Partnership (the partnership). We audited the financial statements and considered aspects of governance which the partnership had introduced since its formal constitution. This report sets out our main findings, summarising key outcomes in 2006/07.

## Key outcomes from the 2006/07 audit

We have given an unqualified opinion on the financial statements of the South West of Scotland Transport Partnership for 2006/07.

The partnership's financial transactions are processed through the financial systems of Dumfries and Galloway Council. Our review of these systems was conducted as part of the audit of the council and supplemented by specific audit work on the partnership's financial statements. Overall there were no material issues of concern concerning the operation of the main financial systems and the partnership's transactions.

In addition, as part of our 2006/07 audit, we carried out a review of the partnership's governance and accountability arrangements. The partnership has undertaken a significant amount of work during the course of its first year to implement key aspects of good governance. There remains however a number of areas which require further development, including the introduction of a performance management framework and risk management arrangements. Our future audits will include a review of the partnership's progress in introducing the planned improvements to its governance arrangements.

The partnership underspent by £0.160 million against total income of £3.608 million in 2006/07. This balance is being carried forward to fund revenue and capital expenditure in 2007/08.

The co-operation and assistance given to us by the partnership staff over our audit is gratefully acknowledged.

**Audit Scotland**  
**October 2007**



# Introduction

1. This report summarises the findings from our 2006/07 audit of the South West of Scotland Transport Partnership, the first year of our five year audit appointment. Findings are drawn together within four sections, namely:
  - performance
  - governance
  - financial position
  - financial statements.
  
2. The members and officers of the partnership are jointly responsible for the performance, 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 partnership'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 partnership has adequate 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 misstatement, error, fraud or corruption
  - the partnership has proper arrangements for securing best value in its use of resources.
  
3. The financial statements of the partnership are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. It is the responsibility of the partnership to prepare financial statements that present fairly its financial position and the income and expenditure for the year.
  
4. The scope of the audit was set out in a letter to the Lead Officer and Secretary, Alistair Speedie in January 2007. The main objective of our audit in 2006/07 was to understand the business of the partnership, to assess its governance and accountability environment and provide an opinion on the financial statements.



5. The scope of the audit appointment included a review of the governance, scrutiny and financial arrangements in place within the partnership. The findings from our review of these arrangements were reported to management on 4 June 2007.



# Performance

## Introduction

6. In this section we summarise key aspects of the partnership's reported performance during 2006/07.

## The Regional Transport Strategy and Environmental Assessment

7. The Transport (Scotland) Act 2005 placed a duty on Scottish Ministers to create Regional Transport Partnerships (RTPs) covering the whole of Scotland.
8. Constituted as the South West of Scotland Transport Partnership the partnership began work as a statutory Transport Partnership in December 2005 with the formal transfer of functions from Dumfries and Galloway Council occurring in November 2006. The partnership is one of seven Transport Partnerships set up across Scotland to provide a co-ordinated approach to transport planning and delivery both regionally and nationally. The Partnership area is coterminous with the boundary of Dumfries and Galloway Council.
9. A statutory requirement of the Transport (Scotland) Act (2005) is that each RTP produces a Regional Transport Strategy (RTS).
10. The formulation and agreement of the RTS was one of the major priorities for the 2006/07 financial year and required considerable input from staff to meet a demanding timescale. The draft strategy was forwarded for consultation on the 15 December 2006, with the final strategy being rolled out prior to the year end. The strategy and accompanying documents were submitted to the Minister for Transport by the target date of 31 March 2007.
11. The strategy sets out a series of priorities for transport investment in the region designed to support broader economic, social and environmental objectives. In doing so the strategy seeks to achieve a number of targets, including the need to:
  - improve transport links within Dumfries and Galloway and to key external destinations to ensure accessibility and connectivity to the region
  - contribute to improved economic growth in the region whilst minimising the environmental impacts of transport
  - assist with national transport targets including road traffic stabilisation
  - facilitate tourism and access to services, health, leisure and education facilities.



12. The strategy sets out a number of proposed projects which are aligned to the objectives and outcomes set out in the Scottish Executive's National Transport Strategy. The five, high level, objectives for transport identified in the strategy are:
  - promoting economic growth
  - promoting social inclusion
  - protecting the environment and improving health
  - improving safety journeys
  - improving integration.
13. Accompanying the RTS is the Strategic Environmental Assessment (SEA). The SEA is a requirement of the Environmental Assessment of Plans and Programmes (Scotland) Regulations 2004, and is used to inform and direct the RTS and ensure compliance with the 2004 regulations. This assessment was another statutory requirement which required considerable input from officers and consultation with stakeholders.
14. The priority given to the implementation of the RTS and SEA during the year has meant that a number of strategic documents have still to be finalised, including corporate planning documents and performance evaluation models. We will review the progress achieved in these areas as part of future audits.

## Overview of performance in 2006/07

### Monitoring Performance

15. Much of the partnership's activity during the year has focussed on building the organisation including the appointment of officers, members of the Board and observers to the Board. Key tasks have also included the implementation of financial regulations, register of interests, code of conduct, capital and revenue spending programmes and a service level agreement with the council for the provision of services. While consideration had been given to performance management during this 'set up phase', a robust performance management framework has yet to be fully developed. It has been agreed that the partnership steering group will develop a performance and reporting regime for the Board's approval by the end of December 2007. Further work is required to introduce risk management arrangements for the partnership.
16. Financial information presented to members improved as the partnership developed and projects supporting the RTS were implemented. Subsequent reports to the Board sought approval for the capital expenditure programme (August 2006), revenue and capital budgets (November 2006) and some high level performance management information (January 2007).



17. In the first year of the partnership performance and financial information has been presented to members as and when required. However we are pleased to note the continued improvement in the nature and sufficiency of information as the partnership has developed and processes matured. We will continue to monitor progress in this area.



# Governance

## Introduction

18. In this section we comment on key aspects of the partnership's governance arrangements during 2006/07. We also provide an outlook on future governance issues, including our views on potential risks.

## Overview of arrangements in 2006/07

19. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. The partnership has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice. As auditor I have a responsibility to report on the partnership's corporate governance arrangements.
20. Our report on corporate governance issued on 4 June 2007 highlighted that while considerable progress has been made by the partnership, there were a number of areas where governance and accountability arrangements had yet to be fully developed and implemented.
21. Our report included an action plan to ensure that those issues identified were followed up and introduced, with developments being reported to the Board. Some aspects of the report, such as the introduction of a register of interests and the completion of the 2006/07 draft financial statements have already been completed and reported to members. The remaining issues have been agreed and will be resolved as part of an ongoing plan of work finishing in December 2007. We will follow up progress against the action plan during our 2007/08 audit.

## Systems of Internal Financial Control

22. The partnership's financial transactions are processed through Dumfries and Galloway Council's financial systems. It is the responsibility of the council's management to maintain adequate financial systems and associated internal controls. The auditor evaluates the significant financial systems and the associated internal controls, both for the purpose of giving an opinion on the financial statements, and in order to report on the adequacy of such systems and controls.
23. Our review of these systems was conducted as part of the audit of Dumfries and Galloway Council and supplemented by specific audit work on the partnership's financial statements. There were no material issues of concern concerning the operation of the main financial systems or the partnership's transactions.



24. A Statement on the System of Internal Financial Control (SSIFC) is included within the partnership's annual financial statements. The SSIFC is prepared by the partnership's Treasurer and is informed by the work of internal audit, managers and external audit.
25. The Treasurer confirms in the SSIFC that reasonable assurance can be placed upon the adequacy and effectiveness of the partnership's internal financial control system in the year to 31 March 2007. The SSIFC complies with accounting requirements and is not inconsistent with the findings of our audit.

### **Audit Committee and Internal Audit**

26. As the partnership does not have a separate audit committee, members of the Board should be cognisant of the good practice for audit committees included in the 'Audit Committee Principles in Local Authorities in Scotland' published by CIPFA.
27. The partnership has a service level agreement with Dumfries and Galloway Council which includes the services provided by the council's internal audit section. During 2006/07 no work was carried out by internal audit covering the specific authorisation procedures, procurement exercises etc undertaken by the partnership. All work carried out was that which applied to both the council and the partnership. Going forward it may be useful for the partnership to agree a specific plan of work with internal audit, with a view to providing specific bespoke reports to the Board.

### **Prevention and detection of fraud and irregularities**

28. The partnership applies the Financial Code of Dumfries and Galloway Council, with employees contracted through the service level agreement being bound by the terms of their employee handbook. Included within the Financial Code are sections relating to fraud, corruption and whistleblowing. There were no frauds identified within the partnership in 2006/07.

## **Governance outlook**

### **Impact of the 2007 elections**

29. The local government elections in May 2007 brought about a change in the membership of the Board. The Board is drawn from both the council's elected members and external members from the public sector organisations of Dumfries and Galloway NHS and Scottish Enterprise Dumfries and Galloway. All pre-existing members from the council have changed, including the Chair of the board. We have been advised that both the council and the partnership have a robust training programme in place for newly elected members and note therefore that this should not be a significant risk going forward.



# Financial position

## Introduction

30. In this section we summarise key aspects of the partnership's reported financial position and performance to 31 March 2007.

## Revenue Account

### Revenue Performance 2006/07

31. The partnership receives both revenue and capital financing from the Scottish Executive in the form of grant aided income. Revenue funding is also received from Dumfries and Galloway Council. Income received in 2006/07 by the partnership totalled £3.608 million. At 31 March 2007, the partnership recorded an underspend against total income of £0.160 million. As the partnership does not have the statutory powers to hold reserves, this balance has been carried forward to 2007/08 as part of creditors in the balance sheet.

## Capital Expenditure

### Capital performance 2006/07

32. The partnership was initially awarded capital funding of £1.112 million for 2006/07. The funding was awarded by the Scottish Executive to support the partnership in developing a number of projects such as:

- the formation of new cycleways
- the purchase of new bus shelters
- enhancing Disability Discrimination Act (DDA) compliance within the existing fleet.

33. During the course of the year additional funding of £0.500 million was awarded to the partnership for the purchase of new buses. This additional funding brought the total capital programme to £1.612 million for 2006/07.

34. Members were made aware of slippage in the capital programme in January 2007 which was mainly due to the lack of sufficient lead-in time for engineering works to be planned, tenders sought and works executed. The final underspend on the capital programme at the end of 2006/07 was £0.129 million. As this is within the carry forward limit allowed by the Scottish Executive, this balance has been carried forward to fund future capital projects.



# Financial statements

## Introduction

35. In this section we summarise key outcomes from our audit of the partnership's financial statements for 2006/07. We audit the financial statements and give an opinion on:
- whether they present fairly the financial position of the partnership and its expenditure and income for the year
  - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
36. We also review the Statement on the System of Internal Financial Control by:
- considering the adequacy of the processes put in place to obtain assurances on systems of internal control
  - assessing whether disclosures in the Statement are consistent with our knowledge of the internal financial control systems within Dumfries and Galloway Council.

## Overall conclusion

37. We have given an **unqualified** opinion on the financial statements of the South West of Scotland Transport Partnership for 2006/07.
38. The partnership's un-audited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June 2007. Final accounts preparation processes and working papers were adequate and we have agreed a number of presentational changes to be made to the 2007/08 financial statements to ensure fuller compliance with relevant reporting requirements. The audit process was completed by 30 September 2007 and the financial statements are now available for presentation to the Board and publication.

## Legality

39. As part of our audit we requested written confirmation from the Treasurer that the partnership's financial transactions accord with relevant legislation and regulations. The Treasurer has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of other senior officers, the financial transactions of the partnership were in accordance with the relevant legislation and regulations governing its activities.
40. There are no additional legality issues arising from our audit which require to be brought to members' attention.



# Final Remarks

41. The members of South West of Scotland Transport Partnership Board are invited to note this report.  
We would be pleased to provide any additional information that members may require.
  
42. The co-operation and assistance given to us by officers of the partnership is gratefully acknowledged.