

South West of Scotland Transport Partnership

**Report to Members and the Controller of Audit
on the 2009/10 Audit**

October 2010



 AUDIT SCOTLAND



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Key Messages

We have given an unqualified opinion on the financial statements of South West of Scotland Transport Partnership for 2009/10.

The partnership's financial transactions are processed through the financial systems of Dumfries and Galloway Council (the council). We reviewed these systems as part of the audit of the council and found there were no material issues of concern relating to the operation of the main financial systems and the partnership's transactions.

The partnership has during the year made some further developments to its governance arrangements. The first annual report covering 2009/10 has been produced. Other developments include the production of a draft business plan in support of the delivery of the regional transport strategy and the first draft of a risk register. The positive progress in these areas should continue. A key requirement is the continued development of a performance management framework and the identification of those indicators which clearly demonstrate progress against the regional transport strategy and the outcomes of the intervention packages.

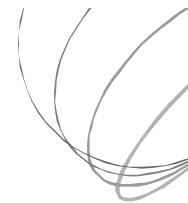
The partnership has continued to incur slippage against its capital plan. Actual capital spend in the year amounted to £1.064 million against a capital budget of £1.637 million resulting in an underspend of £573,000 in 2009/10. At 35% of budget this represents a significant level of slippage against the capital plan. The partnership should address the ongoing underspends in capital expenditure to maximise the current availability of this funding while at the same time reviewing the future affordability of the capital programme in the light of the current financial constraints.

Outlook

The financial challenges facing the Scottish public sector are well documented with public bodies facing deep and prolonged cuts in funding. The partnership is well aware of the likely pressures on its future funding levels and the adverse impact this could have on the provision of services and the delivery of its objectives and plans. Significant challenges and difficult decisions lie ahead and now more than ever, there is a need for continued strong governance and financial management. The partnership has to ensure all sources of funding are maximised, in particular the significant funding available for the GoSMART project and the carry forward of underspends against the capital budget. The current policy and root and branch review will be of key importance to informing future decisions and local transport plans.

The co-operation and assistance given to us by South West of Scotland Transport Partnership members, officers and staff is gratefully acknowledged.

October 2010



Introduction

1. This report is the summary of our findings arising from the 2009/10 audit of South West of Scotland Transport Partnership. Findings are drawn together within the following sections :
 - financial statements
 - use of resources
 - governance and accountability
 - performance management and improvement.
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
 - 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.
3. This report is addressed to members and the Controller of Audit. It will be published on our website after consideration by members. The Controller of Audit may use the information in this report for his annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and it is also presented to the Local Government and Communities Committee of the Scottish Parliament.
4. The scope of the audit was set out in the Annual Audit Plan issued on 26 February 2010. Our objectives focused on the identification and assessment of the key challenges and risks to the partnership in achieving its business objectives. We also assess the risk of material misstatement or irregularity in the partnership's financial statements.
5. The scope of our audit 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 23 August 2010. Appendix A summarises the audit reports issued on the 2009/10 audit.



Financial statements

Introduction

6. In this section we summarise key outcomes from our audit of the partnership's financial statements for 2009/10.

Audit Opinion

7. We have given an unqualified opinion that the financial statements of the partnership for 2009/10 give a true and fair view of the financial position and expenditure and income of the partnership for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
8. We were satisfied that the disclosure made in the Statement on the System of Internal Financial Control regarding the need to improve risk management procedures was consistent with our understanding of the partnership.
9. The partnership's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Working papers to support the 2009/10 accounts were of good quality and the finance team responded readily to all audit queries.
10. The accounts were certified by the target date of 30 September 2010 and are now available for presentation to members and publication. The financial statements are the principal means by which the partnership accounts for its stewardship of the resources made available to it and its performance in the use of those resources.

Accounting issues

11. 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). We were satisfied that the partnership prepared the financial statements in accordance with it.

Prevention and detection of fraud and irregularities

12. The partnership applies the Financial Code of Dumfries and Galloway Council. Included within the Financial Code are sections relating to fraud, corruption and whistleblowing. There were no frauds identified within the partnership in 2009/10.



Legality

13. Through our planned audit work we consider the legality of the partnership's financial transactions. In addition the Treasurer 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 relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.



Use of resources

Financial results

14. In 2009/10 the partnership's revenue expenditure amounted to £4.161 million. This was mainly met by funding from the Scottish Government and Dumfries and Galloway Council. Approximately 75% of the total revenue spend was in respect of payments to private bus operators. This amounted to £3.112 million.

Capital performance 2009/10

15. Actual capital spend in the year amounted to £1.064 million across 13 separate capital projects. This represents 65% of the total capital funding available for 2009/10 and this is the second year that the partnership has slipped against its capital plan. The reasons for the delay in spending capital funding included the need to give priority during the year to those projects funded by the Scottish Government to avoid the claw back of unspent grant. Other contributing factors were delays in the project consultation process and the effects of adverse weather conditions.
16. Capital funding totalling £ 573,000 is being carried forward to the partnership's 2010/11 capital plan. The partnership should address the ongoing underspends in capital expenditure to maximise the current availability of this funding while at the same time reviewing the future affordability of the capital programme in the light of the current financial constraints. Given the scale and profile of the GoSMART project, it is important that the partnership continues to closely monitor progress against its milestones and spending plans.

Action plan point 1

Financial Pressures

17. The partnership is well aware of the current financial pressures facing public sector organisations and the need to make significant budget savings. Significant challenges lie ahead. It is possible that the partnership will have to face further reductions in capital and revenue funding levels as well increases in fuel costs and rising contract tender costs of the bus network operation. The Board received a report at its November 2009 meeting highlighting that tender returns for approximately 25% of the local bus network which terminated on 4 April 2010 had been received. Members of the Board were advised that these tender costs had increased by around £490,000 over existing budgets, an increase of 84%. Approximately 75% of the local bus network is due to be tendered during 2011 for contracts



expiring in 2012. The partnership is in the process of completing a policy root and branch review of the local bus network. This review is of key importance as its findings will inform future local transport strategies and decisions of the Board. Progress against the review is being regularly reported to the Board and priority should be given to ensuring the procurement of contracts and introduction of final timetables by April 2012.



Governance and accountability

Structures and policies

18. We believe that an effective partnership is one that is committed to high standards of probity and can demonstrate high standards of governance and accountability. It has effective political and managerial structures and processes to govern decision-making and the exercise of authority within the organisation, supported by mature and effective relationships between members and officers.
19. Overall the partnership has sound arrangements in place for ensuring good governance. Board meetings are held regularly throughout the year which are well attended by members and observers and are supported by comprehensive agendas and well written reports.
20. Looking ahead, the impact of future funding constraints and competing demands on services is likely to impact on the partnership's corporate governance arrangements and sound processes for well informed planning and open and transparent decision making will continue to be essential. The current economic climate is likely to place pressure on joint working relationships with partners. The partnership has a close working and funding relationship with Dumfries and Galloway Council and both bodies are currently joint delivery partners on major projects such as GoSMART. The forecasted cuts to central funding to local authorities could have an impact on the council's ability to continue the partnership's funding at current levels and any future budget reductions could put the partnership's ability to support bus services under particular pressure.
21. To ensure continued good governance, future working relations with partners will have to be closely managed. It is noted that the partnership has already taken the positive step in clarifying and formalising the approach to consulting with the council to ensure the maintenance of proper lines of responsibility and communication.

Systems of internal control

22. The partnership's financial transactions are processed through Dumfries and Galloway Council's financial systems. We evaluate significant financial systems and associated internal controls both for the purpose of giving an opinion on the financial statements and as part of a review of the adequacy of governance arrangements.
23. Our review of these systems was conducted as part of the audit of Dumfries and Galloway Council, supplemented by specific audit work on the partnership's financial statements. Overall there are no material issues of concern in relation to the operation of the main financial systems.



24. Our 2009/10 report on corporate governance issued to management in August 2010 included an action plan for improvement. In summary, improvements have been agreed in the areas of capital planning, risk and performance management, financial planning and project management of the GoSMART project. Management has identified agreed actions and target dates and we will monitor progress against this plan as part of our 2010/11 audit.



Performance management and improvement

Performance management

25. The partnership has recently issued its first annual report covering the period 2009/10. The annual report will be one of the partnership's main vehicles for publicly reporting on its performance against objectives and targets. The partnership is well aware of the importance of developing a performance management framework to demonstrate progress against its plans and its contribution to the outcomes in the Dumfries and Galloway Single Outcome Agreement. We will continue to monitor the development of performance indicators as part of our 2010/11 audit.
26. A draft business plan has also recently been prepared to support the delivery of the regional transport strategy. This should be an operational plan which translates the partnership's intervention packages into a prioritised implementation plan with target completion dates and identified resource requirements. The Regional Transport Strategy Delivery Plan is an ambitious programme of 36 separate projects or interventions and the introduction of a detailed business plan will support future management decisions and longer term financial planning during the future period of financial constraints.

Risk Management

27. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks. It is of particular relevance to management during times of budget constraint and competing demands on services and is a vital tool in supporting decision making.

We are pleased to note that the partnership has started to develop its arrangements for managing risk and have agreed a first draft of a risk register and plan. The initial draft register should now be completed as a priority and the planned actions taken to mitigate identified risks regularly reported to the Board.



Appendix A

External audit reports and audit opinions issued for 2009/10

Title of report or opinion	Date of issue
Annual audit plan	26/2/10
Corporate Governance report	23/8/10
Audit opinion on the 2009/10 financial statements	24/09/10



Appendix B: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	<p>Capital slippage</p> <p>The partnership has continued in 2009/10 to underspend against its capital budget and is carrying forward £ 573,000 to the next financial year. This represents 35% of the total capital plan in 2009/10.</p> <p>Risk:</p> <p><i>The partnership may not fully utilise all available capital funding and could fail to deliver its objectives and planned improvements.</i></p>	<p>The SWestrans Business Plan will include the development of projects for future years and more robust arrangements will be developed for monitoring and reporting on project progress.</p>	Lead Officer	May 2011