

Tay Road Bridge Joint Board

2018/19 Annual Audit Report



 **AUDIT SCOTLAND**

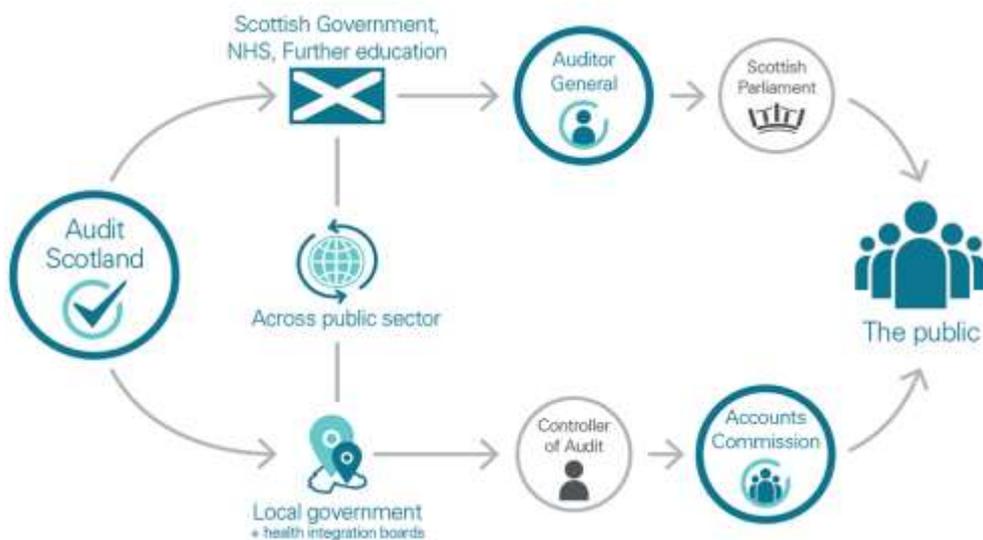
Prepared for the Members of Tay Road Bridge Joint Board and the Controller of Audit

16 September 2019

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

2018/19 annual accounts

- 1** The financial statements give a true and fair view of the state of affairs of the Joint Board as at 31 March 2019 and of its income and expenditure for the year then ended and were properly prepared.
- 2** The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.

Financial sustainability

- 3** The Joint Board's financial position is sustainable in the foreseeable future. It has a sufficient level of reserves and there is a medium term financial plan in place.

Governance and transparency

- 4** The Joint Board has appropriate governance arrangements in place that support the scrutiny of decisions made.
- 5** The Joint Board demonstrates a commitment to transparency in the way it conducts its business.
- 6** The Joint Board's continuous improvement agenda recognises the need to update the whistleblowing policy and develop an anti-bribery policy.

Introduction

1. This report summarises the findings arising from the 2018/19 audit of Tay Road Bridge Joint Board (the Joint Board).

2. The scope of the audit was set out in our 2018/19 Annual Audit Plan presented to the March 2019 meeting of the Joint Board. This report comprises the findings from:

- an audit of the annual accounts
- consideration of the financial sustainability and the governance & transparency arrangements in the Joint Board.

3. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

4. The [Code of Audit Practice 2016](#) (the Code) includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the financial sustainability of the body and its services and the appropriateness of the disclosures in the annual governance statement.

5. As highlighted in our 2018/19 Annual Audit Plan, due to the volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2018/19 audit of the Joint Board.

Added value through the audit

6. We add value to the Joint Board through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- Providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance arrangements and financial sustainability.

7. In so doing, we aim to help the Joint Board promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

8. The Joint Board has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

9. The Joint Board is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

10. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

11. As public sector auditors we give independent opinions on the annual accounts. Additionally, for the Joint Board we conclude on:

- the suitability and effectiveness of corporate governance arrangements, and
- the arrangements for securing financial sustainability.

12. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

13. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

14. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps taken to implement them.

15. We can confirm that we comply with the Financial Reporting Joint Board's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2018/19 audit fee of £12,360 as set out in our Annual

Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

16. This report is addressed to both the Joint Board and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

17. We would like to thank all management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual accounts



Main judgements

The financial statements give a true and fair view of the state of affairs of the Joint Board as at 31 March 2019 and of its income and expenditure for the year then ended and were properly prepared.

The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.

The Joint Board's annual accounts are the principal means of accounting for the stewardship of resources and performance in the use of resources.

Audit opinions on the annual accounts

18. The annual accounts for the Joint Board for the year ended 31 March 2019 were approved by the Joint Board on 16 September 2019. We reported, within the independent auditor's report that the;

- financial statements give a true and fair view of the state of affairs of the Joint Board as at 31 March 2019 and of its income and expenditure for the year then ended and were properly prepared
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

19. We have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records, the information and explanations we received, or the achievement of prescribed financial objectives.

Submission of the annual report and accounts for audit

20. We received the unaudited annual accounts on 19 June 2019 prior to the target date in the audit timetable set out in our 2018/19 Annual Audit Plan.

21. The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the audit of the annual accounts process ran smoothly.

Risk of material misstatement

22. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

23. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

Materiality

24. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

25. We carried out our initial assessment of materiality for the annual accounts during the planning phase of the audit. On receipt of the annual accounts we reviewed our planning materiality calculations. The revised materiality levels are summarised in [Exhibit 2](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality - this is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 2% of gross expenditure for the year ended 31 March 2019.	£0.350 million
Performance materiality - this acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of overall materiality.	£0.260 million
Lower level performance materiality - This is a separate trigger point for errors identified in the comprehensive income and expenditure statement.	£0.053 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£0.018 million

Source: Audit Scotland

How we evaluate misstatements

26. All misstatements identified during the audit, which exceeded our reporting threshold, have been amended in the financial statements.

27. We identified several presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

Significant findings from the audit (ISA 260)

28. International Standard on Auditing 260 (UK) requires us to communicate significant findings from the audit to those charged with governance. Three significant findings were identified during our audit and these are summarised in [Exhibit 3](#).

Exhibit 3

Significant findings from the audit of the financial statements

Finding	Resolution
<p>1. Pension liability</p> <p>The impact of two distinct Court judgements affecting the accounts of UK local government bodies, became apparent during 2019. The judgements impact adversely on the Joint Board's pension liability. We have summarised the issues in more detail at paragraphs 29 to 36 below.</p>	<p>The accounts have been amended to include an unquantified contingent liability for one of the Court judgements. For the other, management has chosen not to amend the accounts as they consider the increase in the pension liability to be immaterial. More detail on management's changes to the audited accounts is included at paragraphs 29-36 below.</p>
<p>2. Capital contributions repayable</p> <p>The Joint Board's unaudited accounts include an amount of £2.011 million for the capital grants unapplied account within its usable reserves balance of £3.172 million. The capital grants unapplied account represents capital funding from Transport Scotland that is carried forward for use in future years. Officers have notified us that Transport Scotland advised the Joint Board in August 2019 that the full amount of the balance is not available for carry forward and agreement had been reached to retain the proportion of the carry forward balance that will be required for the 2019/20 capital programme and repay the balance to Transport Scotland. The amount to be repaid is £1.366 million. The impact on the financial statements is to reduce net assets and usable reserves (capital grants unapplied account) by £1.366million. Further detail is included at paragraphs 41-45.</p>	<p>The audited accounts have been adjusted.</p>
<p>3. Cash Flow Statement</p> <p>An error was made in the cash flow statement as a result of taking the incorrect figures from the working paper, resulting in a £0.496 million error in both the adjustment to the net deficit on the provision of services for non-cash movements and the adjustment for items included in the net deficit on the provision of services that are investing and financing activities, which should show £(2.040) million and £0.704 million respectively. The two errors offset each other and do not impact on any of the other figures disclosed in the cash flow statement.</p>	<p>The audited accounts have been adjusted.</p>

Source: Tay Road Bridge Joint Board Annual Accounts 2018/19

Amendments to the unaudited annual accounts arising from legal judgements and revised guidance

Pension liability

Age discrimination on pension scheme transitional protection

29. In March 2011 the Independent Public Services Pension Commission published a review of Public Sector Pensions, the Hutton Report. It recommended

wholesale public sector pension reform in order to place public sector pensions on a more sustainable footing. The Government largely accepted the recommendations of that report and enacted pension reforms through the Public Service Pensions Act 2013. The main changes were: pensions are now based on career average rather than final salary; retirement ages are now aligned with state pension eligibility age; rates of the annual accrual of pension benefits are changed.

30. The reforms included transitional protection for scheme members approaching retirement age. In December 2018, the Court of Appeal ruled that the transitional protection provided to some members of the judiciary and fire fighters schemes amounted to unlawful age discrimination. On 28 June this year, the judgement was upheld by the Supreme Court. Although this (McCloud) case related to specific schemes the principle applies to other public sector groups who have seen similar changes to their pension schemes.

31. The Tay Road Bridge Joint Board is a member of the Tayside Pension Fund. The Fund's actuaries, Barnett Waddingham, estimated that the impact of the McCloud judgement on the pension liabilities of the Joint Board was to increase the liabilities by £0.040 million from £9.376 million to £9.416 million. This increase is offset by an equivalent increase in the pension reserve to £9.416 million.

32. Officers have concluded that the adjustment is not material and have not adjusted the audited accounts for this matter. We concur with management's conclusion that the increase in the pension liability is not material.

Sex discrimination on guaranteed minimum pension (GMP) rights

33. Contracting out of the state earnings related pension scheme (SERPS) became possible in April 1978. This provided for reduced employer and employee National Insurance contributions in return for members receiving a guaranteed minimum pension (GMP) from an occupational pension scheme. GMPs are discriminatory in various ways. For example, they are payable at 60 for female members and 65 for male members and they built up at different rates, reflecting the earlier payment age for women.

34. In October 2018 the High Court (England) held that pension schemes must eliminate the discriminatory effects of GMPs. The Court's judgement is applicable across all UK public sector defined benefit pension schemes. The issue is a long standing one and the many complexities of dealing with it have meant that there is no agreed solution to calculating the liabilities of pension schemes. However, an interim method of calculating costs in respect of persons retiring between April 2016 and April 2021 has been agreed by HM Treasury.

35. Barnett Waddingham, advised that no adjustment was required to the pension figures at this time for GMP highlighting:

"Our valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA (State Pension Age) by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that the Fund will be required to pay the entire inflationary increase. Therefore we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome".

36. As a result the Joint Board disclosed an unquantified contingent liability to reflect the potential liability arising from the GMP decision.

Follow up of prior year recommendations

37. We made two recommendations in our Annual Audit Report of 2017/18. The Joint Board has made some progress in implementing our prior year audit recommendations but further progress is required. Details of actions taken and improvements still required are set out in [Appendix 1](#).

Objections

38. The Local Authority Accounts (Scotland) Regulations 2014 require a local Joint Board to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The Joint Board complied with the regulations. There were no objections to the accounts.

Part 2

Financial sustainability



Main judgements

The Joint Board's financial position is sustainable in the foreseeable future. It has a sufficient level of reserves and there is a medium term financial plan in place.

Financial sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Financial performance in 2018/19

39. In December 2017, the Joint Board approved a revenue budget of £1.63 million for 2018/19. This was a small increase of £0.01 million (3.7%) on the approved budget for 2017/18. The 2018/19 budget was to be met out of income of £1.70 million from Scottish Government Resource Grant and £0.025 million of other income, resulting in excess operating income of £0.095 million. A further £0.125 million was budgeted as minor improvement works (as capital funded from revenue) resulting in a requirement to take £0.03 million from Joint Board's reserves.

40. The financial performance of the Joint Board during 2018/19 was such that it achieved break-even and therefore the £0.03 million transfer from reserves was not required. Although the Joint Board broke even overall, there are variations in some areas of service, the more significant of which are summarised in [Exhibit 2](#).

Exhibit 2

Summary of significant variations against budget

Area	Variance Favourable/ (unfavourable)	Main reason(s) for variance
Administration	£0.032 million	Lower than anticipated expenditure on training, medicals and through renegotiation, insurance premiums. Also expenditure on alterations and improvements to assets has been deferred to 2019/20.
Plant & equipment	£0.068 million	Reduced expenditure on Cathodic Protection equipment maintenance and professional fees due to major work in this area being scheduled for future years. Also savings on minor gantry works, hire of safety boat and maintenance of traffic signs. These were partly offset by increased expenditure on a weather monitoring software license

Area	Variance Favourable/ (unfavourable)	Main reason(s) for variance
Bridge maintenance	£0.059 million	Lower than anticipated expenditure on ground maintenance at the Fife Landfall area, de-icing materials (due to the mild winter), the renegotiated weather forecast contract, external bridge inspections, plant hire and materials, partly offset by increased overtime due to cabling work.
Non- Specific Grant Income	£(0.212) million	Reduced grant income to reflect net underspends on budget heads.
CFCR	£0.035 million	Underspend on minor improvement works.

Source: Tay Road Bridge Joint Board Annual Accounts 2018/19

Capital expenditure

41. The original capital expenditure budget for 2018/19, approved in December 2017, was £1.080 million. In-year budget adjustments were made, reducing the budget by £0.234 million, and a further 0.319 million slippage is now anticipated to be spent in 2019/20. The main items of slippage in capital expenditure were £0.125 million for CP monitoring equipment, £0.15 million for the inspection of columns and piers and £0.04 million for LED Bridge lighting.

42. The Joint Board incurred capital expenditure of £0.389 million in 2018/19. After the budget adjustment and slippage, an underspend of £0.138 million was achieved. The main elements of the underspend were £0.087 million for switch gear work (due to delays for the contractor awaiting Scottish Power connections) and £0.05 million for LED Bridge lighting work (due to a delay in the procurement process resulting in the contract not starting in 2018/19), offset by an overspend of £0.013 million for lift replacement work (due to additional work and changes in contract specifications).

43. The capital expenditure of £0.389 million was funded by capital funded from revenue (CFCR) of £0.091 million, other capital receipts of £0.012 million and capital funding provided by the Scottish Government amounting to £0.750 million, with £0.286 million being applied in year and £0.464 million to be carried forward in the capital grants unapplied account for future use. This resulted in a balance of £2.011 million in the capital grants unapplied account. (2017/18 £1.547 million).

44. As noted at paragraph 28, exhibit 3, Transport Scotland advised the Joint Board that it was requesting a proportion of the balance on the account to be repaid in 2019/20. Agreement was reached that the Joint Board could retain what it require of the carried forward capital grants unapplied account balance of £2,011m for the 2019/2020 Capital programme and repay the balance.

45. The Joint Board has identified that £0.645 million of capital grant will be required to fund 2019/20 capital expenditure and has therefore reduced the capital grants unapplied account as at 31 March 2019, by £1.366 million to £0.645 million and included a creditor in the 2018/19 financial statements for the repayment of £1.366 million to Transport Scotland.

Financial planning

46. It is important that longer-term financial strategies are in place which link spending to the joint board's strategies. Although members only approve the revenue budget for a single year, this should be supported by indicative future

spending plans (covering three years at least) that forecast the impact of relevant pressures on the joint board.

47. The Accounts Commission recommended that when future funding is not known, plans should be made for a range of scenarios so that the organisation is prepared for different levels of funding and income.

48. The Joint Board produces a three year revenue budget. In our 2017/18 Annual Audit Report we recommended that the Joint Board should consider the introduction of service planning to demonstrate that strategic objectives are being achieved effectively, efficiently and economically. There should be a clear link between the three year revenue budget and the joint board's strategic objectives and service planning.

49. Management advised that a Strategic Plan, including measurable outcomes, would be formulated by March 2019. The Strategic Plan was approved by the Joint Board in December 2018. This provides the Joint Board with the opportunity to clearly demonstrate the link to the Strategic Plan objectives in its financial (and performance) reporting, although this is not yet evident.



Recommendation 1

Having introduced a Strategic Plan containing the Joint Boards strategic objectives, the Joint Board should now ensure that its financial (and performance) reporting demonstrates clear links to those objectives.

Reserves

50. The Joint Board holds a general fund reserve, the main purpose of which is to provide a contingency fund to meet unexpected expenditure and as a working balance to help cushion the impact of uneven cash flows. The usable general reserve held by the Joint Board at 31 March 2019 remained at the same level as 31 March 2018, at £1.161 million.

51. The Joint Board reviews the level of its reserves when setting the budget each year. The Joint Board's approved reserves strategy specifies that uncommitted reserves should be £0.80 million and therefore the level of uncommitted general reserve exceeds the minimum level in the approved reserve strategy.

52. In December 2018, the Joint Board agreed its 2019/20 budget and noted its budget for 2020/21 and 2021/22. The budgets anticipate a deficit of £0.128 million over the three-year period. This is expected to be funded from government revenue grant funding rather than reserves.

53. We have concluded that the Joint Board's financial position is sustainable in the short - medium term.

Capital planning

54. The 2019/20 to 2021/22 capital programme, approved in December 2018, anticipates capital expenditure of £13.969 million over the period. Prior to the repayment of £1.366 million to Transport Scotland, £1.653 of the capital programme was to be funded from the capital grants unapplied account, with the balance of £12.316 million to be funded by capital from current revenue of £0.425 million and further Scottish Government capital grant. The Joint Board has now agreed a capital grant of £0.375 million for 2019/20, leaving an additional funding requirement of £13.169 million for the period 2020-22 yet to be identified under the approved capital programme.

55. In our 2017/18 Annual Audit Report we recommended that the Joint Board should formulate plans for fully resourcing future capital expenditure as soon as practicable. Management advised that they anticipated that this funding will be forthcoming from Transport Scotland when it is required, but the Scottish Government's Spending Review only provides a commitment for one year of grant funding. Management also advised that the funding will be included in budget estimates when it is confirmed. We have not replicated this point in the action plan in this Annual Audit Report but the point remains.

56. The most significant areas of expenditure identified in the 2020-22 capital plan, where sources of finance have yet to be agreed, are carriageway resurfacing of £7.2 million, replacement of expansion joints of £1.5 million and work on new gantries of £2.175 million.

Part 3

Governance and transparency



Main Judgements

The Joint Board has appropriate governance arrangements in place that support the scrutiny of decisions made.

The Joint Board demonstrates a commitment to transparency in the way it conducts its business.

The Joint Board's continuous improvement agenda recognises the need to update the whistleblowing policy and develop an anti-bribery policy.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

Annual Governance Statement

57. Our review of the annual governance statement assessed the assurances which are provided to the Bridge Manager regarding the adequacy and effectiveness of the Joint Board's system of internal control which operated in the financial year.

58. The statement highlights areas for improvement including revision of data protection procedures to ensure compliance with the General Data Protection Regulations, review of the Joint Board's website to improve information quality, revision to the whistleblowing policy and development of an anti-bribery policy and training for employees.

59. The statement also includes internal audit's conclusion from their work on the system of internal controls, stating that "in the opinion of the Joint Board's Internal Auditor, Tay Road Bridge Joint Board operates adequate and effective internal control arrangements".

60. We concluded that the information in the annual governance statement is consistent with the financial statements and complies with applicable guidance.

Governance arrangements

61. Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

62. Members and management of the Joint Board are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.

63. Based on our observations and audit work performed during 2018/19, we have concluded that the Joint Board has effective overarching and supporting

governance arrangements which provide an appropriate framework for organisational decision-making.

Openness and transparency

64. Openness and transparency means that the general public have access to understandable, relevant and timely information about how the Joint Board is taking decisions and how it is using resources such as money, people and assets.

65. There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny.

66. There is evidence from several sources which generally demonstrate the Joint Board's commitment to transparency. Members of the public can attend meetings of the Joint Board. Minutes of the Joint Board meetings and supporting papers are readily available on the Joint Board's website.

67. The Joint Board makes its annual accounts available on its website. These include a management commentary which provides details of performance against budget, information on the use of reserves and risks and uncertainties facing the Joint Board.

68. We have concluded that the Joint Board conducts its business in an open and transparent manner.

Internal audit

69. The Joint Board's internal audit function is carried out by Henderson Loggie. Each year we consider whether we can rely on internal audit work to avoid duplication of effort. When we plan to place reliance on internal audit work we carry out an assessment of the internal audit function to ensure that it is sufficient in terms of documentations standards, reporting procedures and quality, and is performed in accordance with Public Sector Internal Audit Standards (PSIAS).

70. We reviewed the Joint Board's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could rely on the work of internal audit. Overall, we concluded that the internal audit service generally operates in accordance with PSIAS and has sound documentation standards and reporting practices in place.

71. In our 2018/19 annual audit plan we highlighted that we planned to place reliance on internal audit's work on compliance with legislation (policies and procedures), physical security and asset management, corporate governance and follow up reviews. We did not plan to place reliance on the work of internal audit for our financial statements responsibilities.

72. Henderson Loggie concluded that excellent progress had been made with their outstanding recommendations from previous years, all 4 of which had been completed. Henderson Loggie also assessed the Joint Board's arrangements in each of the other three areas as 'good', which is the highest of their four assessment ratings.

Standards of conduct for prevention and detection of fraud and error

73. The Joint Board has a range of established procedures for preventing and detecting fraud and irregularity including fraud guidelines (including an anti-fraud and corruption policy, an anti-bribery policy and a fraud response policy) and a whistleblowing policy. These documents are dated 2016, The Joint Board also has a codes of conduct for members and officers.

74. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current and concluded that the documents were outdated. The Joint Board has recognised this and has included within their continuous improvement agenda actions to revise the whistleblowing policy and to develop an anti-bribery policy by March 2020. We are not aware of any other specific issues we require to bring to your attention.

Appendix 1

Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Reporting links to strategic objectives</p> <p>The Strategic Plan was approved by the Joint Board in December 2018. This provides the Joint Board with the opportunity to clearly demonstrate the link to the Strategic Plan objectives in its financial reporting, although this is not yet evident.</p> <p>Risk: The Joint Board may not be able to demonstrate that financial decisions are effective in meeting the Joint Board's strategic objectives.</p>	<p>Having introduced a Strategic Plan containing the Joint Boards strategic objectives, the Joint Board should now ensure that its financial reporting demonstrates clear links to those objectives.</p> <p>Paragraph 49</p>	<p>Narrative on agreed action: This will be considered and updated in 2019/20.</p> <p>Responsible officer: Bridge Manager and Treasurer</p> <p>Agreed date: March 2020</p>

Follow up of prior year recommendations

PY1	<p>Financial planning</p> <p>Due to the limited nature of the operations of the joint board, there are no service plans or key performance measures in place. There is therefore, no clear link between the three year revenue budget and the joint board's strategic objectives.</p> <p>Risk</p> <p>The board cannot demonstrate that strategic objectives are being achieved effectively, efficiently and economically.</p>	<p>The Joint Board should consider the introduction of service planning to demonstrate that strategic objectives are being achieved effectively, efficiently and economically. There should be a clear link between the three year revenue budget and the Joint Board's strategic objectives and service planning.</p>	<p>Updated response: A Strategic Plan was approved by the Joint Board in December 2018. Further work is required to demonstrate the links between the Joint Board's financial (and performance) planning and the Strategic Plan. This has been carried forward as action plan point 1.</p>
PY2	<p>Capital planning</p> <p>A significant capital funding gap exists for 2020/21, where £4.50 million of capital funding has yet to be identified.</p> <p>Risk</p> <p>Insufficient funds may be available to fund key capital projects.</p>	<p>The Joint Board should formulate plans for fully resourcing the 2020/21 capital expenditure as soon as practicable.</p>	<p>Updated response: The issue of unidentified future capital funding remains. This is covered at paragraph 54.</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statement requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business. 	<ul style="list-style-type: none"> • No instances of management override of controls were identified. • All journals and significant transactions tested (including accruals) were found to be appropriate. • Sources of accounting estimates were reviewed and found to be without management bias. • We reviewed transactions for the year. No significant transactions were identified that are outside the normal course of the Joint Board's business
<p>2 Risk of fraud over expenditure</p> <p>The Code of Audit Practice requires consideration of the risk of fraud over expenditure. The Joint Board incurs significant expenditure which requires audit coverage.</p>	<ul style="list-style-type: none"> • Assessment of adequacy of key financial controls over expenditure. • Detailed testing of transactions focusing on the greater areas of risk. 	<ul style="list-style-type: none"> • Detailed testing of key financial controls over expenditure within Dundee City Council systems used by the Joint Board found no significant weaknesses which would impact on the Joint Board's transactions. • Testing of 2018/19 expenditure transactions identified no errors or instances of fraud.
<p>3 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and pensions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> • Completion of 'review of the work of an expert' for the actuary and valuer. • Focused testing of non-current assets and pension figures. 	<ul style="list-style-type: none"> • Estimations and judgements applied were tested to confirm they were appropriate and reasonable. No issues were highlighted with the estimates and judgements applied.

Audit risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>4 Financial sustainability – capital planning</p> <p>Our 2017/18 Annual Audit Report highlighted a significant capital funding gap relating mainly to 2020/21 where £4.5 million income had yet to be identified. The 2019/20 to 2021/22 capital plan was considered by the Board in December 2018 which highlighted a funding gap of £11.1 million for the period 2020-22.</p> <p>There is a risk that insufficient funds may be available to fund key capital projects.</p>	<ul style="list-style-type: none"> On-going monitoring of capital budget, plans and monitoring reports and inclusion in annual audit report as appropriate. 	<ul style="list-style-type: none"> Monitored capital budget. Funding gap has increased to £13.169 million as a result of Transport Scotland's instructions to the Joint Board to repay capital grant unused and carried forward to 2019/20. Referred to at paragraph 54.

Appendix 3

Summary of national performance reports 2018/19

		 2018/19 Reports	
Local government in Scotland: Challenges and performance 2018		Apr	
Councils' use of arm's-length organisations		May	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		Jun	
		Jul	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		Aug	 Major project and procurement lessons
Children and young people's mental health		Sept	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		Oct	
Health and social care integration: update on progress		Nov	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		Mar	 Local government in Scotland: Challenges and performance 2019

Reports of relevance to the Joint Board

[Local government in Scotland: Challenges and performance 2018](#) – April 2018

[Local government in Scotland: Financial overview 2017/18](#) – November 2018

[Local government in Scotland: Challenges and performance 2019](#) – March 2019

Tay Road Bridge Joint Board

2018/19 Annual Audit Report

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