



# Tayside and Central Scotland Transport Partnership

Annual audit report  
Year ended 31 March 2017

04 September 2017

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## **About this report**

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code"). This report is for the benefit of Tayside and Central Scotland Transport Partnership ("Tactran") and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introduction and responsibilities section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

## **Complaints**

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Andy Shaw, who is the engagement leader for our services to Tactran, telephone 0131 527 6673, email: [andrew.shaw@kpmg.co.uk](mailto:andrew.shaw@kpmg.co.uk) who will try to resolve your complaint. If your problem is not resolved, you should contact Hugh Harvie, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6682 or email to [hugh.harvie@kpmg.co.uk](mailto:hugh.harvie@kpmg.co.uk). We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.



# Executive summary

## Key messages

### Audit conclusions

We intend to issue an unqualified audit opinion on the financial statements of Tayside and Central Scotland Transport Partnership ("Tactran") following their approval by the Board.

We have concluded satisfactorily in respect of each of the significant risks and audit focus areas identified in the audit strategy document.

The annual accounts, governance statement and remuneration report were received at the start of the audit fieldwork. We have no matters to highlight in respect of: adjusted audit differences or independence.

### Financial position

Tactran is not permitted to accumulate general fund reserves, and works to an annual balanced budget. Total income was £743,000 for 2016-17, matched to expenditure of £743,000. £50,000 of income received as part of annual requisitions from constituent local authorities was deferred to support the 2017-18 budget. A pension adjustment resulted in a net deficit of £40,000.

Tactran had a £669,000 net pension liability as at 31 March 2017 arising from the application of IAS19, which resulted in an overall net liabilities position. Management considers it appropriate to adopt the going concern basis, as under the Transport (Scotland) Act 2005, the constituent local authorities have a legal obligation to meet all liabilities.

### Financial management and financial sustainability

Tactran has effective financial management arrangements. An annual budget is prepared forecasting income and expenditure, and is approved by the Board. Financial updates are provided each quarter to the Board which enables sound financial oversight.

Tactran receives Scottish Government grant in aid and funding through requisitions from Perth and Kinross Council ("PKC"), Dundee City Council, Stirling Council and Angus Council. It faces financial challenges due to reduced public sector funding, which impacts on the Tactran's progress in delivering the Regional Transport Strategy. The ongoing review of the National Transport Strategy and emerging City Deals, also create a degree of uncertainty, but may also present opportunities to advance delivery of the Regional Transport Strategy.

### Wider scope

The review of the National Transport Strategy, due for completion in summer 2019, may result in new approaches to transport planning nationally, regionally and locally. Discussions are underway to establish the most effective approaches to transport planning although, until these matters are progressed, there is likely to be continuing uncertainty regarding Tactran's future role and responsibilities. These developments and related uncertainties are also impacting upon senior staff succession planning, which may in turn have an impact on strategic direction and leadership.

# Introduction

## Scope and responsibilities

### Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor for Tayside and Central Scotland Transport Partnership (“Tactran”) under part VII of the Local Government (Scotland) Act 1973 (“the Act”). The period of appointment is 2016-17 to 2021-22, inclusive.

Our annual audit report is designed to summarise our opinions and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at Tactran and the Controller of Audit. The scope and nature of our audit were set out in our audit strategy document which was presented to the Board at the outset of our audit.

Audit Scotland’s Code of Audit Practice (“the Code”) sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance.

### Accountable officer responsibilities

The Code sets out Tactran’s responsibilities in respect of:

- corporate governance;
- financial statements and related reports;
- standards of conduct for prevention and detection of fraud and error
- financial position; and
- Best Value.

### Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code. Appendix one sets out how we have met each of the responsibilities set out in the Code.

### Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance.

Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist.

Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of International Standard on Auditing (UK and Ireland) (‘ISA’) 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This annual audit report to members and our presentation to the Partnership, together with previous reports to the Partnership throughout the year, discharges the requirements of ISA 260.

# Financial position



This section of our report summarises the main features of the financial statements and key movements from the prior financial year.

## Statement of financial activities

### Incoming resources

Income for highways and transport services principally consists of Scottish Government Grant in Aid of £522,750. The increase in income of £17,000 compared to 2015-16 is largely due to new funding for the Active Travel Project.

Requisitions from the four constituent local authorities in the Tactran area were approved to be at the same level as in the prior year. However Tactran did not require the full requisitions. This is the reason for the apparent drop in income from the councils. The amount not yet required will be used to support the 2017-18 budget and is a result of vacancies being unfilled at the year end, awaiting clarification of the National Transport Strategy review process and emerging City Deal proposals.

### Resources expended

Expenditure remained broadly in line with the prior year. An increase in expenditure as part of the Active Travel project is offset in the annual accounts by an underspend in staff costs as the result of maternity leave, early retirement and turnover, with posts being left unfilled as at year end.

## Consolidated income and expenditure statement

	2017 £000	2016 £000
<b>Incoming resources</b>		
Highways and transport services	690	629
Constituent council requisitions	53	97
<b>Total incoming resources</b>	<b>743</b>	<b>726</b>
<b>Resources expended</b>		
Highways and transport services	730	729
Corporate and democratic core	38	36
Financing and investment expenditure	15	14
<b>Total resources expended</b>	<b>783</b>	<b>779</b>
<b>Deficit on provision of services</b>	<b>40</b>	<b>53</b>
<b>Re-measurement of the net defined benefit liability/ (asset)</b>	<b>213</b>	<b>(95)</b>
<b>Total comprehensive income and expenditure</b>	<b>253</b>	<b>(42)</b>

Source: Draft financial statements 2016-17

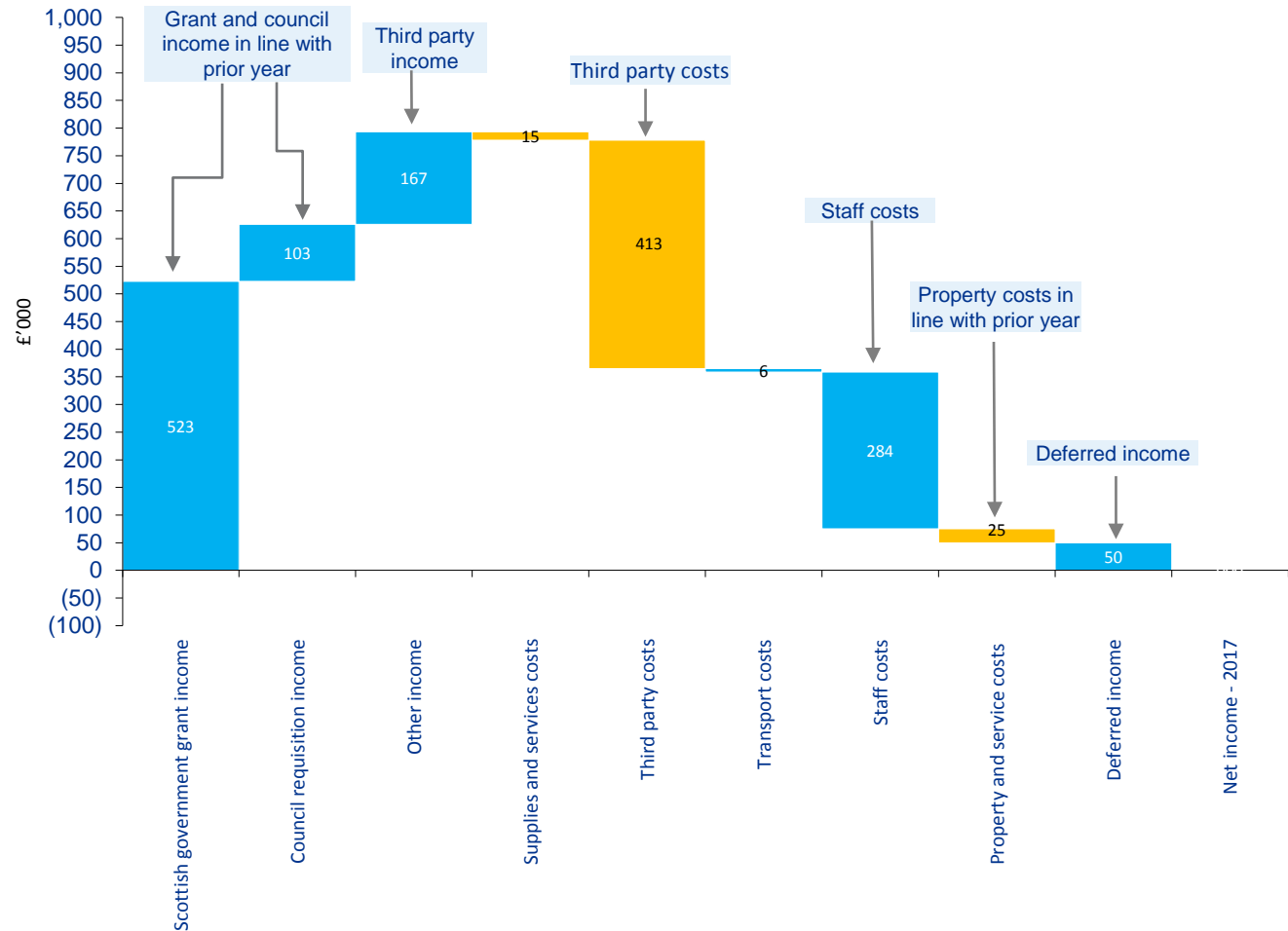
# Financial position (continued)



The graph presents the income and expenditure of Tactran in the year to 31 March 2017. It visualises the different sources of income and nature of expenditure, resulting in a net £50,000 underspend which is held within deferred income.

Where income increased or remained the same, or costs decreased, the bars are blue.

Where income decreased, costs increased, or costs remained the same, the bars are orange.



# Financial position (continued)



## Balance sheet

This section of our report summarises the main features of the group balance sheet and key movements from the prior financial year.

### Current assets

Debtors increased compared to the prior year, primarily as a result of timing differences with the receipt of payments from the councils compared to 2015-16. There is a corresponding decrease in cash, offset to some degree by lower cash expenditure.

### Liabilities

Creditors increased compared to the prior year. Associated with the underspend on core services, there is an increase in deferred income of £50,000. This is offset by a lower creditors balance held with Perth and Kinross Council for staff costs and services. Other long term liabilities relate to the accrual for staff leave (£8,000), and the pension scheme deficit of £669,000.

### Going concern

Tactran had net liabilities of £677,000 as at 31 March 2017: an increase of £253,000 in the year, primarily due to the increase in the pension liability. However, the constituent local authorities are required under the Transport (Scotland) Act 2005 to meet the pensions funding deficit. Management therefore consider it appropriate to adopt the going concern assumption for the preparation of the annual accounts. We concur with this assessment.

## Consolidated balance sheet

	2017 £000	2016 £000
<b>Current assets</b>		
Debtors	92	38
Cash at bank and in hand	26	46
<b>Liabilities</b>		
Creditors: amounts falling due within one year	(126)	(92)
Other long term liabilities	(669)	(416)
<b>Net liabilities</b>	<b>(677)</b>	<b>(424)</b>
<b>Financed by fund balances and unusable reserves:</b>		
Pensions Reserve	(669)	(416)
Accumulated absence	(8)	(8)
<b>Total</b>	<b>(677)</b>	<b>(424)</b>

Source: Draft financial statements 2016-17

# Financial statements and Accounting

## Audit conclusions

### Audit opinion

Our audit work is complete. Following approval of the annual accounts by the Board we expect to issue an unqualified opinion on the truth and fairness of the state of Tactran's affairs as at 31 March 2017, and of the result for the year then ended.

There are no matters identified on which we are required to report by exception.

### Financial reporting framework, legislation and other reporting requirements

Tactran is required to prepare its financial statements in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting and relevant legislation.

### Statutory reports

We have not identified any circumstances to notify the Controller of Audit that indicate a statutory report may be required.

### Other communications

We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.

### Audit misstatements

There were no audit misstatements identified during the audit.

### Written representations

Our management representation letter contains our standard representations.



# Financial statements and Accounting

## Audit conclusions (continued)

### Materiality

We summarised our approach to materiality in our audit strategy document. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that the level of materiality set at planning was still relevant.

We used a materiality of £15,000 for Tactran's financial statements. This equates to 2% of total expenses. We designed our procedures to detect errors in specific accounts at a lower level of precision than our materiality. Our performance materiality was £11,200. We report all misstatements greater than £450.

### Forming our opinions and conclusions

In gathering the evidence for the above opinions and conclusions we:

- communicated with the Partnership Director and Treasurer to ensure that all key risk areas which may be viewed to have an impact on the annual accounts had been considered;
- reviewed key governance and organisational documents, including minutes of Board meetings, to inform our understanding of the control environment;
- performed substantive procedures to ensure that key risks to the annual accounts have been covered;
- reviewed estimates and accounting judgments made by management and considered these for appropriateness, and
- considered the potential effect of fraud on the annual accounts through discussions with the Partnership Director and finance staff at Perth and Kinross Council.

### Financial statements preparation

Tactran prepares accounts in line with the CIPFA/LASAAC Code of Practice on Local Authority Accounting. We are satisfied that the financial statements have been prepared in line with this Code.

Working papers were provided as agreed at the start of the audit fieldwork on 3 July 2017. Draft accounts and the management commentary were received on 19 June 2017. Audit queries were answered in a timely manner, with supporting documentation and explanations provided as required.

We experienced some challenges in readily reconciling the financial statements to supporting schedules provided by the client. This is primarily due to the simplicity of the transactional recording process and method of record keeping which is largely Excel based.

### **Recommendation one**

#### **Significant risks and other focus areas in relation to the audit of the financial statements**

We summarise below the risks of material misstatement as reported within the audit strategy document.

*Significant risks (page 10 of this report):*

- management override of controls fraud risk

*Other focus areas (page 11 of this report):*

- retirement benefits

*Wider scope work (page 14 of this report):*

- financial sustainability;
- financial management;
- governance and transparency, and
- value for money.



# Financial statements and accounting

## Significant risks

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Fraud risk from management override of controls</b></p> <p>Professional standards require us to communicate the fraud risk from management override of controls as a significant risk; as management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>Our audit methodology incorporates the risk of management override as a default significant risk. We did not identify any specific additional risks of management override relating to the audit of Tactran.</p> <p>Strong oversight of finances by finance staff at PKC provides additional review of potential material errors caused by management override of controls.</p> <p>In line with our methodology, we carried out substantive procedures over cash balances, the pensions liability, and other material balances including debtors, creditors and grant income.</p>	<p>Our work did not identify any matters that required adjustment in the financial statements or which require to be brought to your attention.</p> <p>We identified that the creditors balance did not reconcile to supporting schedules (£4,000 difference) due to historical rounding of other balances.</p> <p style="text-align: right;"><b><i>Recommendation two</i></b></p>
<p><b>Fraud risk from revenue recognition</b></p> <p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p>	<p>Tactran receives funding requisitions from PKC, Stirling Council, Dundee City Council and Angus Council. These are agreed in advance of the year. Other funding comes from grant in aid from Scottish Government. There is no estimation or judgement in recognising these income streams.</p> <p>We therefore rebutted the fraud risk from revenue recognition. We conducted substantive testing over grant income by agreeing to original grant offer letters, tested income received from other sources through sampling of invoices.</p>	<p>Our work did not identify any matters that required adjustment in the financial statements or which require to be brought to your attention.</p> <p>We are satisfied that the accounting policies adopted are appropriate and in accordance with the on Local Authority Accounting.</p>



# Financial statements and accounting

## Other focus areas

OTHER AREA OF AUDIT FOCUS	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Retirement Benefits</b></p> <p>Tactran accounts for its participation in the Tayside pension fund and in accordance with IAS 19 Retirement Benefits, using information obtained in a valuation report prepared by actuarial consultants.</p> <p>Actuaries use membership data and a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive the anticipated future liabilities back to the year end date and assumptions on future salary increases.</p> <p>IAS 19 requires the discount rate to be set by reference to yields on high quality (i.e. AA) corporate bonds of equivalent term to the liabilities. The calculation of the pension liability is inherently judgemental.</p>	<p>Our audit approach to IAS19 included:</p> <ul style="list-style-type: none"> <li>— review by KPMG specialists of the financial assumptions underlying actuarial calculations and comparison to our central benchmarks;</li> <li>— verification of scheme rolled-forward liabilities by agreement to the actuaries report;</li> <li>— reviewing the valuation of scheme assets, including assessing the risk of error or bias in the valuations and re-performing asset valuations;</li> <li>— agreement of the level of contributions used by the actuary to those actually paid during the year;</li> <li>— testing of membership data used by the actuary to data from Tactran; and</li> <li>— agreeing actuarial reports to financial statement disclosures.</li> </ul>	<p>We are satisfied that the retirement benefit obligation:</p> <ul style="list-style-type: none"> <li>— is correctly recognised on the balance sheet as at 31 March 2017;</li> <li>— has been accounted for and disclosed correctly in line with IAS19 Retirement benefits; and</li> <li>— assumptions used in calculating this estimate and management’s judgements are appropriate and within the acceptable KPMG range.</li> </ul> <p>Our work identified three presentational adjustments in the assumptions used by the actuary. These did not have any impact on the financial statements.</p>

# Financial statements and accounting

## Management reporting in financial statements

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
<p><b>Management commentary</b></p>	<p>The Local Authority Accounts (Scotland) Regulations 2014 require the inclusion of a management commentary within the financial statements, similar to the Companies Act requirements for listed entity financial statements.</p> <p>We are required to read the management commentary and express an opinion as to whether it is consistent with the information provided in the annual accounts.</p>	<p>We are satisfied that the information contained within the management commentary is consistent with the annual accounts.</p>
<p><b>Remuneration report</b></p>	<p>The remuneration report was included within the unaudited financial statements and supporting reports and working papers were provided.</p>	<p>We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the financial statements and all required disclosures have been made.</p> <p>Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.</p>
<p><b>Annual governance statement</b></p>	<p>The statement for 2016-17 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the governance framework of Tactran, and a review of effectiveness of the governance and control systems in operation.</p>	<p>We consider the governance framework and annual governance statement to be appropriate for Tactran and that it is in accordance with guidance and reflects our understanding of Tactran.</p>



# Financial statements and accounting

## Qualitative aspects and future developments

### Qualitative aspects

ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

We consider the accounting policies adopted by Tactran to be appropriate. There are no significant accounting practices which depart from what is acceptable under IFRS or the on Local Authority Accounting.

Financial statement disclosures were considered against requirements of the on Local Authority Accounting, relevant legislation and IFRS. No departures from these requirements were identified.

There were no new accounting standards adopted by the Local Authority Accounting during 2016-17 which affected Tactran.

There are no significant accounting estimates other than those relating to the calculation of the pension assets and liabilities previously summarised.

Financial statement disclosures were considered against requirements of the on Local Authority Accounting, relevant legislation and IFRS. No departures from these requirements were identified.

### Future accounting and audit developments

CIPFA / LASAAC consulted on amendments to the on Local Authority Accounting for IFRS 9 *Financial instruments* and IFRS 15 *Revenue from contracts with customers*. A separate publication *Forthcoming Provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Local Practice on Local Authority Accounting in the United Kingdom 2018/19* will be issued as a companion publication to the Code setting out the approach to these two standards.

Other changes to the 2017 Code include an amendment to section 3.1 (Narrative Reporting) to introduce key reporting principles for the Narrative Report, and updates to section 3.4 (Presentation of Financial Statements) to clarify the reporting requirements for accounting polices and going concern reporting.

IFRS 16 Leases will bring a significant number of operating leases onto the balance sheet unless they are low value or have less than a year to run. CIPFA/LASAAAC will revisit accounting for PFI liabilities which are currently under finance lease accounting rules of IAS 17, which is being replaced by the new standard.

# Wider Scope and best value

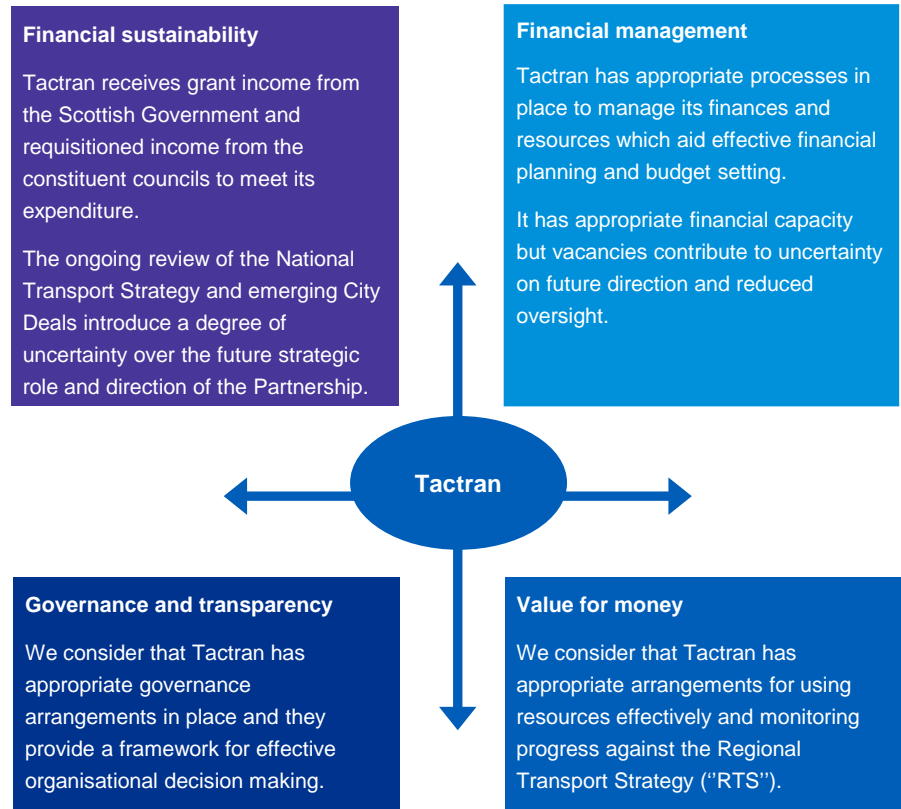
## Audit dimensions introduction



The Code of Audit Practice sets out four audit dimensions which, alongside Best Value in the local government sector, set a common framework for all the audit work conducted for the Controller of Audit and for the Accounts Commission: financial sustainability; financial management; governance and transparency; and value for money.

It remains the responsibility of the audited body to ensure that it has proper arrangements across each of these audit dimensions. These arrangements should be appropriate to the nature of the audited body and the services and functions that it has been created to deliver. We review and come to a conclusion on these proper arrangements.

During our work on the audit dimensions we considered the work carried out by other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the Code of Audit Practice.



# Wider scope and best value

## Audit dimensions (continued)



### Financial sustainability

Tactran receives Scottish Government grant in aid and funding requisitions from PKC, Dundee City Council, Stirling Council and Angus Council. Tactran faces financial challenges as a result of a period of reduced public sector funding availability, which in turn impacts on the Partnership's ability to progress delivery of the RTS.

The Transport (Scotland) Act 2005 provides Tactran with guarantees that liabilities faced by the Partnership will be met by the local authorities, which supports the going concern approach to the preparation of accounts is appropriate.

The National Transport Strategy review and Tay Cities deal, covering Angus, Dundee City, Perth & Kinross and North East Fife, and the Stirling and Clackmannanshire City Deal, raise questions about the future role of Tactran. With a focus on improving transport and connectivity and aspirations for new approaches to regional governance, the Tay Cities Deal has proposed changes to regional transport planning and delivery matters which are currently the statutory role and responsibility of Tactran. Discussions are underway between the Partnership Director and City Deal officials to establish the most effective way forward. The ongoing review of the National Transport Strategy, currently scheduled for completion in summer 2019, includes a review of transport roles and responsibilities. Presentations were made to the Partnership by the Partnership Director and Head of Tay Cities Deal on 14 March 2017, when the potential considerations, implications and issues likely to arise in relation to the role, strategic direction and operation of the Partnership as a result of these developments were highlighted and noted.

### Governance and transparency

#### *Control environment*

Tactran has a robust control environment for an organisation of its size. There is regular, detailed reporting to the Board on issues facing the partnership, and reporting to external bodies.

Expected policies are established, including a code of conduct for members, risk management and financial regulations. Tactran benefits from a close relationship with PKC, which supports the control environment through the provision of legal expertise and financial oversight, as well as HR and IT support.

#### *Transparency*

Tactran embraces public transparency through its website, which provides access up-to-date financial and strategic information regarding its activities, including Board meeting minutes, annual accounts and reports.

In terms of the Partnership's Code of Conduct, Board members are required to complete a notice of registerable interests covering the member's financial and non-financial interests, which are also made publicly available on the website. Our audit work identified that four of 16 members who had served in the year had not submitted this return.

### **Recommendation three**

#### *Risk Management*

Risks are managed through the implementation of the risk management policy. Identified risks are recorded, assessed and tracked in the risk register. Principal risks relate to delivery of the RTS, management and operation of the Partnership, and financial risks. The Partnership Board reviews the risk register at least annually; this was done most recently at the meeting on 24 March 2017. In line with best practice, the management report discloses the key risks in sufficient detail to enable a reader to sufficiently understand them.

We consider there is minimal risk from fraudulent revenue recognition given the nature of grant income received by Tactran.

# Wider scope and best value

## Audit dimensions (continued)



### Leadership

The Partnership Director is currently on flexible retirement, with the original date of planned departure being extended beyond 31 March 2017 to support and assist in ensuring a managed transition and leadership capacity, having regard to ongoing uncertainties associated with the National Transport Strategy Review and emerging City Deals. These current and ongoing developments contribute a significant degree of strategic uncertainty and there is a risk that the Partnership could lose momentum and leadership capacity at a time when key decisions on its future role in the national and regional transport policy and delivery landscape will be debated and potentially decided. It is understood that an update on these developments and proposals for succession planning will be submitted to the Partnership meeting in September 2017

### Financial management

Tactran has a sound process to manage its finances and resources which aids effective financial planning and budget setting.

The budget for the Partnership is agreed by the Board annually, taking account of any expected changes to funding, or new activities. During budget setting there is consultation with staff and Partnership Board members, which supports effective financial management.

Performance of forecast income and expenditure against agreed budget is discussed at monthly management meetings, and presented to the Board. The discussion of the budget demonstrates a concern with securing value for money in the delivery of the Partnership's activities. Review of the final position to budget demonstrated minimal variances, with the exception of income for the Active Travel projects which had not been included in the budget, and associated expenditure.

### Value for Money

Tactran's focus for delivering value for money is the implementation of the RTS. A comprehensive update of the RTS was completed during the year, drawing on consultations with partner councils and other key stakeholders.

The RTS monitoring framework provides assurance over the delivery of the strategy; there is annual reporting against the framework indications, and periodic reporting against strategic actions identified within the RTS.

Operationally, Tactran works with a small and efficient body of staff. As reflected in the prior year audit report considerable efficiency savings have been identified in the past seven years, with limited opportunities for further significant savings. The Partnership Board minutes and reports demonstrate a on-going commitment to reviewing the staffing and operating model to ensure activities are delivered as efficiently as possible.





# Appendices

1. Mandatory communications
2. Appointed auditor's responsibilities
3. Auditor independence
4. Action plan
5. Prior year recommendations

# Mandated communications with the Partnership

MATTERS TO BE COMMUNICATED	LINK TO PARTNERSHIPS REPORTS
Relationships that may bear on the firm's Independence and the integrity and objectivity of the audit engagement partner and audit staff (ISA 260 and Combined Code)	See appendix three.
The general approach and overall scope of the audit, including levels of materiality, fraud risks, business risks and audit responses and engagement letter (ISA 260)	Main body of this paper.
Disagreement with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or the auditor's report (ISA 260)	There were no such disagreements.
The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements (ISA 260)	There are no such matters to report.
Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the entity's financial statements (ISA 260)	There were no audit adjustments required to the draft financial statements which could have had a material effect on the financial statements.
The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements (ISA 260)	Accounting policies and practices selected are appropriate for the organisation and are in line with the requirements of the Local Authority Code of Practice.
The auditor's view on valuations and related disclosures (ISA 260)	There are no valuations within the financial statements.
Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 260)	We have reviewed management's assessment that Tactran is a going concern and agree with this assessment.
Expected modifications to the auditor's report (ISA 260)	There are no modifications to the auditor's report.
Other matters warranting attention by those charged with governance, such as effectiveness of internal controls relevant to financial reporting, material weaknesses in internal control, questions regarding management integrity, and fraud involving management (ISA 260 and ISA 240)	There are no such matters to report.

# Appointed auditor's responsibilities

AREA	APPOINTED AUDITOR'S RESPONSIBILITIES	HOW WE'VE MET OUR RESPONSIBILITIES
<b>Statutory duties</b>	Undertake statutory duties, and comply with professional engagement and ethical standards.	We have undertaken our statutory duties and complied with professional and ethical standards. Our independence letter is at appendix three.
<b>Financial statements and related reports</b>	Provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions.	Page 3 summarises the opinion we expect to provide.
<b>Financial statements and related reports</b>	Review and report on, as appropriate, other information such as annual governance statements, management commentaries, and remuneration reports.	Page 12 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report.
<b>Financial statements and related reports</b>	Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.	No notifications to Controller of Audit required.
<b>Corporate governance</b>	Participate in arrangements to cooperate and coordinate with other scrutiny bodies.	Page 15 sets out our conclusion on these arrangements.
<b>Wider audit dimensions</b>	<p>Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':</p> <ul style="list-style-type: none"> <li>— effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets;</li> <li>— suitability and effectiveness of corporate governance arrangements;</li> <li>— financial position and arrangements for securing financial sustainability;</li> <li>— effectiveness of arrangements to achieve best value; and</li> <li>— suitability of arrangements for preparing and publishing statutory performance information.</li> </ul>	Our consideration of the wider dimensions is outlined on pages 14-16.

# Auditor independence

### Assessment of our objectivity and independence as auditor of Tactran

Professional ethical standards require us to provide to you at the completion stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non- audit services; and
- Independence and objectivity considerations relating to other matters.

We will communicate any significant judgements made about threats to objectivity and independence and the appropriateness of safeguards put in place.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values;
- Communications;
- Internal accountability;

- Risk management; and
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

### Independence and objectivity considerations relating to the provision of non-audit services

We have considered the fees charged by us to the Partnership for professional services provided by us during the reporting period. We have detailed the fees charged by us to the Partnership for significant professional services provided by us during the reporting below, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2017 are £7,545. There are no non-audit fees in respect of the period ended 31 March 2017.

### Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the members..

### Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the members and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

*KPMG LLP*

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## Appendix four

# Action plan

The action plan summarises specific recommendations arising from our work, together with related risks and management's responses.

Priority rating for recommendations		
<p><b>Grade one (significant):</b> observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.</p>	<p><b>Grade two (material):</b> observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.</p>	<p><b>Grade three (minor):</b> observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditor. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.</p>
Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<b>1. Accounts preparation</b>		<b>Grade three</b>
<p>Tactran does not use a general ledger and journal system due to its size and small number of transactions. Monthly income and expenditure accounts are prepared from transactions listings, which are reconciled to the bank account. These are collated to form the final accounts. Separate listings are maintained of creditors, debtors, and prepayments. In the course of the audit it was found the supporting schedules could not be easily reconciled to the accounts.</p> <p>There is a risk that Tactran does not provide a clear audit trail to support figures in the financial statements. It may therefore be challenging to resolve identified errors or omissions.</p>	<p>It is recommended that supporting schedules are reviewed to ensure they can be easily reconciled to the accounts, and there is a clear audit trail.</p>	<p><b>Management response</b></p> <p>A review of the system will be undertaken.</p> <p><b>Implementation date</b></p> <p>31 March 2018</p> <p><b>Responsible officer</b></p> <p>Treasurer</p>

## Appendix four

# Action plan (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<b>2. Creditors rounding difference</b>		
<p>In the course of the audit a rounding difference of £4,000 in the creditors balance was identified . It was not possible to identify any further reason for the difference, and due to the nature of the reserves policy it was not possible to make an adjustment to correct for this (i.e. reserves are not permitted to be held)</p> <p>There is a risk that the financial statements cannot be readily reconciled to underlying records.</p>	<p>It is recommended that the procedures for accounts preparation are reviewed, as recommended above. In addition Tactran should consider preparing accounts to the nearest pound, rather than rounding to the nearest £1,000. Given the small size of balances in the accounts this should minimise the risk of rounding differences occurring which culminate in a material difference from supporting schedules.</p>	<p><b>Grade three</b></p> <p><b>Management response</b> Noted</p> <p><b>Implementation date</b> Implemented</p> <p><b>Responsible officer</b> N/A</p>
<b>3. Declaration of interests</b>		
<p>Board members are required to complete a notice of registerable interests covering the member's financial and non-financial interests, which are also made publicly available on the website. Our audit work identified that four of sixteen members who had served in the year had not submitted this return.</p>	<p>It is recommended that Partnership Board members are reminded of the importance of completing the notice of registerable interests, in the interests of transparency and accountability.</p>	<p><b>Grade three</b></p> <p><b>Management response</b> Comprehensive induction training, which included highlighting the importance of all Board members completing and maintaining their Register of Interests for the Partnership, as distinct from their parent Council or other organisations, was delivered by the Secretary, Treasurer and Director at the Partnership meeting on 13 June 2017. A personal request/reminder to complete the register of interests was issued to each Board member soon after that meeting. Members are regularly reminded of their responsibility and personal interest in ensuring full compliance with this aspect of the Code of Conduct.</p> <p><b>Implementation date - ongoing</b></p> <p><b>Responsible officer - Partnership Secretary</b></p>

## Appendix five

# Prior year recommendations

We follow up prior-year audit recommendations to determine whether these have been addressed by management. The table below summarised the recommendations made during the 2015-16 audit and their current status.

We have provided a summary of progress against overdue actions below, and their current progress.

Finding and risk	Original management actions	Status
<p><b>1. Annual Governance Statement</b></p> <p>The Partnership is required to include an annual governance statement (AGS) in its annual accounts. The AGS was completed and approved by members as part of the unaudited accounts. This was highlighted in the 2014/15 Annual Audit Report and although a process was put in place this year it was not followed. There was therefore no evidence how the Chair or the Partnership Director obtained assurance that the internal controls were operating effectively.</p> <p><b>Risk</b></p> <p><i>The governance framework is not operating effectively to provide adequate assurance to those charged with governance.</i></p> <p><b>Recommendation</b></p> <p>A process for obtaining assurance that the Partnership's governance framework is operating effectively should be completed timeously.</p>	<p>The proper officers are confident that an appropriate level of internal control and governance exists within the partnership. However this has not been formalised and reported to the Chair and Partnership Director. This will be addressed in advance of the submission of the 2016/17 draft accounts to the partnership in June 2017.</p>	<p><b>In progress</b></p> <p>A formal process will be implemented in advance of the accounts being signed in September 2017.</p>

# Prior year recommendations (continued)

Finding and risk	Original management actions	Status
<p><b>2. Budget setting process</b></p> <p>Performance information in relation to 2015/16 is not yet available. The 2014/15 annual report was considered by the partnership in March 2016. We previously highlighted that the Partnership's annual report does not provide a clear summary of how it is performing. Specifically information for several indicators is either collected biennially or no longer collected and the analysis does not include targets or key milestones. Last year management agreed that this would be addressed as part of the update to the RTS Delivery Plan.</p> <p><i>Risk</i>  <i>The Partnership cannot demonstrate it is on target to deliver the RTS.</i></p> <p><b>Recommendation</b>                      Performance information should be available timeously and provide sufficient information to allow an assessment of how the partnership is performing</p>	<p>Limitations on the availability of meaningful performance information coupled with the fact that many indicators require to be reviewed over the long term, constrains current monitoring capability. As responsibility for delivering much of the RTS and Delivery Plan rests with a wide range of partners and stakeholders, work will continue with partner councils and other delivery stakeholders to seek to improve the Partnership's performance monitoring framework.</p>	<p><b>Implemented</b></p> <p>The RTS Monitoring Framework was reviewed during 2016 with a report on this being submitted to the Board on 13 September 2016. The RTS Framework and indicators were updated to take account of the earlier refresh of the RTS and Delivery Plan and changes to the availability of nationally recorded and other available data sources.</p> <p>It is the intention to the review the monitoring Framework again, as the ongoing National Transport Strategy Review completes and also to take account of any relevant updating required to take account of emerging City Deals and Locality Outcome Improvement Plans.</p>





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in connection with this  
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