

Tayside and Central Scotland Transport Partnership

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Tayside and Central Scotland Transport Partnership and the Controller of Audit

12 December 2023

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Key messages

Audit of 2022/23 annual accounts

- 1 Our audit opinions on the annual accounts are unmodified. The financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- 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 proper accounting practices.
- 3 One material adjustment, relating to the valuation of the pensions, was made to the financial statements.
- 4 There is scope to improve the readability of the management commentary.

Wider scope

- 5 Financial management arrangements are satisfactory and the 2022/23 budget was underspent by £53,000.
- 6 Tactran has not yet developed a medium-term financial plan.
- 7 Governance and transparency arrangements and Annual Governance Statement disclosures are appropriate.

Introduction

1. This report summarises the findings from the 2022/23 audit of Tayside and Central Scotland Transport Partnership (Tactran) and will be published on Audit Scotland's website: www.audit-scotland.gov.uk. The scope of our audit was set out in our annual audit plan which was circulated to Board members in April 2023.

2. We would like to thank elected members, management and staff, particularly those in finance, for their co-operation and assistance and we look forward to continuing to work together constructively over the five-year appointment.

Adding value through the audit

3. We aim to help Tactran promote improved standards of governance, better management and decision-making and more effective use of resources. We do this by sharing intelligence and good practice, by identifying and providing insight on significant risks, and making clear recommendations for improvement.

Responsibilities and reporting

4. Tactran 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. Tactran is also responsible for compliance with legislation and establishing appropriate arrangements for governance and propriety.

5. The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK. As highlighted in our 2022/23 Annual Audit Plan, due to the low volume and lack of complexity of Tactran's financial transactions, we applied the less complex body provisions of the Code to the 2022/23 audit. As a result, our wider scope and Best Value audit work has focused on the body's use of resources to secure financial sustainability and the disclosures in the Annual Governance Statement.

6. This report contains an agreed action plan at the [Appendix](#) setting out specific recommendations, responsible officers and dates for implementation. Weaknesses or risks identified in this report 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 of its responsibility to address the issues we raise and from maintaining adequate systems of control.

Auditor Independence

7. We confirm that we comply with the Financial Reporting Council's Ethical Standard and that we have not undertaken any non-audit related services. The 2022/23 audit fee of £13,035, as set out in our 2022/23 Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity or our independence.

Part 1. Audit of 2022/23 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

Our audit opinions on the annual accounts are unmodified. The financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

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 proper accounting practices.

One material adjustment, relating to the valuation of the pensions, was made to the financial statements.

There is scope to improve the readability of the management commentary.

Audit opinions on the annual accounts are unmodified

8. The Board approved the annual accounts for Tactran for the year ended 31 March 2023 on 12 December 2023. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the Remuneration Report was prepared in accordance with the financial reporting framework
- the Management Commentary and the Annual Governance Statement were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.

The 2022/23 annual accounts were certified in line with the agreed timetable

9. We received the unaudited annual accounts on 13 June 2023, in line with the agreed audit timetable. The accounts presented for audit were of a good standard and officers provided good support to the audit team which enabled us to certify the annual accounts in line with the agreed timetable.

Our audit approach and testing was informed by the overall materiality level of £34,000

10. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the accounts, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

11. Our initial assessment of materiality was carried out during the planning phase of the audit and was based on the financial results reported in the audited 2021/22 annual accounts. These materiality levels were reported in our 2022/23 annual audit plan.

12. On receipt of the unaudited 2022/23 annual accounts we reconsidered our materiality levels based on the financial results for the year ended 31 March 2023, and decided to amend our planned amounts to reflect the increase in gross expenditure. Materiality amounts are detailed in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£34,000
Performance materiality	£26,000
Reporting threshold	£1,700

Source: Audit Scotland

13. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75% of overall materiality, reflecting the low level of errors in previous years, the lack of significant estimation in the accounts and the non-complex nature of the body.

Our audit identified and addressed the risks of material misstatement

14. [Exhibit 2](#) sets out the significant and non-significant risks of material misstatement to the financial statements. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 2**Identified risks of material misstatement in the annual accounts**

Audit risk	Assurance procedure	Results and conclusions
Significant risk of material misstatement		
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Assess the design and implementation of controls over journal entry processing.</p> <p>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Test journals at the year-end and post-closing entries and focus on significant risk areas.</p> <p>Consider the need to test journal entries and other adjustments during the year.</p> <p>Evaluate significant transactions outside the normal course of business.</p> <p>Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p> <p>Substantively test income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</p> <p>Test accounting accruals and prepayments focusing on significant risk areas.</p>	<p>The completion of the assurance procedures did not identify any evidence of management override of controls.</p>
Other non-significant risk of material misstatement		
<p>2. Estimation in the valuation of pension assets and liabilities</p> <p>Actuarial estimates are a complex combination of liabilities over significant</p>	<p>Assess the scope, independence and competence of the professionals engaged in providing estimates for pensions.</p>	<p>A review of other local government actuarial reports identified that Tayside Pension Fund had an unusually high assessment of</p>

Audit risk	Assurance procedure	Results and conclusions
<p>future periods based on life expectancy, CPI growth and discounting (based on corporate bond rates). Assets are based on an individual employer body's share of assets at the last triennial valuation. Roll forward adjustments are provided to members data and to asset valuations. There is a risk that small changes in the assumptions used can lead to large changes in the resulting valuations resulting in material misstatement in the annual accounts.</p>	<p>Review the appropriateness of actuarial assumptions and results including comparison with other employers and the pension fund as a whole.</p> <p>Establish officers' arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by Tactran.</p>	<p>pension assets under IFRIC14.</p> <p>The inferred value of the asset was 11 times Tactran's annual employer contribution.</p> <p>The method used to determine this value was considered and we identified that the valuation of costs and contributions were assessed over very different timeframes.</p> <p>A revised IAS19 actuarial report was obtained, and the annual accounts were amended to reflect the revised valuation.</p> <p>Refer to Item 1 in Exhibit 3.</p> <p>We also considered Tactran's arrangements for ensuring the reasonableness of the expert's work and concluded that there is scope for improvement. In particular, management should review the actuary's reports and confirm that these provide a satisfactory basis for disclosures in the accounts.</p> <p>Recommendation 1</p>

We have one significant finding to report from our audit of the annual accounts

15. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to the Board including our view about the qualitative aspects of the body's accounting practices.

16. The significant findings are summarised in [Exhibit 3](#). Our audit also identified other presentation and disclosure issues which were discussed with management. These were all adjusted in the audited annual accounts, and none were significant enough to require to be separately reported under ISA260.

Exhibit 3

Significant findings from the audit of the annual accounts

Issue	Resolution
<p>1. Valuation of pension asset</p> <p>The 2022/23 unaudited annual accounts included a pension asset of £666k.</p> <p>The pension accounting standard (IAS 19) limits any pension asset to the lower of the surplus and what is described as an asset ceiling. The asset ceiling is defined as the present value of any economic benefits available in the form of refunds from the pension fund or reductions in future contributions to the fund.</p> <p>Further guidance on calculating the asset ceiling is provided in IFRIC 14. It refers to the impact of a 'minimum funding requirement' which stipulates a minimum amount of contributions that must be paid over a given period. The existence of a minimum funding requirement limits the ability of a body to reduce future contributions.</p> <p>Where there is a minimum funding requirement for contributions relating to future service, IFRIC 14 explains that the asset ceiling is the present value of the future service cost less the present value of the minimum funding requirement contributions.</p> <p>Where the present value of the minimum funding requirement contributions exceeds the future service cost, IFRIC 14 advises that no asset should be recognised.</p> <p>Our review of the methodology used by Tactran's actuary identified that the calculation of the asset ceiling had only considered the minimum funding requirement contributions up to the date of the next triennial valuation, rather than all future service costs and contributions. As a result the pension asset was overstated in the unaudited annual accounts.</p>	<p>The actuary provided a revised IFRIC14 calculation that reflected a pension asset ceiling calculation based on an assessment of all future service costs and contributions.</p> <p>The audited financial statements have been adjusted to reflect the revised pension valuation.</p> <p>The annual accounts now reflect a pension asset of zero.</p>

Identified misstatements were adjusted in the accounts

17. Other than the restatement of the pension asset, as explained in [Exhibit 3](#), there were no adjustments to the main financial statements. In addition, there are no unadjusted misstatements to report.

There is scope to improve the readability of the Management Commentary

18. The Code of Practice on Local Authority Accounting in the United Kingdom requires local government bodies to prepare and publish a Management Commentary along with their financial statements. The Management Commentary should be fair, balanced, understandable and consistent with the financial statements.

19. We concluded that the 2022/23 Management Commentary was consistent with the financial statements and properly prepared in accordance with the applicable requirements. We noted, however, that it contained a lot of detailed financial information that made it difficult to read. Our audit also noted a number of errors in the disclosures, and these were corrected in the audited annual accounts.

20. In 2020, Audit Scotland produced [Good Practice Note: Management Commentaries](#) which shared examples of good practice and highlighted areas where enhancements could be made. In particular, the report notes the importance of ensuring key messages are not obscured by the inclusion of immaterial information and recommends signposting the reader to additional detail through the use of hyperlinks.

Recommendation 2

Tactran should review the content and presentation of its Management Commentary against Audit Scotland's good practice note to ensure key messages are not obscured through the inclusion of overly detailed financial information.

Part 2. Wider Scope

For less complex bodies wider-scope audit work considers the financial sustainability of the body and the services that it delivers over the medium to longer term, and the arrangements for securing Best Value

Financial management arrangements are satisfactory and the 2022/23 budget was underspent by £53,000.

Tactran has not yet developed a medium-term financial plan.

Governance and transparency arrangements and Annual Governance Statement disclosures are appropriate.

The 2022/23 budget was underspent by £53,000

21. The Partnership reported a year end deficit of £22,000 against a planned use of reserves of £75,000 resulting in an underspend against budget of £53,000 at the year-end. The deficit was offset against the General Fund Reserve leaving a balance of £78,000 at 31 March 2023.

Financial management arrangements are satisfactory

22. Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. It is Tactran's responsibility to ensure that its financial affairs are conducted in a proper manner. We reviewed Tactran's arrangements for financial management during 2022/23 and concluded that they were satisfactory, with appropriate monitoring reports being regularly submitted to the Board for scrutiny.

Tactran has not developed a medium-term financial plan

23. Annual funding from the Scottish Government and constituent councils has not increased since 2013/14 and 2015/16 respectively. Over time, the proportion allocated to Tactran's core budget has increased and as a result the amount remaining to fund Regional Transport Strategy projects has decreased. The public sector is facing continuing funding pressures and Tactran will find it increasingly challenging to secure sufficient additional funding to deliver on its priorities and outcomes.

24. To date, Tactran has prepared financial plans on an annual basis. In these fiscally challenging times, planning over the medium-term is essential for Tactran to understand and manage any risks or threats to its financial sustainability.

Recommendation 3

Tactran should develop a medium-term financial plan.

Governance and transparency arrangements are appropriate

25. Tactran was constituted under the Transport (Scotland) Act 2005 as one of seven transport partnerships set up to provide a co-ordinated approach to transport planning and delivery between different local authority areas. The Tactran area covers Perth and Kinross, Dundee, Angus and Stirling.

26. The Board has ten Councillor members representing the four constituent Councils, three non-council appointments made by the Scottish Ministers and two external advisors.

27. The Board meets regularly, usually four or five times a year. We have reviewed the minutes and papers submitted to the Board and conclude that they are sufficiently detailed and comprehensive to allow for effective decision-making and scrutiny. The papers are readily accessible on the Tactran website.

Annual Governance Statement disclosures are appropriate

28. We concluded that the disclosures included in the Annual Governance Statement are consistent with the financial statements and comply with the guidance issued by Scottish Ministers.

29. We noted that Tactran's governance documents and financial regulations were last updated in December 2016 and June 2019 respectively. In addition, the service level agreement with Perth & Kinross Council has not been updated since March 2011. Tactran's Code of Conduct for members was last updated in March 2022.

Recommendation 4

The governance documents, financial regulations and service level agreement with Perth & Kinross Council should be regularly reviewed to ensure they remain fit for purpose.

Appendix. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Reliance on management expert (Actuary)</p> <p>Tactran relies on the actuary to provide information for inclusion in the annual accounts. The finance team does not review the actuary's report for reasonableness before the accounts are updated.</p> <p>There is a risk that pension assets / liabilities are materially misstated in the annual accounts.</p>	<p>We recommend that management review the actuary's reports to confirm that these provide a satisfactory basis for disclosures in the accounts.</p>	<p>Management will review the assumptions contained within the actuary report. Any significant changes between financial years will be raised with the actuary.</p> <p>Responsible officer: Treasurer</p> <p>Agreed date: 30 June 2024</p>
<p>2. Management commentary</p> <p>The management commentary contains a lot of detailed financial information that makes it difficult to read. Our audit also noted a number of errors in the disclosures, and these were corrected in the audited annual accounts.</p> <p>There is a risk that key messages are obscured through the inclusion of too much detailed information.</p>	<p>Tactran should review the content and presentation of its management commentary against the Audit Scotland good practice note to ensure key messages are not obscured through the inclusion of overly detailed financial information.</p>	<p>Management will undertake a review of the Management Commentary to ensure it remains in line with good practice.</p> <p>Responsible officer: Director / Treasurer</p> <p>Agreed date: 30 June 2024</p>
<p>3. Financial sustainability</p> <p>To date, Tactran has prepared financial plans on an annual basis. In these fiscally challenging times, planning over the medium-term is essential for Tactran to understand and manage</p>	<p>Tactran should develop a medium-term financial plan.</p>	<p>The annual review of the Risk Register recognises the financial challenges faced by Tactran.</p> <p>Management will consider developing a medium-term financial plan, recognising that the Constituent Councils have an obligation under</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>any risks or threats to its financial sustainability.</p> <p>There is a risk that Tactran cannot deliver on the priorities and outcomes set out in its Regional Transport Strategy.</p>		<p>Section 3 of the Transport (Scotland) Act 2005 to fund the net expenditure of the Partnership.</p> <p>Responsible officer: Treasurer</p> <p>Agreed date: 31 March 2025</p>
<p>4. Governance documents</p> <p>Tactran's governance documents and financial regulations were last updated in December 2016 and June 2019 respectively. In addition, the service level agreement with Perth & Kinross Council has not been updated since March 2011.</p> <p>There is a risk that these documents no longer reflect Tactran's current operations.</p>	<p>The governance documents, financial regulations and service level agreement with Perth & Kinross Council should be regularly reviewed to ensure they remain fit for purpose.</p>	<p>The governance documents will be reviewed when performing the annual review of the Risk Register.</p> <p>Service Level Agreements will be reviewed and, if required, updated to ensure they remain fit for purpose.</p> <p>Responsible officer: Director / Treasurer</p> <p>Agreed date: 31 March 2024</p>

Tayside and Central Scotland Transport Partnership

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:



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