

## PLYMOUTH CITY COUNCIL

<b>Subject:</b>	Tamar Bridge & Torpoint Ferry Audit Arrangements 2015/16 and beyond
<b>Committee:</b>	Council
<b>Date:</b>	25 January 2016
<b>Cabinet Member:</b>	Councillor Coker
<b>CMT Member:</b>	Anthony Payne (Strategic Director for Place)
<b>Author:</b>	Simon Arthurs, Senior Finance Analyst
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<b>Ref:</b>	
<b>Key Decision:</b>	No
<b>Part:</b>	I

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### **Purpose of the report:**

The Tamar Bridge and Torpoint Ferry are operated, maintained and improved jointly by Plymouth City Council and Cornwall Council on a 'user pays' principle, being funded by toll income using powers derived from the Tamar Bridge Act. The finances of the joint undertaking are effectively ring-fenced by the Act, and it is operated as a self-financing business.

The Tamar Bridge and Torpoint Ferry Joint Committee (TBTFJC) requires the Council's of the Joint Authorities to recommend TBTFJC's audit arrangements to their respective Full Councils for approval of the appointment.

The report presents the audit arrangements submitted to TBTFJC on 4 December 2015 and draft minutes recording TBTFJC's endorsement.

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### **The Brilliant Co-operative Council Corporate Plan 2013/14 -2016/17:**

The Tamar Bridge & Torpoint Ferry links are key gateways to the City and provide opportunities for investment, jobs and growth particularly in the wider context of Plymouth as the regional economic centre.

Providing a safe well-maintained road network contributes to the economic well-being of the City, supporting the Council's Growth priority.

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### **Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land**

**Finance** – The proposed audit fee will be capped and funded from the existing business plan.

**Human** – The audit proposals represent new business for either the Devon Audit Partnership or the Cornwall Council Internal Audit Team, thus no adverse human resource implications.

**IT** – No IT implications.

**Land** – No land issues arising from this item.

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**Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:**

**Risk Management** – Although the statutory audit regime for “small bodies” has been relaxed from 2015/16, the TBTFJC have recognised the risks and have recommended that continued audit scrutiny of the business should take place in order to give the fee paying bridge and ferry users confidence in the business operations and its financial standing. All audit work is planned and conducted using a risk based approach.

**Health and Safety** – No implications arising from this item.

There are no child poverty or community safety implications.

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**Equality and Diversity**

Has an Equality Impact Assessment been undertaken? There are no equality impact assessment implications arising from this item.

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**Recommendations and Reasons for recommended action:**

1. That the Council approves the TBTFJC’s audit appointment of Cornwall Internal Audit for 2015/16
  2. That the Council approves the TBTFJC’s intention to review of the audit arrangements from 2016/17 as outlined in the TBTFJC audit arrangements report
  3. That the Council approves the TBTFJC’s request that the specific Value For Money test is conducted by an external agent
  4. That the Council approves the TBTFJC’s intention to invite the Mount Edgumbe Joint Committee to align its audit requirements with the TBTF to increase the scope to improve Value for Money
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**Alternative options considered and rejected:**Audit Options

- Cease to assurance audit. This is not recommended for the reasons of public accountability or financial transparency.
  - To go through a full process to specification, tender and finally appoint an external auditor to undertake a separate audit of the Joint Committee’s accounts. This process would require significant resource, be likely to result in noticeably higher costs.
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**Published work / information:**

Tamar Bridge & Torpoint Ferry Joint Committee reports, 4 December 2015

<https://democracy.cornwall.gov.uk/documents/s85058/5.2%20Audit%20Arrangements%20from%202016-17%20-%20Report.pdf>

Tamar Bridge and Torpoint Ferry Joint Committee Draft Minutes of Meeting 4 December 2015

<https://democracy.cornwall.gov.uk/ieListDocuments.aspx?MIId=6237&x=1&>

Tamar Bridge & Torpoint Ferry Joint Committee reports, 13 March 2015

<https://democracy.cornwall.gov.uk/documents/s76950/5.3%202015-16%20Audit%20Arrangements.pdf>

**Background papers:**

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**Sign off:**

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Originating SMT Member													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

## **Introduction**

- 1.1 The Tamar Bridge and Torpoint Ferry are operated, maintained and improved jointly by Plymouth City Council and Cornwall Council on a 'user pays' principle, being funded by toll income using powers derived from the Tamar Bridge Act. The finances of the joint undertaking are effectively ring-fenced by the Act, and it is operated as a self-financing business. The undertaking follows an approved four-year Business Plan (currently 2015-2019) which aims to provide the service without external financial support from the parent authorities or other source.

## **Background**

- 1.2 The Audit Commission Act 1998 required Joint Committees to prepare accounts and undergo a separate audit from their constituent bodies. In December 2014 a letter from the Department for Communities and Local Government confirmed that, from 1 April 2015, implementation of the Local Audit and Accountability Act 2014 will mean that Joint Committees will no longer be required to have their accounts separately prepared and audited.
- 1.3 The Government have made this change as the appropriate parts of the financial results of Joint Committees are reported in the accounts of their constituent bodies, and they will be audited by auditors appointed to audit the accounts of those bodies.
- 1.4 At its meeting in March 2015 the Joint Committee received a report which notified this change and approved audit arrangements for 2015/16. These arrangements would see Cornwall Council Internal Audit, who currently undertake the review of the Committee's internal control environment, take on an increased engagement to provide assurance over the production of the financial statements.
- 1.5 The audit arrangements are not currently secured beyond 2015/16 which presents an opportunity for the Joint Committee to drive further value for money by a longer term audit appointment by having a longer lead in time for the type of audit work needed. There may also be options to secure economy of scale or increase the public perception of transparency between the constituent Councils financial and audit arrangements.

## **Outcomes/outputs**

- 1.6 Although the removal of the separate audit requirement following the changes in regulations would have resulted in the reduced assurance on the financial activity of the Joint Committee the financial results remain the subject of audits of the Joint Councils.
- 1.7 However, owing to the levels of materiality for the Joint Councils it is unlikely that revenue activity, either through spend or income generated, will be specifically tested by the Joint Councils audits, however the assets i.e. the bridge, will be material and therefore still be subjected to testing under the relevant audits.
- 1.8 Statement of accounts, encompassing the income and expenditure account and balance sheet, will still be produced by the Cornwall Council financial team as part of the financial services agreement, and are required as part of the process of including the financial results in the Joint Councils final accounts.
- 1.9 This, therefore, still provides transparency around the Joint Committee's individual financial results and these will still be available and published hence the decision in March to invite Cornwall Internal Audit to complete the 2015/16 assurance work at a cost of up to £8k.

- 1.10 Given the importance of public accountability and the need for assurance relating to the financial affairs of the Joint Committee, particularly linked to Value for Money and future toll reviews (as and if needed), a clearly defined and cost effective set of audit arrangements are key in order to give the Joint Committee confidence.

### **Options available and consideration of risk**

- 1.11 There are a number of options open to the Joint Committee to proceed with 2016/17 in mind. These options are set out below.
- 1.12 Option 1 – In line with the financial service agreement with Cornwall Council to provide financial support to the Joint Committee, to continue with the production of a final set of accounts, encompassing income and expenditure account and balance sheet which will also allow the inclusion of the Joint Committee's financial results in the statements of the Joint Councils. This then being subject to independent testing by Cornwall Council's internal audit team as per the arrangements put in place for 2015/16.
- 1.13 Option 2 – Cease the assurance audit . Save on the audit fee and continue without any audit or increased independent financial assurance but take assurance that the Joint Committee's undertakings are covered under the audit of the Joint Councils. Financial statements will still be produced to enable Joint Councils to include them within their final accounts. This is not recommended for the reasons of public accountability or financial transparency.
- 1.14 Option 3 – Invite the Cornwall Council Internal Audit Team and the Devon Audit Partnership (Plymouth's internal audit provider) to bid for the audit work for the Joint Committee. The audit work comprising of the full range of audit work required, including the assurance work and could cover a longer-term agreement (in the region of 3-4 years). .
- 1.15 Option 3 i) To invite the Mount Edgumbe Joint Committee to participate in the process thus seeking to secure further value for money for both Joint Committees through increased collaboration.
- 1.16 Option 4 – To go through a full process to specification, tender and finally appoint an external auditor to undertake a separate audit of the Joint Committee's accounts. This process would require significant resource, be likely to result in noticeably higher costs and may need to be repeated if there is significant change in the undertaking's organisational structure.
- 1.17 Each option has advantages and disadvantages. This could be concluded either by an informal competitive process between the two Internal Audit services or alternated in a cyclical period (to be defined and to enable continuity of service and building of the client/audit relationships). This would enable increased transparency whilst aiming to reduce the overall fees paid for audit work and thus increasing value for money for the Joint Committee.

### **5. Proposed Way Forward**

Taking into consideration the financial transparency requirements of the Joint Committee, particularly for any future toll review, and the risk that any procurement exercise will require additional resource and could potentially cost considerably more than the current audit, the proposed way forward is to proceed with option 3.

Furthermore, at the Joint Committee on 4 December, members requested that the VFM test is completed independently of the Internal Audit function given the public perception and should a toll review ever be required in the future.

The Business Manager and the Joint Treasurers will draw up an assurance audit specification and invite the Internal Audit Team from Cornwall Council and the Devon Audit Partnership to present to Officers. Officers to develop the best approach to secure independent VFM testing as requested by the members of the Joint Committee. Officers will consider the options and report proposals to the Joint Committee prior to the start of 2016/17 i.e. at its March 2016 meeting.