



Internal Audit Project 2008-01: Review of Governance Arrangements

Final Report
February 2009



Audit • Tax • Consulting • Corporate Finance •

tie Limited – Review of Governance Arrangements

Distribution



| Report Distribution | | |
|---------------------|-------------------|----------------------------------|
| Final Report | Name | Position |
| | Steven Bell | Tram Project Director |
| | Graeme Bissett | Strategy and Planning Consultant |
| | Kenneth Hogg | Audit Committee Chairman |
| | Stewart McGarrity | Finance Director |
| | David Mackay | Chairman |

This report and the work connected therewith are subject to the Terms and Conditions of the Contract between tie Limited and Deloitte & Touche LLP dated 18 October 2008. The report is produced solely for the use of tie Limited. Its contents should not be quoted or referred to in whole or in part without our prior written consent. Deloitte LLP will accept no duty or responsibility to any third party, as the report has not been prepared, and is not intended for any other purpose.

This report has been prepared on the basis of the limitations on page 19.

tie Limited – Review of Governance Arrangements

Contents



| Report Section | Page |
|---|-------------|
| • Executive Summary | 1 |
| • Detailed Objectives and Scope | 4 |
| • Process Risk Evaluation | 5 |
| • Detailed Recommendations and Action Plan | 11 |
| | |
| Appendices | |
| • Potential future governance structure | 16 |
| • Process Risk Evaluation and Finding Priority Criteria | 17 |
| • List of interviewees | 18 |
| • Statement of Responsibility | 19 |

tie Limited – Review of Governance Arrangements

Executive Summary



| Executive Summary | |
|---------------------------------|--|
| Background | <p>tie Limited (tie) is committed to the highest standards of corporate governance to ensure the company provides value for the public money it receives. Key to achieving these standards is the clarity and effectiveness of overarching governance structures for the company and the tram project.</p> <p>Since our work commenced in mid November, there have been considerable changes to the governance arrangements in place within tie. The Executive Chairman of tie resigned his position during November 2008 and an interim Chairman (David Mackay, current Chairman of Transport Edinburgh Limited (TEL)) was appointed. We understand that tie and City of Edinburgh Council (CEC) are undertaking an internal review of governance arrangements at present in addition to this review.</p> |
| Scope and Objectives | <p>We have undertaken a review of the governance structures in place within tie in order to assess the adequacy and effectiveness of the current arrangements in place. This forms part of our annual internal audit plan agreed by the audit committee. Our full scope is detailed on page four.</p> |
| Overview of Key Findings | <p>The governance arrangements which were developed as part of business case for the Edinburgh Tram project appear to have been operating effectively. No control weaknesses were noted in relation to the current governance structure.</p> <p>However, there are opportunities in both the short and medium term to improve the current arrangements as the project moves from the construction phase through to commissioning and operation over the next couple of years.</p> <p>The recent resignation and early retirement of the tie Executive Chairman and TEL CEO provides an opportunity to review the wider governance arrangements across these bodies with a view to supporting the transition from construction to operation. This also provides an opportunity to rationalise elements of tie and TEL while clarifying and reinforcing responsibilities in respect of the Tram Project.</p> |

tie Limited – Review of Governance Arrangements

Executive Summary



Executive Summary

Overview of Key Findings (continued)

We have highlighted a number of specific key short term actions required to strengthen the current governance arrangements.

- Consider an alternative model for the delivery and operation of transport projects across Edinburgh. The early creation of a single legal entity owned by CEC (encapsulating **tie**, TEL and Lothian Buses), largely as anticipated in the final business case, would help streamline governance arrangements and assist in the transition of the project through construction to operation, and the longer term development and operation of public transport in the city region;
- Consider the role and remit of the **tie** board in relation to the Tram Project Board (TPB) as there is duplication in membership and agenda items;
- In respect of traffic management arrangements, a Traffic Management Peer Review Group (TMPRG) was established as a sub committee of the TPB in November. A framework for measuring the success or otherwise of the traffic management actions ratified by the TMPG group is not currently in place. In addition, there is no clear guidance as to when contingency arrangements should be triggered to alleviate traffic congestion levels.
- Identify a replacement Senior Responsible Owner (SRO) to take the place of the outgoing TEL Chief Executive. As an interim arrangement the Finance Director for **tie** is fulfilling the role of SRO, but a permanent appointment is required, making reference to OGC guidance.

We have also made recommendations in respect of the membership of the audit committee, mechanisms to monitor compliance with the operating agreement with CEC, and the corporate risk management process.

tie Limited – Review of Governance Arrangements

Executive Summary



Executive Summary

Notes

The following table summarises our findings by priority and nature. An analysis of our findings by individual review objectives is shown on pages 5 to 10 and our detailed recommendations for improvement are shown from page 11.

| Category | Total | Priority | | |
|---------------------|----------|----------|----------|----------|
| | | 1 | 2 | 3 |
| Control Weakness | - | - | - | - |
| Process Improvement | 8 | 1 | 4 | 3 |
| Total | 8 | 1 | 4 | 3 |

tie Limited – Review of Governance Arrangements

Detailed Objectives and Scope

| Scope | |
|-----------------------|---|
| Objectives | The overall objective of this review was to focus on the governance structures across the tram project and the interaction between the tie board, executive board and project board. |
| Approach | <p>We took the following approach to this review:</p> <ul style="list-style-type: none"> • Considered the structure and formal remits of tie board, executive board and project board; • Held discussions with appropriate personnel to understand current governance structures and understanding of role and remit; • Reviewed a sample of agendas and meeting minutes to consider adherence to remit and the extent of duplication across governance structures; and • Preparation of a draft report, including recommendations for improvement. |
| Process Area Coverage | <p>As per the agreed scope document, our review focused on the following areas:</p> <ul style="list-style-type: none"> • The extent to which the remits of the tie board, executive board and project board are documented, understood and adhered to; • Identify the extent to which there is duplication and overlap across the governance structures of tie and the tram project; • The appropriateness of the tie organisational structure and clarity of roles and responsibilities; • Mechanisms used to share information and monitor key corporate and project risks; • The amount, nature and effectiveness of key internal meetings in respect of the Tram project, including key stakeholder engagement on matters such as traffic management (planning and execution), design changes and programme changes (“change control”); and • Robustness of mechanisms to ensure compliance with the operating agreements between tie and City of Edinburgh Council. <p>This review did not specifically look at the project and programme reporting processes as this is to be considered in project 2008-05.</p> |

tie Limited – Review of Governance Arrangements

Process Risk Evaluation

| Objective | Points of Note | Risk | Findings & Priority | | | |
|--|---|------|---------------------|---|---|-------|
| | | | 1 | 2 | 3 | Total |
| Remits of the tie board, executive board and project board. | <p>Review of the delegated authority rules for tie (doc ref – CP7414) highlighted a detailed governance model representing the current governance arrangements in respect of tie and the Tram Project.</p> <p>A detailed remit is in place for the TPB and roles and responsibilities are defined for those parties to whom the company reports (CEC and Transport Scotland) as well as other bodies with tram related responsibilities such as TEL.</p> <p>The TPB's sub committee structure was formally approved at the TPB meeting on 17 December 2008 and delegated authority rules revised accordingly. The Financial, Commercial and Legal sub committee has now been established with the Communications, Engineering & Delivery, and Benefits Realisation & Operations sub committees due to be established over the course of 2009.</p> <p>Given the insight and experience provided by the non executives of tie, consideration should be given to co-opting non executives onto the TPB sub committees referred to above on an as necessary basis.</p> | | - | - | - | - |

tie Limited – Review of Governance Arrangements

Process Risk Evaluation

| Objective | Points of Note | Risk | Findings & Priority | | | |
|--|---|------|---------------------|---|---|-------|
| | | | 1 | 2 | 3 | Total |
| Duplication and overlap across the governance structures | <p>Review of the minutes of the tie board and TPB for the last three months highlighted the following:</p> <ul style="list-style-type: none"> The coverage of topics at the TPB and tie Board is broadly similar with the exception of corporate specific topics (i.e. business development; finance report - corporate; HR and Comms; and corporate risks). A number of the agenda items discussed at both meetings overlap (i.e. tram project status; health and safety; traffic management; and finance report). <p>It is noted that the depth with which specific tram issues and ongoing progress are discussed and documented appears to be similar. Discussions highlighted that while the intention is to keep the tie Board informed of operational matters, the meetings frequently result in detailed operational items being discussed.</p> <ul style="list-style-type: none"> The attendance at the last four meetings of the TPB and tie Board meetings was reviewed and duplication of up to seven attendees was noted. <p>It is recognised that the current structure of tie was implemented when multiple projects were in place. While there is only one major project underway, it is difficult to delineate between TPB and the tie board. This has led to duplication in reporting and meeting attendance as a result of the two meetings being held at different times.</p> <p><i>It is recognised that such a combined meeting took place on 19 November and 17 December 2008. Discussions undertaken as part of this review subsequent to these meetings highlighted a high degree of satisfaction with the way in which the meetings took place.</i></p> | | - | 1 | - | 1 |

tie Limited – Review of Governance Arrangements

Process Risk Evaluation

| Objective | Points of Note | Risk | Findings & Priority | | | |
|--|--|------|---------------------|---|---|-------|
| | | | 1 | 2 | 3 | Total |
| Appropriateness of the tie organisational structure and clarity of roles and responsibilities | <p>Our review of the tie organisational structure led us to consider the overall governance framework in which tie resides and highlighted the following:</p> <ul style="list-style-type: none"> tie management (through the Tram Project Director and Finance Director) currently provide reports and regular updates to TPB (which in turn is a sub committee of TEL) on the progress of the Tram project. TEL will be responsible for operating a future integrated transport network for Edinburgh (inclusive of Lothian Buses). At present, the TPB reports to both TEL and tie and also to Transport Scotland via CEC. CEC also receive regular reports from both TEL and tie. The current CEO of Transport Edinburgh Limited (TEL) left post on 31 December 2008 and the Executive Chairman of tie Limited recently resigned his position. <p>The role of tie is to deliver a project fit for operational purpose, on time and budget yet individuals and organisations outside tie have the ability to influence decisions that have a direct bearing on the achievement of these goals. In particular, the TEL Board are responsible for all matters affecting the programme, cost and scope of the project except those which would involve a significant change to the Council's obligations, or settlement of a single or series of claims. In effect, the TEL Board delegate responsibility to the TPB, and tie provides services to the TPB.</p> <p>The current governance framework described above gives rise to potential ambiguity as to where key decisions are made and ratified. For example, key stakeholders hold the tie board accountable for decisions made in respect of the Tram Project when in actual fact the TPB have delegated authority for the delivery of an integrated Tram and Bus network on behalf of CEC and TEL.</p> | | 1 | 2 | 1 | 4 |

tie Limited – Review of Governance Arrangements

Process Risk Evaluation

| Objective | Points of Note | Risk | Findings & Priority | | | |
|---|--|------|---------------------|---|---|-------|
| | | | 1 | 2 | 3 | Total |
| <p>Appropriateness of the tie organisational structure and clarity of roles and responsibilities (continued)</p> | <p>Consideration should be given to moving towards a delivery and operation divisional model such as that shown at Appendix A and as broadly anticipated in the final business case. Early implementation of an integrated senior management team overseeing the development and operations of both the Tram and Bus network and possibly other transport related activities, would allow an improved approach to the development and delivery of an integrated public transport network and associated business plan across Edinburgh.</p> <p>Such a model would effectively see the activities associated with tie becoming a project delivery and business development arm of an enlarged integrated transport organisation. This would provide efficiencies across the combined organisations in respect of back office functions, and overall governance arrangements whilst causing minimal disruption to the ongoing project operations.</p> <p>Due consideration of the requirements of The Transport Act 1985 and tax planning opportunities will be an important element of implementation planning.</p> <p>It was recognised by the management team that there is a need to ensure that any future restructuring exercise does not lead to loss of access to the high levels of experience that the current non-Executive Board members have. Roles and responsibilities of any new operating structure would require to be formalised at this stage.</p> <p>We also noted that there is currently no Senior Responsible Owner (SRO) in place for the project following the recent resignation of Neil Renilson. The Finance Director of tie is currently fulfilling the role of SRO on an interim basis. A permanent appointment should be made in the short term, making reference to Office of Government Commerce on the role and responsibilities of the SRO.</p> <p>The former Executive Chairman was primarily responsible for managing and engaging with the various stakeholder groups. Discussions highlighted that the senior management team at tie as well as the interim Chairman are currently splitting these responsibilities with assistance from appropriate individuals at CEC.</p> <p>The former Executive Chairman was a member of the audit committee. The Combined Code on Corporate Governance Guidance indicates that all members of an audit committee should be non executive directors (Combined Code provision C.3.1). The Smith Guidance at sections 2.4 to 2.6 indicates the chairman of a company should not be an audit committee member. While recognising tie is not a listed entity, recognised good governance principles should be considered when revisiting membership of the audit committee.</p> | | | | | |

tie Limited – Review of Governance Arrangements

Process Risk Evaluation

| Objective | Points of Note | Risk | Findings & Priority | | | |
|--|--|------|---------------------|---|---|-------|
| | | | 1 | 2 | 3 | Total |
| Mechanisms used to share information and monitor key corporate and project risks | <p>The standard of reports provided to Board meetings appeared of a high standard.</p> <p>The format of the corporate and project risk registers were in line with common practice we see across other organisations. It was clear from review of minutes of past meetings that corporate and project risks are considered at the tie Board meeting and project specific risks at the TPB.</p> <p>Discussions with members of the senior management team highlighted a satisfaction with the extent to which risk is reported, considered and actively managed within the organisation. We noted in particular the importance which the senior tram project management team place on ensuring that the risk register is maintained.</p> <p><i>No issues were raised in respect of this area of our work.</i></p> | | - | - | - | - |
| Amount, nature and effectiveness of key internal meetings in respect of the Tram project | <p>We reviewed the work undertaken by the Traffic Management Review Panel (TMRP) and Traffic Management Peer Review Group (TMPRG) through discussions with senior management and review of available documentation.</p> <p>The TMPRG was formed in order that the issues which arose when the Mound traffic arrangements were implemented on 1 October 2008 resulting in widespread disruption in Edinburgh City Centre, are more closely managed going forward.</p> <p>The role and remit of the TMPRG sub-committee was formalised in November 2008. We note that the intended membership of this group would have left only one individual (Marshall Poulton – CEC) in place given recent resignations/retirements. The roles previously filled by the TEL CEO and tie Executive Chairman are being filled by the Tram Project Director and the Operations Director of Lothian Buses.</p> <p>The experience and knowledge of the members of the TMRP and TMPG will serve to give the TPB and tie Board assurance that a repeat of the events of 1 October 2008 will be less likely going forward. A framework for determining and measuring the success criteria of the traffic management actions ratified by these groups is currently in place with respect to the work which has recently commenced on Princes Street, however similar success factors for the wider Edinburgh area have yet to be defined.</p> | | - | 1 | - | 1 |

tie Limited – Review of Governance Arrangements

Process Risk Evaluation

| Objective | Points of Note | Risk | Findings & Priority | | | |
|---|---|------|---------------------|---|---|-------|
| | | | 1 | 2 | 3 | Total |
| Robustness of mechanisms to ensure compliance with the operating agreements | <p>Discussions with senior management highlighted high levels of awareness of the operating agreement and the provisions therein. While we did not undertake a detailed review of the scale of compliance with the provisions of the operating agreements, our work did not highlight any obvious exceptions. A recent review of the operating agreement and grant conditions was undertaken in order to demonstrate compliance with the operating agreements.</p> <p>There is an opportunity to improve the transparency of the level of compliance with the operating agreement through the involvement of the audit committee or an appropriate TPB sub committee.</p> <p>Communication meetings with Transport Scotland are held with CEC representatives rather than with the TEL or tie executive management team. <i>Discussions with the project management team indicated that end to end communications could be further improved with tie/TEL participation in these meetings.</i></p> | | - | - | 2 | 2 |
| | | | 1 | 4 | 3 | 8 |

tie Limited – Review of Governance Structures

Detailed recommendations and action plans

| # | Finding & (Type / Significance) | Risk / Opportunity | Recommendation | Mgmt Comments & Action Plan |
|---|---|---|--|--|
| Identify the extent to which there is duplication and overlap across the governance structures of tie and the tram project. | | | | |
| 1 | <p>Overlap of TPB and tie meetings (PI 2)</p> <p>We noted from review of available documentation that the membership and agenda for both the TPB and tie Board meetings overlap significantly.</p> | <p>There is a risk that duplication of effort with respect to reporting and meeting attendance results in resources being diverted from effective and timely delivery of the project.</p> | <p>While no other major projects are in operation, there is an opportunity to streamline governance arrangements by combining the Tram Project Board (TPB) and tie Board meetings in order to avoid duplication of effort with respect to reporting and subsequent discussion.</p> <p>Effective management of the meeting agenda would ensure that matters reserved for the Corporate board are only discussed by the appropriate members.</p> | <p>As an interim measure, the proceedings of the tie Board and Tram Project Board have been rationalised into one meeting and TEL/LB personnel attend the tie executive management meetings.</p> <p>Responsibility</p> <p>Decisions with regard to the governance structure are matters reserved to our shareholders CEC who will take cognisance of our views and concerns.</p> <p>Implementation Date</p> <p>We currently anticipate an update on governance to be presented to the Council in March 2009.</p> |

tie Limited – Review of Governance Structures

Detailed recommendations and action plans

| # | Finding & (Type / Significance) | Risk / Opportunity | Recommendation | Mgmt Comments & Action Plan |
|---|---|---|---|---|
| The appropriateness of the tie organisational structure and clarity of roles and responsibilities | | | | |
| 2 | <p>Future governance framework (PI 1)</p> <p>Review of the current governance framework for the delivery of the Edinburgh tram project highlighted the following:</p> <ul style="list-style-type: none"> Focus on construction phase <p><i>There is no formal line of sight to the future state governance required in order to allow the tram and bus networks to operate effectively with each other. As previously anticipated there is an opportunity to examine potential economies of scale with respect to a number of business functions and this examination can be progressed in the near term.</i></p> <ul style="list-style-type: none"> Multiple layers of reporting; <p><i>By way of illustration, TEL reports into a sub committee of CEC which in turn provides reports to TS. TPB is a sub committee of TEL which nominally reports to the tie board.</i></p> <ul style="list-style-type: none"> Ambiguity around accountability. <p><i>The current governance framework gives rise to potential ambiguity as to where key decisions are made and require to be ratified. For example, key stakeholders may hold the tie board accountable for decisions made in respect of the Tram Project when in actual fact the TPB have delegated authority for the delivery of an integrated Tram and Bus network on behalf of CEC and TEL.</i></p> | <p>There is an opportunity to rationalise current governance structures across tie and TEL.</p> | <p>Given the departure of the CEO at TEL and Executive Chairman at tie there is an opportunity to revisit the organisational and governance structures associated with the Tram project.</p> <p>We recommend that management consider moving towards a governance framework such as that shown at appendix A.</p> | <p>A review of structure and resources in the period of transition from construction to operations is already underway.</p> <p>Responsibility</p> <p>Decisions with regard to the governance structure are matters reserved to our shareholders CEC who will take cognisance of our views and concerns.</p> <p>Implementation Date</p> <p>We currently anticipate an update on governance to be presented to the Council in March 2009.</p> |

tie Limited – Review of Governance Structures

Detailed recommendations and action plans

| # | Finding & (Type / Significance) | Risk / Opportunity | Recommendation | Mgmt Comments & Action Plan |
|---|--|---|---|--|
| The appropriateness of the tie organisational structure and clarity of roles and responsibilities (continued) | | | | |
| 3 | <p>Senior Responsible Owner (PI 3)</p> <p>There is currently no permanent Senior Responsible Owner (SRO) in place for the project following the recent resignation of Neil Renilson (previous SRO and CEO TEL)</p> <p>We note that the Finance Director of tie is now fulfilling the role of SRO on a temporary basis.</p> | <p>There is a risk that the absence of a permanent SRO adversely affects the overall governance of the project.</p> | <p>A permanent replacement should be identified.</p> <p>In making a permanent appointment, reference should be made to the Office of Government Commerce Guidance on the role and responsibilities of the SRO.</p> <p>This indicates the individual filling the role should be the owner of the business change, and chair the project board whilst also being recognised across the project as the person with ultimate responsibility for delivery.</p> | <p>The new tie CEO will almost certainly be the permanent SRO.</p> <p>Responsibility</p> <p>Again, recruitment of tie CEO is reserved to CEC with significant input from the tie chairman.</p> <p>Implementation Date</p> <p>Q2 2009</p> |
| 4 | <p>Identification of CEO (PI 2)</p> <p>The former Executive Chairman was primarily responsible for managing and engaging with the various stakeholder groups. Discussions highlighted that the senior management team at tie as well as the interim Chairman are currently splitting these responsibilities with input from CEC as necessary.</p> <p>A decision has been made to recruit a Chief Executive for tie going forward.</p> | <p>There is a risk that a lack of focus in fulfilling the responsibilities previously undertaken by the former TEL CEO and tie Executive Chairman results in a lack of engagement with key stakeholders and/or lack of focus on project delivery.</p> | <p>Given the specific nature of the experience likely to be required of an effective future Chief Executive, we would recommend that measures are put in place in the short term to identify a shortlist of individuals with suitable experience to undertake such a role.</p> | <p>Recruitment underway.</p> <p>Responsibility</p> <p>Again, recruitment of tie CEO is reserved to CEC with significant input from the tie chairman.</p> <p>Implementation Date</p> <p>Q2 2009</p> |

tie Limited – Review of Governance Structures

Detailed recommendations and action plans

| # | Finding & (Type / Significance) | Risk / Opportunity | Recommendation | Mgmt Comments & Action Plan |
|--|--|--|---|--|
| The appropriateness of the tie organisational structure and clarity of roles and responsibilities (continued) | | | | |
| 5 | <p>Audit committee membership (PI 2)</p> <p>The former Executive Chairman was a member of the audit committee. The Combined Code on Corporate Governance Guidance indicates that all members of an audit committee should be non executive directors (Combined Code provision C.3.1). The Smith Guidance at sections 2.4 to 2.6 indicates the chairman of a company should not be an audit committee member.</p> | <p>Recognised corporate governance principles were not adhered to in respect of audit committee membership.</p> | <p>While recognising tie is not a listed entity, recognised good governance principles should be considered when revisiting membership of the audit committee.</p> | <p>Neither the chairman or CEO of tie Limited will be members of the current or future audit committees.</p> <p>Responsibility tie board.</p> <p>Implementation Date Complete.</p> |
| The amount, nature and effectiveness of key internal meetings in respect of the Tram project, including key stakeholder engagement on matters such as traffic management (planning and execution), design changes and programme changes ("change control") | | | | |
| 6 | <p>Traffic management success framework (PI 2)</p> <p>A framework for measuring the success or otherwise of the traffic management actions ratified by the TMPG group has been established for the work on Princes Street but has not been rolled out across the rest of the project.</p> <p>In addition, there is no clear guidance as to when contingency arrangements for traffic management would be instigated. For example, no guidance has been developed in relation to the levels of congestion acceptable before contingency arrangements are instigated.</p> | <p>There is a risk that senior management are only made aware of the success or otherwise of traffic management solutions employed through adverse media coverage or summary feedback from project management.</p> | <p>In order for the TPB and tie Board to be fully appraised of the traffic management activities being undertaken, a traffic management success / failure framework should be established.</p> <p>This could also be used to inform decision-making processes at an operational level (e.g. what level of failure would trigger alternative traffic management measures).</p> | <p>Yes, under development.</p> <p>Responsibility The TMPRG sub-committee of the TPB</p> <p>Implementation Date Being implemented now.</p> |

tie Limited – Review of Governance Structures

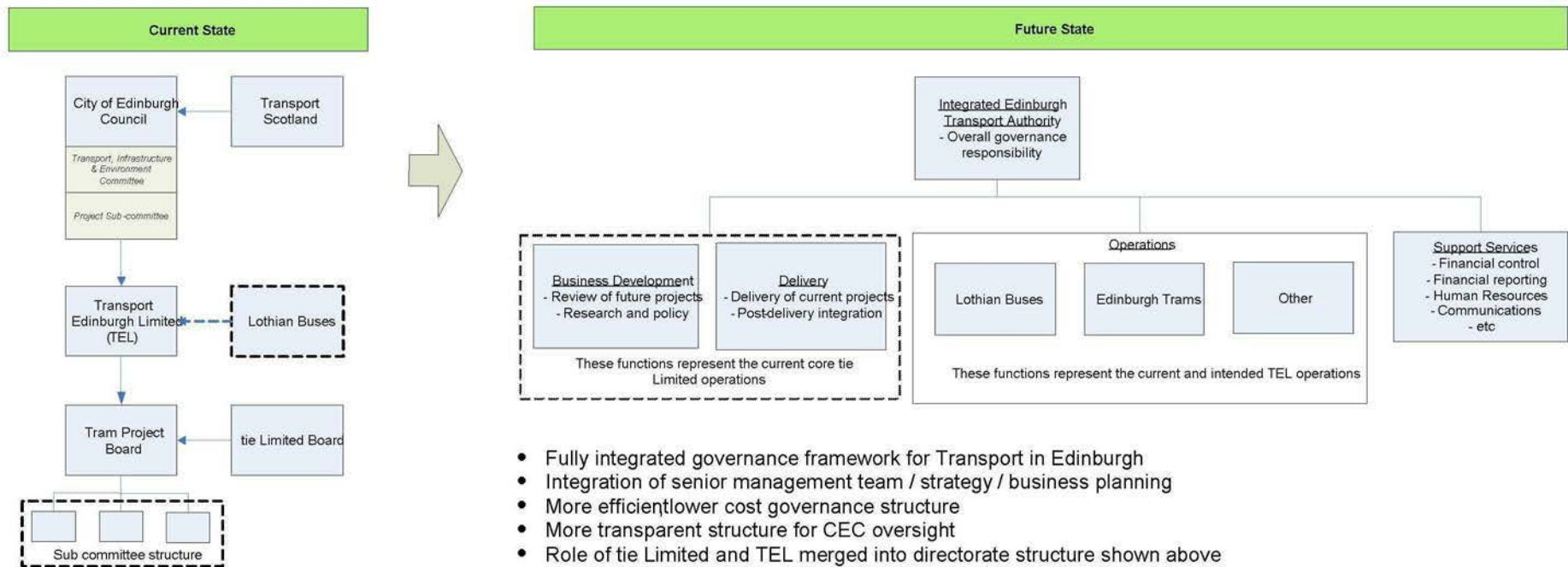
Detailed recommendations and action plans

| # | Finding & (Type / Significance) | Risk / Opportunity | Recommendation | Mgmt Comments & Action Plan |
|---|---|---|---|--|
| Robustness of mechanisms to ensure compliance with the operating agreements between tie and City of Edinburgh Council | | | | |
| 7 | <p>Review of operating agreement compliance (PI 3)</p> <p>tie is required to adhere to the operating agreement with CEC in addition to the conditions associated with the grant of £500m from Scottish Ministers.</p> <p>Recent exercises have been undertaken to review compliance in these areas with input from representatives of CEC but were not formally reported through to the tie Board.</p> | <p>There is an opportunity to improve the reporting of compliance with operating agreements in place.</p> | <p>Formal reviews of compliance with CEC operating agreements should be undertaken on a more regular basis.</p> <p>The results of these reviews should be presented to either the appropriate TPB sub committee or tie Audit Committee and minuted accordingly.</p> | <p>Future reporting will be to both the tie Audit Committee and the Financial Commercial and Legal Sub-Committee of TPB (under the existing governance structure).</p> <p>Responsibility tie FD to administer.</p> <p>Implementation Date Being implemented now.</p> |
| 8 | <p>tie meetings with Transport Scotland (PI 3)</p> <p>Communication meetings with Transport Scotland are held with CEC rather than with the TEL or tie executive management team.</p> <p>It is recognised that members of the tie senior management team have attended update sessions with Transport Scotland on occasion.</p> | <p>In the absence of direct input by tie representatives, there is a risk that Transport Scotland and CEC representatives misinterpret information provided in the written reports provided by tie.</p> | <p>Discussions with the project management team indicated that end to end communications could be further improved with tie/TEL participation in all of these meetings going forward.</p> | <p>In fact, there has been significant direct tie → Transport Scotland engagement on a range of issues. Senior tie representative now included in senior meetings between CEC and Transport Scotland.</p> <p>Responsibility CEC/tie/TEL.</p> <p>Implementation Date Being implemented now.</p> |

tie Limited – Review of Governance Arrangements

Appendix A – Potential future governance structure

We believe that the current governance structures should evolve towards a fully integrated framework for Transport in Edinburgh, broadly as anticipated in the final business case.



- Fully integrated governance framework for Transport in Edinburgh
- Integration of senior management team / strategy / business planning
- More efficient lower cost governance structure
- More transparent structure for CEC oversight
- Role of tie Limited and TEL merged into directorate structure shown above
- Allows economies of scale to be explored and realised with respect to a variety of business functions
- Transport Act 1985 and tax planning considerations to be a significant part of detailed implementation plan

tie Limited – Review of Governance Arrangements

Appendix B – Process risk evaluation and finding priority criteria

| <p>Process risk evaluation</p> | <table border="1"> <thead> <tr> <th data-bbox="665 379 924 440">Risk Rating</th> <th data-bbox="936 379 2025 440">Detail</th> </tr> </thead> <tbody> <tr> <td data-bbox="665 448 924 547">High</td> <td data-bbox="936 448 2025 547">Major control weaknesses or opportunities identified or, a considerable volume of important weaknesses or opportunities</td> </tr> <tr> <td data-bbox="665 555 924 647">Moderate</td> <td data-bbox="936 555 2025 647">Important control weaknesses or opportunities for improvement identified or, a significant volume of lower risk weaknesses</td> </tr> <tr> <td data-bbox="665 655 924 748">Low</td> <td data-bbox="936 655 2025 748">Some control weaknesses or improvements but generally of a lower risk nature, or no findings identified in this section</td> </tr> </tbody> </table> | Risk Rating | Detail | High | Major control weaknesses or opportunities identified or, a considerable volume of important weaknesses or opportunities | Moderate | Important control weaknesses or opportunities for improvement identified or, a significant volume of lower risk weaknesses | Low | Some control weaknesses or improvements but generally of a lower risk nature, or no findings identified in this section |
|--------------------------------|---|-------------|--------|------|---|----------|--|-----|---|
| Risk Rating | Detail | | | | | | | | |
| High | Major control weaknesses or opportunities identified or, a considerable volume of important weaknesses or opportunities | | | | | | | | |
| Moderate | Important control weaknesses or opportunities for improvement identified or, a significant volume of lower risk weaknesses | | | | | | | | |
| Low | Some control weaknesses or improvements but generally of a lower risk nature, or no findings identified in this section | | | | | | | | |
| <p>Findings priority</p> | <p>The recommendations arising from our audit and the testing performed are prioritised in order to provide an assessment of their significance:</p> <ul style="list-style-type: none"> • Priority 1 Recommendations which are fundamental to the system and upon which the organisation should take immediate action. • Priority 2 Recommendations which, although not fundamental to the system, provide scope for important improvements to be made. • Priority 3 Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed. | | | | | | | | |
| <p>Notes</p> | <p>Management should be aware that our internal audit work was performed according to the Institute of Internal Auditors - UK and Ireland standards which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.</p> <p>Similarly, the assessment on any gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.</p> | | | | | | | | |

tie Limited – Review of Governance Arrangements

Appendix C – List of interviewees

| Name | Position |
|-------------------|------------------------------------|
| Steven Bell | Tram Project Director |
| Graeme Bissett | Strategy and Planning Consultant |
| Bill Campbell | Operations Director, Lothian Buses |
| Susan Clark | Deputy Project Director |
| Willie Gallagher | Previous Chairman |
| Kenneth Hogg | Audit Committee Chairman |
| Frank McFadden | INFRACO Project Manager |
| Stewart McGarrity | Finance Director |
| David Mackay | Chairman |

tie Limited – Review of Governance Arrangements

Appendix D – Statement of Responsibility

We take responsibility for this report which is prepared on the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal controls work should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and work performed by Deloitte should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors in conducting their work are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable assurance and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purpose of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Deloitte LLP

Edinburgh

February 2009

In this document references to Deloitte are references to Deloitte LLP.

Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu. Deloitte Touche Tohmatsu is a Swiss Verein (association), and, as such, neither Deloitte Touche Tohmatsu nor any of its member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names "Deloitte", "Deloitte & Touche", "Deloitte Touche Tohmatsu", or other related names. Services are provided by the member firms or their subsidiaries or affiliates and not by the Deloitte Touche Tohmatsu Verein.

©2009 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675. A list of members' names is available for inspection at 2 New Street Square, London EC4A 3BZ, United Kingdom, the firm's principal place of business and registered office.