



Contract audit of advertising income

Date of meeting 29 November 2024

Date of report 18 November 2024

Report by Chief Executive

1. Object of report

To advise the Committee on the findings of a contract audit of advertising income. This engagement was included in the annual Internal Audit plan 2024/2025.

2. Background to report

To support the cost-of-service provision, SPT requires to sell the advertising and promotional spaces that it has available in Subway stations (including Rolling Stock) and bus station facilities. Subway is an attractive advertising proposition with passengers exposed to local and national content for their full journey time and in an environment conducive to influencing the public in their leisure and buying habits.

At its meeting of 10 March 2017, the Operations committee approved the award of contract for the management, development, selling and maintenance of advertising space across SPT's estate to Global Media for a period of 5 years commencing on 1 April 2017. This award included a guaranteed income level for each of the first 5 years.

Following the onset of the pandemic in early 2020, the contractor was unable to meet the conditions of contract and in August 2021 wrote to SPT to renegotiate terms. The revisions were agreed by management and the duration has since been extended as per the contract. The income received from advertising has significantly diminished since 2019/2020.

The objective of this engagement was to review and evaluate the administration, monitoring, reporting and contractor compliance arrangements of the current advertising contract.

This engagement tested elements of the internal controls and mitigation against SPT11: Current economic conditions (cost base and inflation) impact on SPT's operational income as identified in the Corporate Risk register.

3. Outline of proposals

Engagement testing found that the contractor does not routinely provide contract management with documentation to monitor delivery of contract terms and conditions effectively, namely basis of income and expenditure allocation, any subsequent changes, prior year adjustments, nor an annual statement of income and expenditure signed off by a qualified accountant or equivalent, certifying information is correct and complete.

In addition, non-domestic rates for advertising assets are billed and paid directly by Global Media. SPT management do not receive reports from the contractor on these costs.

Currently, SPT only use physical assets for advertising displays on the SPT estate. The auditor researched other transport operators (e.g. Transport for London). Consideration could be given to use of digital asset such as the website and social media channels.

There are areas for improvement which are addressed by recommendations which can be found at Appendix 1. Contract management have agreed to implement the recommendations, which are currently being actioned.

Key controls exist and are applied consistently and effectively in the majority of areas tested in this engagement.

Reasonable assurance can be taken from the internal controls in place for the management of the advertising contract.

4. Committee action

The Committee is asked to note the contents of this report and agree that the Audit and Assurance Manager submits a follow-up report on the implementation of the recommendations to a meeting in approximately six months.

5. Consequences

Policy consequences	<i>None.</i>
Legal consequences	<i>None.</i>
Financial consequences	<i>None.</i>
Personnel consequences	<i>None.</i>
Equalities consequences	<i>None.</i>
Risk consequences	<i>As detailed in the report.</i>
Climate Change, Adaptation & Carbon consequences	<i>None.</i>

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Title **Director of Finance & Corporate Support**

Name Valerie Davidson
Title **Chief Executive**

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APPENDIX 1

Audit & Standards committee – 29 November 2024

Contract audit of advertising income

The recommendation from this engagement is listed in the following table. The priorities are defined as follows:

- High:** A fundamental control that should be addressed as soon as possible;
- Medium:** An important control that should be addressed within three months;
- Low:** An issue which is not fundamental but should be addressed within six months to improve the overall control environment.

No.	Recommendation	Priority	Action Proposed	Lead Officer	Due date
1	<p><u>Advertising contract compliance</u></p> <p>Contract management should consider requesting the following documentation prior to scheduled contract monitoring meetings:</p> <ul style="list-style-type: none"> • provision by contractor of supporting documentation for monthly and annual income and expenditure statement; • advance agreement of any expenditure allocations basis and or percentages and processes for changes thereof; • contractor year end cut-off arrangements including closedown arrangements, provision or otherwise for prior year adjustments and sign off by a qualified accountant to attest accuracy of submission. 	Medium	<p>At a recent meeting, the contractor (Global Media) agreed to provide:</p> <ul style="list-style-type: none"> • supporting documentation for income and expenditure statements; • details of allocations made; and • a year-end cut-off and close down process including sign-off (by qualified accountant) to attest accuracy of information provided. 	Head of Service Operations & Security (Bus stations) / Customer Standards Officer/ Contract Manager	Implemented

No.	Recommendation	Priority	Action Proposed	Lead Officer	Due date
2	<p><u>Advertising assets – non-domestic rates</u></p> <p>Contract management should consider reviewing the current arrangements for payment of non-domestic rates.</p> <p>Note: it is acknowledged that a value for money review of advertising assets including maintenance is currently being undertaken by contract management.</p>	Medium	The arrangement for paying non-domestic rates for advertising assets is currently subject to review and agreement with the contractor.	Head of Service Operations & Security (Bus stations) Customer Standards Officer/ Contract Manager	November 2024
3	<p><u>Advertising platforms</u></p> <p>Contract management, in consultation with legal services and senior management, should consider the potential of allowing advertising on additional digital assets including website and social media channels.</p>	Low	Contract management will consult with stakeholders on the feasibility of increasing advertising income streams.	Head of Service Operations & Security (Bus stations) Customer Standards Officer/ Contract Manager	December 2024