



# South West of Scotland Transport Partnership (SWestrans)

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**External Audit Annual Report to the Partnership and the Controller of Audit  
for the financial year ended 31 March 2018**

Board meeting 21 September 2018

**Joanne Brown**  
Engagement Leader

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External Audit Manager



# Our audit at a glance



We have fulfilled our responsibilities per International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice throughout our work and this final report to the Partnership and the Controller of Audit concludes our work.



Materiality has been updated based on the unaudited 2017/18 financial statements to £96,000 (2% of gross 2017/18 expenditure).

Performance materiality is £72,000 and we have to report to officers any misstatements identified over £4,800 (5% of materiality).



Significant audit risks were: management override of controls; the risk of fraud in expenditure recognition as set out in practice note 10. Our risk assessment remained unchanged and we did not identify any adjustments in these areas in our work.

## An audit underpinned by quality



We have built on our understanding and relationship with the South West of Scotland Transport Partnership (SWestrans) officers during the year supporting our audit process.



Our work was undertaken in accordance with our agreed timetable. The draft financial statements produced by the officers were of a good standard with complete information and good supporting working papers. We thank the officers for their support and assistance during our work



A wider scope audit for the SWestrans as set out in our plan, was considered not appropriate. However we have considered your financial planning and governance arrangements as part of our audit.

We have raised one recommendation, following up on a prior year observation, around the need to develop medium term financial plans.

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## Adding value through our external audit work

First and foremost our objective is to ensure we deliver a quality external audit which fully complies with International Standards on Auditing (ISAs) UK and the Audit Scotland Code of Practice (2016). By ensuring our audit is efficient and effective, gives you assurance over our opinion.

Through this Annual Report we seek to provide insight and commentary over certain aspects of the SWestrans arrangements, sharing relevant practices with Officers.

We have continued to build on our working relationship with the officers and our understanding of you as an organisation. During the year we have worked with the officers to develop our audit approach through greater understanding of your financial transactions and the linkage to the Dumfries and Galloway Council external audit process.

# Introduction

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2018.

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016.

In accordance with our reporting responsibilities the report is jointly addressed to the Controller of Audit.

Once finalised this report will be made publically available on the Audit Scotland website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk))

We would like to thank the SWestrans officers and the finance team for an effective year-end audit process and all their support and assistance in the audit process.

## Structure of this report

As set out in our Audit Plan (March 2018) we consider in accordance with the Audit Scotland Code of Practice that SWestrans is a smaller body. Therefore full wider scope is not appropriate. Our report concludes on our financial statements audit and certain aspects of the SWestrans' arrangements as follows:

Financial statements – Section 2 and Appendix 1

Financial and governance arrangements – Section 2



## Our Opinion

For the financial year ended 31 March 2018 we have issued an **unmodified audit opinion**

- True and fair view of the financial statements
- Other information in the annual report
- Other prescribed matters



## The audit process

A complete set of financial statements were made available to the public on 28 June 2018, meeting the statutory deadline of the end of June.

The draft financial statements were supported by good working papers and the audit was efficient.

We identified no changes to the financial statement balances and have no unadjusted differences to report. We identified minor disclosure enhancements and these have been reflected in the financial statements.



# The financial statements audit



Our audit work was completed in accordance with International Standards in Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). Based on our audit procedures performed we have issued an unqualified audit opinion on the financial statements including:

- give a true and fair view in accordance with applicable law and the 2017/18 CIPFA Code of Practice on Local Authority Accounting ('the 2017/18 Code');
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code, and with the requirements of applicable law;
- the information given in the Management Commentary is consistent with the financial statements and that report has been prepared in accordance with statutory guidance; and
- the information given in the Annual Governance Statement is consistent with the financial statements and that report has been prepared in accordance with applicable guidance.

## Audit approach and materiality

Our audit approach was set out in our annual audit plan presented to the Partnership in March 2018. As set out in our plan, our materiality calculations were based on the audited 2016/17 financial statements. We subsequently updated our materiality calculation to be based on the draft 2017/18 financial statements. Overall materiality has been set at £96,000 (2% of gross expenditure) and performance materiality is set at £72,000 (75% of materiality). We report to the officers any audit difference identified over £4,800 (trivial as 5% of materiality).

We did not identify any additional significant audit risks from those identified in our audit plan.

## Internal control environment

During the year we sought to understand the SWestrans overall control environment (design) as related to the financial statements. We have built on our understanding of key financial controls processes in place at the SWestrans. In particular we have:

- Considered procedures and controls around related parties, journal entries and other key entity level controls.
- Performed walkthrough procedures on key financial controls in particular journals, ledger controls, income and expenditure transactions.

Our work over controls is limited to our ISA requirements in understanding an entities control environment. Our audit is not controls based and we do not seek reliance over controls. Our audit is fully substantive based in nature.

We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach, set out in our plan.

## Internal Audit

As set out in our external audit plan we have not placed formal reliance on the work of internal audit. We reviewed the internal audit plan and individual reports issued to date, to consider if any impact on our audit approach, with none being noted.

The findings of internal audit do not disagree with our knowledge and understanding of the SWestrans as an organisation.

## Identified audit risks and our conclusions

	Identified audit risk at planning	Work completed	Our conclusion
Risk of fraud in revenue	<p>As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. The majority of SWestrans income is from government grants. The nature of this income is well forecast and agreed to confirmation letters therefore we rebut the presumed risk around this revenue stream. We therefore focus our risk on other income. The risk is prevalent primarily on transactions around the year end where there is a inherently higher risk of misstatement.</p>	<ul style="list-style-type: none"> <li>• SWestrans income is from government grants and service funding from Dumfries and Galloway Council.</li> <li>• The nature of this income is well forecast and agreed to third party confirmations, therefore we rebut the presumed risk around these revenue streams.</li> <li>• We therefore consider it appropriate to rebut the presumed risk of fraud in revenue.</li> </ul>	<ul style="list-style-type: none"> <li>• We still consider it appropriate to rebut the presumed risk of fraud in revenue.</li> <li>• From our audit procedures performed we are satisfied that revenue is free from material misstatement.</li> <li>• We are satisfied that transactions have been recognised in the appropriate financial year.</li> </ul>
Risk of fraud in expenditure	<p>Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As set out in Practice note 10 (revised) which applies to public sector entities, we recognise that there is a risk that expenditure could be materially misstated. The risk is prevalent primarily on transactions around the year end where there is a inherently higher risk of misstatement.</p>	<ul style="list-style-type: none"> <li>• Developed our understanding of the SWestrans material expenditure streams including walkthrough of key transactions.</li> <li>• Perform cut-off at year end on post year end transactions and performed procedures to ensure expenditure allocated in appropriate financial year.</li> <li>• Confirmed the completeness of creditors balances through testing for unrecorded liabilities.</li> </ul>	<ul style="list-style-type: none"> <li>• From our audit procedures performed we are satisfied that expenditure is free from material misstatement.</li> <li>• We are satisfied that transactions have been recognised in the appropriate financial year.</li> </ul>
Management override of controls	<p>As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities</p>	<ul style="list-style-type: none"> <li>• Developed our understanding of the entity level controls in place at the SWestrans that reduce the risk of management override.</li> <li>• Performed review of journal transactions for unusual transactions or balances.</li> <li>• Evaluated key areas of judgement within the financial statements and the basis for these judgements / application of accounting policies.</li> <li>• Reviewed unusual and/or significant transactions.</li> </ul>	<ul style="list-style-type: none"> <li>• We did not identify any significant areas of bias in key judgements by management.</li> <li>• We have not identified any unusual or significant transactions during the course of the year that would indicate management manipulation.</li> </ul>

## Narrative elements of your annual accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Report and Accounts. We have considered the consistency of this narrative with our understanding and the financial statements and have set out our observations below.

### Management commentary

- The management commentary is in line with our understanding of SWestrans
- The management commentary statement is clear and concise.
- Finance performance was well articulated and there is discussions around budget versus actual.

### Remuneration Report

- SWestrans does not employ any staff, therefore a Remuneration Report is not required to be prepared in accordance with Local Authority Accounts (Scotland) Regulations 2014.



### Overall observations

- We have considered the management commentary and the governance statement as part of our audit. We have no matters we wish to bring to your attention.

### Annual Governance Statement

- Statement defines the governance framework in place at the SWestrans and effectiveness of governance arrangements.
- The officers have not identified any governance issues during the course of the year that would require disclosure in the statement.

## Key aspects of your financial statements

As set out in our audit plan we consider particular aspects of your financial statements in relation to the officers judgements including estimates and where officers may have particular options or choices in what accounting standards or disclosure requirements to apply. We have summarised where these apply, and our conclusions below.

SWestrans **accounting policies** accounting policies are in accordance with the CIPFA Code of Practice on Local Authority Accounting and we consider these to be appropriate to the organisation and consistent with those adopted in prior years.

Overall the SWestrans accounts are considered simple accounts with few areas of **estimate or judgement**. They provide transparent reporting of income and expenditure throughout the year.

In terms of **uncertainties** SWestrans had no material uncertainties in the accounts.

The officers are satisfied that SWestrans will continue to receive funding to meet annual operating obligations in delivering statutory services, with income received totalling £4.478 million in year, with Scottish Government grants and requisitions from Dumfries & Galloway Council being the main contributors to this total. As a result they are satisfied that the entity continues to represent a **going concern**. We have obtained confirmation of SWestrans funding for 2018/19 and concur with Management's going concern assessment.

In relation to the audit risk of fraud in respect of expenditure, we tested SWestrans cut off arrangements in particular (**timing of transaction**) and identified no issues in accruals or prepayments which would indicate potential fraud.

There are **no post balance sheet** events or legal uncertainties at year-end.



# SWestrans financial sustainability and governance arrangements

## Key observations



### Financial position & sustainability

SWestrans reported a breakeven position for the year ended 31 March 2018, with the main expenditure from the subsidies in respect of the local bus network, which totalled £4.3 million. However, through spending controls and active budget management, SWestrans achieved a financial balance.

SWestrans face particular financial challenges in balancing public sector funding constraints alongside increasing pressures.

Currently SWestrans, like other transport authorities, faces challenges in planning strategically as it is limited to annual funding settlements and unable to hold reserves. The draft Transport Bill, currently going through the Scottish Parliament legislative process, may enable partnership authorities to retain reserves. This would allow greater strategic financial planning.

Action plan 1.

Like many public bodies, SWestrans faces financial pressures.

The Transport Bill, currently going through legislative process, may allow SWestrans the opportunity to retain reserves, providing scope for more strategic financial planning.



### SWestrans Governance

SWestrans has an established governance framework in place consisting of policies, procedures and systems of internal control to support the delivery of partnership outcomes.

In addition, The Partnership's officers and Board members have continued to participate in the development of local, regional and national initiatives including the review of the National Transport Strategy and the Borders Transport Corridor Appraisal.

Key strategic risks are reported annually to the Partnership and internal audit provide assurance around the adequacy and effectiveness of SWestrans internal control framework.

From review of corporate publications, the SWestrans board minutes and papers we have not identified any material concerns around governance arrangements in place.

SWestrans has well established governance framework in place. These facilitate monitoring and oversight of the delivery of the Regional Transport Strategy and strategic risks to the organisation.

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# Appendices

**Action plan and follow up of 2016/17 recommendations**

**Audit adjustments**

**Independence, fees and fraud responsibilities**

**Communication of audit matters with the Board**

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# Action plan for 2017/18 and follow up of 2016/17 external audit recommendations

We have set out below, based on our audit work undertaken in 2017/18, those risks and recommendations we consider are of a higher risk to Swestrans that Management may wish to consider in the future. We have also completed follow up of our 2016/17 recommendations and this is reflected below for information.

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## Recommendation from 2017/18 audit

### Strategic financial planning

Due to annual funding settlement as well as restrictions on the organisation's ability to hold reserves, SWestrans financial plans are primarily based on an annual basis. Given the financial pressures facing the organisation it is important that medium to longer term financial plans are in place to ensure that SWestrans has a sustainable operating model in place to support service delivery.

With the draft Transport Bill, there is potentially opportunity for SWestrans to retain reserves in the future providing an opportunity for more strategic financial planning and investment decisions.

## Agreed management response

### Management response:

We will continue to track the progress of the Transport Bill and will look at longer term planning and consultation on any potential funding reductions.

### Action owner:

Treasurer and Lead Officer.

### Timescale for implementation:

On-going and will review by end of March 2019

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## Recommendation from 2016/17 audit

### Fixed Asset Register

There is currently a £4,000 difference between the accounts and the underlying fixed asset register due to historic depreciation adjustment.

## Agreed management response

### Management update:

This is a historical adjustment that relates to 2012/13 when our Financial Systems changed over. We are unable to adjust the Fixed Asset Register without generating further transactions in the ledger. Therefore, we will ensure that the reconciling difference remains consistently at £4,000.

### Action owner:

Treasury and Capital Manager.

### Timescale for implementation:

Closed.

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# Audit adjustments

## **Uncorrected and corrected misstatements**

We are pleased to report that there were no uncorrected misstatements to the financial statements arising during our audit.

## **Disclosure misstatements**

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow the Partnership to evaluate the impact of these matters on the financial statements. There were no material/significant disclosure misstatements identified we wish to bring to your attention.

# Fees, independence, fraud arrangements

## External Audit Fee

Service	Fees £
External Auditor Remuneration	8,250
Pooled Costs	730
Contribution to Audit Scotland costs	520
Contribution to Performance Audit and Best Value	0
<b>2017-18 Fee</b>	<b>9,500</b>

The audit fee was calculated in accordance with guidance issued by Audit Scotland and agreed with Management.

The above fee has not changed and our final fee was £9,500.

## Fees for other services

Service	Fees £
We can confirm there are no non-audit fees for the 2017/18 financial year	Nil

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.

We can confirm no independence concerns have been identified.

## Fraud arrangements

In assessing our audit risks, the audit team was alert to the possibility of fraud at SWestrans.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relation to management override of controls.
- Communicated with those charged of governance (for SWestrans this is assumed to be the Board) on their view of fraud. We did this within our audit plan and in the form of management and those charged with governance questionnaires which were received in September 2018.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud.
- responding appropriately to any fraud or suspected fraud identified during the audit. – None were identified in-year.

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

It is SWestrans responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we worked with SWestrans to review specific areas of fraud risk, including the operation of key financial controls.

We also examined certain policies in place, strategies, standing orders and financial instructions, as relevant to the fraud framework, to ensure that they provide a reasonable framework of internal control.

No suspected frauds or irregularities have been identified by Management and reported in-year.

# Communication of audit matters with the Partnership

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance who for SWestrans we deem to be the Treasurer	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity <b>We are independent of the SWestrans and have not identified any conflicts of interest</b>	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence <b>We have not incurred any non-audit fees during the year and no threats to independence identified</b>	•	•
Significant matters in relation to going concern <b>No significant going concern matters identified</b>	•	•
Views about the qualitative aspects of the SWestrans accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures <b>Set out in the Financial statements Section</b>		•
Significant findings from the audit <b>No significant findings from our audit</b>		•
Significant matters and issues arising during the audit and written representations that have been sought <b>Letter of representation will be shared and signed by the Board when signing the financial statements. This is our standard, unmodified letter of representation.</b>		•
Significant difficulties encountered during the audit <b>No difficulties encountered</b>		•
Significant deficiencies in internal control identified during the audit <b>None identified</b>		•
Significant matters arising in connection with related parties <b>None identified</b>		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements <b>None identified. A nil fraud return was submitted to Audit Scotland in April 2018 in accordance with the planning guidance.</b>		•
Non-compliance with laws and regulations <b>None noted</b>		•
Unadjusted misstatements and material disclosure omissions <b>None noted. Minor disclosure amendments only and these were not material in nature</b>		•
Expected modifications to the auditor's report, or emphasis of matter <b>None, an unqualified opinion</b>		•

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table above.

We communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to SWestrans' Management and the Partnership

