



South West of Scotland Regional Transport Partnership (SWestrans)

External Audit Report for the financial year ended 31
March 2020

Annual Report to the Board and the Controller of Audit

Final Report – October 2020

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Audit Director

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Financial statements at a glance



The unaudited Annual Report and Accounts were presented for public inspection on 30 June 2020. In accordance with our annual external audit plan our audit work commenced on 10 August 2020. Due to the travel restrictions and social distancing measures introduced by the government in response to the Covid-19 pandemic, we have delivered the audit remotely. We thank Officers for their support and assistance throughout the audit.



The Management Commentary is in line with our understanding of SWestrans and in particular their vision and strategic priorities. The Governance Statement, included within the Accountability Report, outlines the governance framework. The Remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) regulations 2014.



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

An audit
underpinned by
quality and adding
value to you



We have issued an unmodified audit opinion on the annual report and accounts.



Significant audit risks were: management override of controls and the risk of fraud in expenditure recognition as set out in Financial Reporting Council's (FRC) Practice Note 10. An additional significant audit risk was identified in relation to Covid-19 which caused significant disruption to all public sector entities in the later half of March 2020.



We updated our audit materiality to reflect your 2019/20 draft financial statements setting materiality at £92,160 for SWestrans representing 2% of gross expenditure. Our performance materiality has set at £69,120, being 75% of overall materiality.

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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 complies with International Standards on Auditing (ISAs) UK and the Audit Scotland Code of Practice (2016). By ensuring our audit is efficient and effective, underpinned by our quality arrangements, gives you assurance over our opinion.

As appointed auditors of Dumfries and Galloway Council, SWestrans' administering body, we leverage our audit knowledge and understanding of the Council's key financial processes and systems to support our audit work over SWestrans.

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Introduction

Reporting

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2020.

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

Our report is addressed to the South West of Scotland Transport Partnership (SWestrans) Board. In addition, in accordance with our reporting responsibilities, the report is jointly addressed to the Controller of Audit.

Once the signed annual report and accounts is laid in parliament this report will be made publicly available on the Audit Scotland website (www.audit-scotland.gov.uk).

We would like to thank SWestrans and the Dumfries and Galloway Council 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, In accordance with the Audit Scotland Code of Practice 2016, we consider SWestrans' meets the smaller body definition. Therefore full wider scope is not considered relevant.

However, as required in the Code of Audit Practice our report concludes on our audit of the annual report and accounts and certain aspects of SWestrans' arrangements as follows:

Financial statements including the Management Report and governance statement– Sections 1

SWestrans financial sustainability and governance statement disclosures – Section 2

Materiality

Our audit approach was set out in our audit plan which was finalised on 31 March 2020. We updated our audit materiality to reflect your 2019/20 draft financial statements setting materiality at £92,160 for SWestrans representing 2% of gross expenditure. Our performance materiality has set at £69,120, being 75% of overall materiality.

Since issuing the draft audit plan, we have considered the risk in relation to the impact of Covid-19 pandemic on SWestrans and the risk of material misstatement to the financial statements. The additional risk and our conclusions are reported within this report.

We report to management any difference identified over £4,600, being 5% of overall materiality.

Our Opinion

For the financial year ended 31 March 2020 we issued an **unmodified audit opinion** on the financial statements and that:

- The financial statements give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of the council and its group as at 31 March 2020 and of the income and expenditure of the body for the year then ended;
- The financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code;
- The financial statements have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.
- The information given in the Annual Governance Statement for the financial year is consistent with the financial statements and prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- The information given in the Management Commentary for the financial year is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government Scotland Act 2003..

The audit process

The unaudited accounts were published on 30 June 2020. In accordance with our annual external audit plan our audit work commenced on 10 August 2020. Due to the travel restrictions and social distancing measures introduced by the government in response to the Covid-19 pandemic, we have delivered the audit remotely.

There were no adjusted misstatements to the draft primary financial statements. There was one unadjusted misstatement to the financial statements being an error in deferred income calculation.

We identified minor disclosure adjustments in respect of the draft financial statements including disclosure of financial instruments in the financial statements.

See detail set out in Appendix 1.

Internal Audit

As set out in our external audit plan our audit approach is to comply with the ISAs and we did not place formal reliance on the work of Dumfries and Galloway Council's internal audit service during the year. Dumfries and Galloway's internal audit functions to provide internal audit services on behalf of SWestrans.

The overall annual internal audit opinion concludes that "*reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control systems for the year to 31 March 2020*". From our consideration of Internal Audit reports during the year, we did not identify any issues that would impact on our audit approach or require disclosure in the accounts. We note that Internal Audit have not provided direct assurance to SWestrans. While assurance is obtained through Internal Audit assurances to the Council, it is important that SWestrans obtain sufficient independent assurance around the design and operating effectiveness over the governance, risk management and internal control arrangements relevant to SWestrans.

Action Plan Follow up point 2

Internal control environment

Throughout our audit planning and fieldwork we developed our understanding of the overall control environment (design) as related to the financial statements. In particular we:

- Developed our understanding of procedures and controls around related parties, recording of financial transactions and other key entity level controls.
- Performed procedures around entity level controls and there are no significant matters that we wish to draw to your attention.
- Performed walkthrough procedures on key controls around identified risk areas including expenditure, journals and financial monitoring controls.

Dumfries and Galloway Council are the administering authority of SWestrans. As appointed auditors of the Council we utilised our audit knowledge and understanding of the Council's controls over key financial processes to inform our audit work.

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 place reliance on controls operating effectively as our audit is fully substantive in nature. We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan.

Responding to significant risks

Risk area	Identified audit risks at planning
Risk of fraud in Expenditure recognition	Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). SWestrans expenditure includes recharges from the Council for the costs of administrative and operational support to SWestrans. In addition, SWestrans provides subsidy payments to local bus network which is recognised as expenditure during the year. With the focus on financial performance on at least breaking even each year, there is a risk Officers may be incentivised to fraudulently record expenditure. We consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of non-pay expenditure.
Work completed	
<ul style="list-style-type: none">• Gained assurance over the adequacy of the design of controls in place over recharges and subsidy payments• Performed substantive testing (at an elevated risk level) expenditure recognised post year end to identify if there is any potential understatement.• Reviewed post year end transactions, challenging the reasonableness of Officers assumptions in deferring expenditure to future years.• Investigating accruals around the year end to consider if there is any indication of understatement of balances held through consideration of the accounting estimates	
Our conclusion	
<p>Based on our testing we conclude: We did not identify any exceptions in our cut-off testing of year end expenditure.</p> <ul style="list-style-type: none">• We did not identify any exceptions in the completeness and accuracy of accruals or creditor balances at the year end.• Through our substantive procedures and sample testing we did not identify any indication of fraudulent reporting around expenditure recognition.	

Risk area	Identified audit risks at planning
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. This risk area includes the potential for management (senior officers) to use their judgement to influence the financial statements as well as the potential to override SWestrans' controls for specific transactions.</p> <p>We consider those key judgements that are most susceptible to significant audit risk of management override are those areas senior officers have the potential to influence the financial statement through judgement.</p>

Work completed

Accounting estimates:
 In assessing the risk of management override, consider those key accounting estimates and judgements that could impact on the organisation's financial results and where there is an inherently increased risk of fraudulent misstatement or where senior officer bias could result in a material misstatement. Given the nature of SWestrans' financial transactions there were no items where there areas of estimation uncertainty. Officers have identified that critical judgements have been made in relation to recognition of leases where the partnership is a lessor. Where material, we reviewed these areas of estimation to ensure reasonable and agreed to supporting documentation to address the risk of fraudulent misstatement.

Journals/ financial recording testing:
 We evaluated journal transactions during the year. In response to the significant risk we will:

- Assessed the adequacy of the design of controls in place to record and report on financial transactions and balances;
- Will risk assess the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We will test these journals to ensure they are appropriate and that suitably recorded in the financial ledger;
- We will perform targeted testing of transactions around the financial year end reviewing those journals that are large or otherwise appear unusual to understand the rationale for the transaction and accounting treatment.

Our conclusion

Based on our testing we conclude:
 There was no evidence of management override in our testing.

- SWestrans' draft financial statements do not include an significant areas of estimation. Given the nature of SWestrans transactions there is limited areas of estimation.
- The financial statements include critical judgements around the recognition of lease arrangements as operating leases (rather than finance leases). We do not consider these to be critical areas of judgement and instead more representative of application of accounting standards (appendix 1)
- We have not identified any unusual or inappropriate transactions during the course of the year that would indicate management manipulation of the financial results. We have confirmed that there is limited opportunity or indication of Officers inappropriately recording transactions in the partner organisations' ledgers in order to misstate SWestrans results.

Risk area

Covid-19

Identified audit risks at planning

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected current circumstances would have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and restrict the evidence we can obtain through physical observation;
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management in the receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates;
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

Work completed

- Worked with management to understand the implications the response to the Covid-19 pandemic has had on the organisation's ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations;
- Evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- Evaluated whether sufficient audit evidence could be obtained through remote technology;
- Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as recovery of receivable balances; and
- Evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.

Our conclusion

Based on our testing we conclude:

- Covid-19 and remote working did not restrict SWestrans' ability to prepare the financial statements or restrict the audit evidence required to complete the audit.
- The potential risk of Covid-19 on SWestrans' did not impact on our assessment of materiality.
- Officer's assumptions underpinning financial forecasts and the going concern assessment have adequately considered the potential impact of Covid-19.
- We have not identified any significant impact on SWestrans' debtor recovery, although acknowledge that the majority of these are with other public bodies
- During the audit we raised a disclosure adjustment for management to recognise the impact of Covid-19 within the governance statement and other sections of the annual report and accounts commentary on Covid and the impact on the governance arrangements (appendix 1).

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	Funding	SWestrans is primarily funded through funding contributions from Dumfries and Galloway Council and the Scottish Government. During 2019/20 SWestrans received funding of £3.775 million to deliver services during the year. In addition, SWestrans recognised £509,000 of other income. We are satisfied that this has been recognised in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.	 Green
Judgements and estimates	Key accounting estimates	Given the nature of the financial transactions undertaken by SWestrans the financial statements do not include significant estimate. This is in line with our expectations.	 Green
Remuneration report	Exemption to produce a remuneration report	SWestrans' does not employ any staff and Members are not remunerated by SWestrans' or receive benefits in kind. Therefore a remuneration report is not required for 2019/20.	 Green
Going concern	Financial statement prepared on a going concern basis	SWestrans is funded primarily through contributions from Dumfries & Galloway Council (£3.728 million) and Scottish Government grants (£259,000). SWestrans reported net expenditure for the year of £270,000. This related to depreciation charges on property, plant and equipment, capital grants and losses on sale of non-current asset. As these costs are charged to the Capital Adjustment Account, the net impact on the general fund was £nil. This was consistent with SWestrans' budget. As at 31 March 2020, SWestrans' had net assets of £1.194 million, primarily relating to property, plant and equipment. Officers are satisfied that SWestrans will continue to receive funding from Dumfries & Galloway Council and the Scottish Government to meet annual operating obligations as they fall due over at least a period of 12 months from the date of signing the accounts. As a result they are satisfied that the entity continues to represent a going concern. We have obtained confirmation of SWestrans' funding for 2020/21 and that this funding will continue to be received to meet operating costs from at least 12 months from the date of the financial statements. We raised a disclosure adjustment for Officers to enhance disclosures in the accounts confirming basis of preparation (appendix 1).	 Amber

Assessment

-  Marginal accounting policy which could potentially be open to challenge
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Narrative elements of your annual accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Accounts and Report. 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 statement is clear and concise, and incorporates both financial and operational performance during the year. The information contained in the Management Commentary is consistent with the financial statements and have been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003. The Management Commentary provides users of the accounts with information on SWestrans' financial and nonfinancial performance during the year and its financial outlook for 2020/21. We recommend the report could be enhanced through greater focus against performance targets to measure outcomes against plans as well as the key priorities and risk facing the organisation. (Action Plan Follow up 1)

Overall Observations

We have not identified any inconsistencies between the information contained within the Annual Report and SWestrans' financial statements. The Annual Report provides a summary of the key activities of SWestrans during the year as well as strategic risks and priorities. There is an opportunity to continue to develop the front end of the Accounts to provide greater information to the reader of the accounts of the key priorities, risks and issues facing the organisation and performance in year.

Annual Report and Accounts

Remuneration report

SWestrans have no employees and Members do not receive remuneration therefore there is no requirement to prepare a remuneration report

Governance statement

The Governance statement has been prepared in accordance with the Local Authority Accounts (Scotland) regulations 2014. The statement is supported by Management and Committee assurances to the Board and the internal auditors' assurance over internal controls. Adjustments were made to the governance statement to demonstrate compliance with Delivering Good Governance in Local Government: Framework (2016).

Financial arrangements

Financial management and sustainability

SWestrans reported a breakeven position for the year ended 31 March 2020, with the main expenditure from the subsidies in respect of the local bus network, which totalled £4.6 million. 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. In November 2019 a new Transport (Scotland) Act 2019 received Royal Assent, this act included a provision in the order (section 122) that allows the partnership to carry funds over from one financial year to the next and therefore enable a General Fund reserve to be held. The Commencement Order for this Act was agreed at Scottish Parliament in March 2020 and became effective for the 2019/20 Financial Year.

Although SWestrans did not make a surplus in 2019/20, the provisions within the act would enable SWestrans to building reserves in futures years. This would enable SWestrans to work with its strategic partner to look to generate reserves that would provide greater financial autonomy in future years to make strategic investments in year funded through reserves. SWestrans' has an approved budget for 2019/20. While there is a longer term view for capital investment (3 year plan), SWestrans' should look to develop medium to longer term financial plans to support the organisation take a strategic approach to addressing the financial pressures facing the organisation.



Action plan follow up - 3

Governance and Covid-19 response



The Social distancing and travel restrictions imposed by the government in response to the Covid-19 outbreak had a significant impact on the local bus network. This created operational and financial challenges to operators as they moved through recovery phases. SWestrans' agreed a framework to progress discussions and close working relationships with key partners and suppliers to ensure the transport needs of the residents in the region continue to be met throughout the recovery phase of Covid-19.

Operationally, Dumfries and Galloway Council had arrangements to support Officers working remotely and there was limited impact on SWestrans' control environment. Partnership Board meetings are being held remotely through video calls supporting continued governance and oversight through the period. The Partnership Board have agreed to schedule meetings as required to continue to reflect a period of considerable challenge for local operators. The coming months will be critical for SWestrans as travel restrictions are minimised and SWestrans' look to work through the recovery phase from Covid-19.

Appendices

- Audit adjustments
- Action plan and follow up of prior year recommendations
- Audit fees and independence
- Fraud arrangements
- Communication of audit matters

Audit adjustments

Uncorrected and corrected misstatements

We are pleased to report that there were no material corrected misstatements to the financial statements. During our audit we identified one unadjusted misstatements to the financial statements. We are satisfied that this is not material to the financial statements.

Item		Dr (£'000)	(Cr) (£'000)	Description
1	Creditors	12		<i>Being error in deferred income calculation</i>
	Income		(12)	

There was one unadjusted disclosure misstatement in relation to the events after the balance sheet date note which was dated 18 September, the original date for Board consideration. We are satisfied that SWestrans have considered events up to the date of signing the financial statements and therefore is not considered material to the accounts.

During the course of our audit work we identified a number of disclosure adjustments required to the draft financial statements. The following are those adjustments that have been adjusted for in the updated draft accounts.

Item	Description	Adjusted
1	Annual governance statement	Disclosure of the impact of Covid-19 on governance arrangements Disclosure updated to comply with the requirements of delivering Good Governance in Local Government: Framework (2016) Inclusion of Internal Audit Annual Audit Opinion Updating signatories to include sign off from representative of the Board as well as appropriate Officers.
2	Accounting Policies	Explicit disclosure required around the accounts being prepared on a going concern basis
3	Annual accounts	Some minor disclosure changes to the financial statements
4	Accounting policies	Minor changes to accounting policies to reflect the specific arrangements in place at SWestrans
5	Critical estimates and judgements	Disclosure updated to reflect conclusion that there are no crucial adjustments or areas of major sources of estimation uncertainty.

Audit recommendation and follow up of 2018/19 recommendations

We are pleased to report we have no recommendations for 2019/20, We set out below our follow up of our 2018/19 recommendations and these are reflected below for information.

Recommendation

1. Management commentary

The Management Commentary provides users of the accounts with information on the SWestrans' financial and non-financial performance during the year and its financial outlook for 2019/20. While the Commentary includes a review of 2018/19 key developments and achievements, there is an opportunity to further develop the reporting in future years to provide performance against key performance outcomes. We recommend that officers look to enhance the Management Commentary contained within the financial statements to provide quantifiable measures of performance against key priorities.

Initial management response

We will continue to review and enhance the commentary where appropriate that will look to add value to the document

Follow up - Ongoing

The Management Commentary provides users of the accounts with information on SWestrans' financial and nonfinancial performance during the year and its financial outlook for 2020/21. We recommend the report could be enhanced through greater focus against performance targets to measure outcomes against plans as well as the key priorities and risk facing the organisation.

Updated Management Response: We will continue to review and enhance the commentary and develop performance targets that will look to add value to the document.

Responsible Officer: Douglas Kirkpatrick

Implementation Date: March 2021

Recommendation

2. Internal Audit

The Internal Audit section of Dumfries & Galloway Council has reviewed these systems and has determined that reasonable assurance can be placed upon the adequacy and effectiveness of the systems. While we recognise that the assurance provided by the Council's Internal Audit services provides some assurance to SWestrans around design and operating effectiveness of key financial processes, there is limited assurance over key strategic risks to the organisation. We recommend that SWestrans explore options, including utilising Internal Audit to obtain independent assurance over key areas of strategic risk. Areas could include financial and operational planning and governance arrangements.

Initial management response

Options to obtain independent assurance over key areas will be explored.

Follow up - Ongoing

During 2019/20 while some assurance to SWestrans around design and operating effectiveness of key financial processes, there is limited assurance over key strategic risks to the organisation. There is an opportunity for SWestrans to obtain independent internal audit assurance over governance, risk management and internal controls relevant to SWestrans.

Updated Management Response: Options to obtain independent assurance over key areas continues to be explored

Responsible Officer: Douglas Kirkpatrick

Implementation Date: 2020/21

3. 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.

Initial management response

We will review the introduction of a draft financial plan linked to the Councils 3 year plan.

Follow up – Ongoing

The provisions within the act would enable SWestrans to building reserves in futures years. This would enable SWestrans to work with its strategic partner to look to generate reserves that would provide greater financial autonomy in future years to make strategic investments in year funded through reserves. SWestrans' has an approved budget for 2019/20. While there is a longer term view for capital investment (3 year plan), SWestrans' should look to develop medium to longer term financial plans to support the organisation take a strategic approach to addressing the financial pressures facing the organisation

Updated management response: We will review the introduction of a draft financial plan linked to the Councils 3 year plan

Action owner: Douglas Kirkpatrick

Timescale for implementation: 2020/21

Audit fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	8,640
Pooled costs	840
Contribution to Audit Scotland costs	520
Contribution to Performance Audit and Best Value	-
2019/20 Fee	10,000

Fees for other services

Service	Fees £
We confirm that for 2019/20 we did not receive any fees for non-audit services	Nil

Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work (joanne.e.brown@uk.gt.com). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to Elaine Boyd, Assistant Director, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

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 Financial Reporting Council'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 Financial Reporting Council'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

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is 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 relations to management override of controls.
- Leading a discussion with those charged of governance (for SWestrans this is considered the SWestrans Partnership Board) on their view of fraud. Typically we do this when presenting our audit plan and in the form of management and those charged with governance questionnaires.
- 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.

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.

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the planning guidance) to inform the National Crime Agency if she knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at SWestrans we will report to the Auditor General as required by Audit Scotland.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

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 work with SWestrans to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on a quarterly basis.

Communication of audit matters

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 below.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
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 Confirmed, no matters to report.	•	•
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	•	•
Significant matters in relation to going concern None identified although commentary included on financial sustainability alongside going concern commentary.	•	•
Views about the qualitative aspects of SWestrans accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures Included within the report.		•
Significant findings from the audit Included within the report		•
Significant matters and issues arising during the audit and written representations that have been sought Included in this report and letter of representation obtained at date of signing.		•
Significant difficulties encountered during the audit None identified.		•
Significant deficiencies in internal control identified during the audit None identified.		•
Significant matters arising in connection with related parties None identified.		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements. None identified.		•
Non-compliance with laws and regulations None identified		•
Unadjusted misstatements and material disclosure omissions Reported in Appendix 1 of this report.		•
Expected modifications to the auditor's report, or emphasis of matter. None identified		•



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit reporting process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the entity or all weaknesses in your internal controls.

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