

***South West of Scotland  
Transport Partnership***  
Annual Report to Officers and the  
Controller of Audit for the year  
ended 31 March 2016

September 2016



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The principal objective of our audit procedures is to enable us to express our opinion, in line with the requirements of the Audit Scotland Code of Audit Practice, on the financial statements as a whole. Our audit opinion does not guarantee that the financial statements are free from misstatement.

Any oral comments made in discussions with you relating to this report are not intended to have any greater significance than explanations of matters contained in the report. Any oral comments that we make do not constitute oral advice unless we confirm any such advice formally in writing.

The matters raised in this and other reports that flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks at the South West of Scotland Transport Partnership or all internal control weaknesses. This report has been prepared solely for your use in accordance with our appointment by the Accounts Commission. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

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# 1. Introduction

## *Purpose of this report*

- 1.01 This Annual Report is primarily intended to direct your attention to matters of significance that have arisen out of the 2015/16 audit process. The report is not only addressed to officers, but it is also addressed to the Controller of Audit who appoints us as your external auditor.

## *Scope of the Audit*

- 1.02 Our overall responsibility as external auditor of South West of Scotland Transport Partnership (SWestrans) is to undertake our audit in accordance with International Standards of Auditing (ISAs) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011. The Code of Audit Practice sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector involving not only assurance on the financial statements but also consideration of areas such as regularity, propriety, performance and the use of resources.
- 1.03 Our audit for 2015/16 has been planned and conducted throughout the year to take into account these wider responsibilities and our obligations set out in the Code of Practice.
- 1.04 Under the requirements of the International Standard on Auditing (UK and Ireland) ('ISA') 260: "*Communication of audit matters to those charged with governance*", we are required to communicate audit matters arising from the audit of the financial statements to those charged with governance of an entity. This Annual Report to Officers discharges our requirements under ISA 260, as well as our reporting requirements under the Code.

## *Acknowledgment*

- 1.05 We would like to formally extend our thanks to all Dumfries and Galloway Council Officers for the assistance they have given us during the audit process.

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## ***2. Audit Process and Financial Position***

### ***Our Audit Opinion***

- 2.01 The Local Government (Scotland) Act 1973 requires that, following the completion of an audit, the auditors shall place on the abstract of accounts a certificate which sets out the basis on which they have formed their audit opinion. Our opinion on the accounts states that the financial statements:
- give a true and fair view in accordance with applicable law and the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (“the 2015/16 Code”) of the state of the affairs of SWestrans as at 31 March 2016 and of its income and expenditure for the year then ended;
  - have been properly prepared in accordance with IFRS as adopted by the European Union, as interpreted and adapted by the 2015/16 Code; and
  - have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.
- 2.02 Our opinion for the year ended 31 March 2016 is **unqualified**.

### ***Audit Process***

- 2.03 The financial statements for SWestrans have been prepared in accordance with the accounting requirements set out in the 2015/16 Code. All disclosure changes proposed as part of the audit have been adjusted.
- 2.04 The unaudited accounts were approved by the Treasurer for issue on 28 June 2016, when they were also presented to Audit Scotland and the Controller of Audit. The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of supporting working papers provided and internal review process undertaken by management were of a good standard. Overall we believe an efficient audit process was achieved and an effective working relationship exists with the Dumfries and Galloway Council Officers involved in the accounts preparation process.

### ***Adjustment to the draft Financial Statements***

- 2.05 Our audit of the financial statements identified one financial adjustment and minor disclosure adjustments which have now been amended by Management in the financial statements.

- 2.06 Under international auditing standard ('ISA') 260 – “Communication of audit matters to those charged with governance” we are required to report all unadjusted errors identified during the course of our audit to Members of SWestrans in their governance role. We are pleased to report that there were no unadjusted misstatements.

### *Financial Performance for the year ended 31 March 2016*

- 2.07 SWestrans achieved a break even position for the year ended 31 March 2016. The performance against budget for SWestrans for 2015/16 is set out in the table below:

	<b>2015/16 Budget</b>	<b>2015/16 Actual</b>
	<b>£000</b>	<b>£000</b>
Staff costs	83	83
Property costs	2	0
Supplies and services	34	34
Transport costs	2	2
Administrative costs	42	40
Payments to other bodies	4,441	4,447
Central support costs	49	48
Capital charges	265	265
<b>Gross Expenditure</b>	<b>4,918</b>	<b>4,919</b>
Government grants	359	359
Other income	4,559	4,560
<b>Gross income</b>	<b>4,918</b>	<b>4,919</b>
<b>Net expenditure</b>	<b>0</b>	<b>0</b>

- 2.08 Payments to other bodies during the year is made up largely of subsidies paid to local bus operators. Additional costs incurred are those required to support the services and activities of SWestrans such as transport infrastructure development projects and strategic initiatives.

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- 2.09 On 5 April 2015 31 bus contracts with an annual value of £1.4m expired. Replacement contracts were put in place to cover all routes with only minor changes to timetables. Management has reported that this transition went smoothly with little comment from the travelling public.

### ***Financial Position for the year ended 31 March 2016***

- 2.10 SWestrans cannot retain a General Fund balance at financial year-end and so its usable reserves balance as at 31 March 2016 was zero. Net assets and liabilities and unusable reserves as at 31 March 2016 totalled £2.1m.
- 2.11 Property, Plant and Equipment (PPE) held by SWestrans is wholly comprised of vehicles. During the year PPE additions totalled £850,000 and related to ten new buses. Buses are leased to operators as part of route specific tenders. Leases are accounted for as operating leases meaning the assets continue to be held on the balance sheet. This is due to the fact that buses are leased for periods of three years and not for the duration of the asset's useful life (typically 7-12 years) and risks and rewards associated with ownership are retained by SWestrans.

## ***3. Governance and Internal Financial Control***

- 3.01 It is part of management's overall responsibility to design and maintain appropriate systems of internal control to provide reasonable assurance that the accounting systems provide timely, accurate and reliable financial information and to safeguard SWestrans' assets.
- 3.02 As auditors, we obtain a sufficient understanding of internal controls to plan the audit. The understanding includes knowledge about the design of policies and procedures and whether they have been implemented, but does not necessarily extend to evaluating the operating effectiveness of all such policies and procedures. We would only test those internal controls on which we plan to rely on during our audit and which are required in relation to our Code of Audit Practice responsibilities. Accordingly, an audit would not usually identify all matters of interest to management in discharging its responsibilities.

### ***Key Financial Controls***

- 3.03 SWestrans utilises the key financial systems in place at Dumfries and Galloway Council ('the Council'), in particular general ledger, payroll, accounts payable and accounts receivable. Based on audit work performed, we noted no exceptions in respect of the Council's financial systems, which are also applicable to SWestrans.

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## ***Annual Governance Statement***

- 3.04 The CIPFA Code of Practice on Local Authority Accounting states the following in relation to Scottish Local Authorities and the preparation of an annual governance statement:

*“Scottish local authorities, which are not required by legislation to conduct a review at least once in a year of the effectiveness of its system of internal control, shall consider doing so voluntarily and preparing an Annual Governance Statement. Authorities that do not voluntarily choose to do this shall include a statement on the system of internal financial control with their Statement of Accounts.”*

SWestrans has elected to include a statement of internal financial control within its Statement of Accounts for 2015/16 which is consistent with the requirements as set out by the Code.

- 3.05 During the year a new Interim Lead Officer for SWestrans was appointed following changes made to the senior management structure of Dumfries and Galloway Council. We have noted no issues to report in respect of the transition to the new Lead Officer.

## 4. ISA 260 Communications to Those Charged with Governance

4.01 International Standards on Auditing (“ISA”) (UK&I) 260 – Reporting to those charged with Governance, requires that the External Auditor communicates certain matters to those charged with governance. Summarised below is how we have addressed these requirements for the SWestrans:

Communication Required under ISA 260	Reference/Comment
Engagement Letters	✓ Signed Engagement contract with Audit Scotland at the start of our 5 year appointment.
Independence	✓ We confirm there are no matters which may be perceived to impact the independence and objectivity of the audit team.
Audit Approach and Scope	✓ Our approach to the audit is based upon an understanding of SWestrans and its business. Compliance with International Standards on Auditing (ISAs) is integral to our approach and our methodology is undertaken to ensure compliance with the additional requirements of the APB’s Practice Note 10 – Audit of the Financial Statements of Public Bodies in the UK and the Code of Audit Practice.
Materiality	✓ Our base calculation for materiality is based on 2% of total expenditure in year, resulting in an overall materiality of £115,380. Our approach is in line with Auditing Standards.
Form and Timing of Communications	✓ Agreed as per Audit Scotland’s planning guidance, and agreed with Dumfries and Galloway officers.
Accounting Policies/Estimates/Disclosures	✓ No matters to report.
Correspondence with management on significant matters	✓ There were no significant accounting matters. Disclosure matters have been resolved during our fieldwork.
Letter of Representation	✓ To be signed in September 2016
Other matters significant to the oversight of financial reporting process and material uncertainties relating to Going Concern	✓ None identified.
Related Parties	✓ Other than those transactions disclosed in the financial statements we have not identified any further transactions requiring disclosure.
Fraud	✓ There are no matters to report.
Material Weaknesses in Internal Controls	✓ There are no matters to report.



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*In the event that, pursuant to a request which South West of Scotland Transport Partnership has received under the Freedom of Information Scotland Act 2002, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. South West of Scotland Transport Partnership agrees to pay due regard to any representations which PwC may make in connection with such disclosure and South West of Scotland Transport Partnership shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, South West of Scotland Transport Partnership discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

*This report has been prepared for South West of Scotland Transport Partnership and the Controller of Audit in accordance with the terms of our appointment with Audit Scotland. We accept no liability (including for negligence) to anyone else in connection with this document.*

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