

# South West of Scotland Transport Partnership (SWESTRANS)

External Audit Annual Report to Members and  
the Controller of Audit

2016/17 Financial Year

22 September 2017



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## Our audit plan at a glance:

Materiality has been updated based on unaudited financial statements to £47,000 (1% of gross expenditure)	Performance materiality is set at £31,000 and we have reported to management everything identified over £1,000 (trivial)	Significant Audit risks were presumed risks under ISA's: management override of controls and risk of fraud in revenue recognition. Other identified risk at planning was completeness of expenditure (fraud risk)	Our audit is undertaken in accordance with the smaller body exemption in the Code of Audit Practice. We have focused on financial sustainability, going concern and wider financial management arrangements.
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We can confirm we are independent of SWESTRANS and our objectivity is not compromised in accordance with International standards on Auditing (UK & Ireland) and APB ethical standards for Auditors. Our final fee was unchanged at £9,370 as set out in our plan. No non-audit services have been provided to SWESTRANS in 2016/17.

# Key Messages

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We have issued an unqualified opinion on:

- True and fair view of the financial statements
- Other prescribed matters

This report is a summary of our findings from our external audit work for the financial year ended March 2017. Our work has been undertaken in accordance with International Standards on Auditing (UK & Ireland) and the Code of Audit Practice (2016).

Our report is addressed to the members of the South West of Scotland Transport Partnership (SWESTRANS) in their role as those charged with governance, and the Controller of Audit. This report will be published on the Audit Scotland website at: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

Our report has been discussed and agreed with officers, and presented to the SWESTRANS Partnership Board on 22 September 2017.

We would like to thank officers and staff for their co-operation and assistance during the audit.

GRANT THORNTON UK LLP

22 September 2017.

## Our external audit work included:

- An audit of the 2016/17 financial statements
- A review of the Management Commentary and Annual Governance Statement
- Completion of the 'Role of Board's return submitted to Audit Scotland to inform a future performance publication

In accordance with the requirements the SWESTRANS accounts were submitted to us on 19 June 2017 before the deadline of the end of June. The unaudited annual report and accounts were complete and to a good standard. The audit process worked well, with no audit adjustments and limited disclosure amendments.

Financial performance in year was closely aligned to the budget set at the start of the year. An agreed revenue budget is in place for 2017/18 showing a fully funded budget of £4.309 million.

The capital budget for 2017/18 is £0.900million and is largely focused on the Lockerbie train station improvements and Active Travel projects.

SWESTRANS administer the bus contracts in the area, accounting for over 90% of revenue expenditure. They also support the delivery of a number of transport related projects across Dumfries and Galloway. Projects during 2016/17 included bus shelter replacement and the development of new train station proposals.

Decisions regarding the SWESTRANS budget are taken by the Partnership Board, which is made up of five Councillors from Dumfries and Galloway Council, a representative of NHS Dumfries and Galloway and a Scottish Enterprise member.

SWESTRANS is supported in its administration by Dumfries and Galloway Council using the Council's financial systems. As Dumfries and Galloway Council's external auditors we have used the information gained through the Council audit to inform our understanding of SWESTRANS and subsequent testing strategy.



# The Financial Statements Audit



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## Summary

We have not had to alter or change our audit approach which was set out in our audit plan, presented to the SWESTRANS Partnership Committee on 10 February 2017. As set out in our plan we have updated our materiality calculations to be based on the unaudited 2016/17 financial statements. Final materiality was £47,000 (1% of gross expenditure). We set £1,000 as being the value we considered trivial and any potential adjustment above this value was discussed with officers.

There are no uncorrected or corrected misstatements arising from our audit. We did make minor disclosure changes to the accounts but these are not considered significant.

Overall, the draft financial statements we received on the 19<sup>th</sup> of June were of a good quality, complete and had been subject to review. The accounts were supported by good working papers.

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## Internal Control Environment

In discharging our respective ISA responsibilities we have sought to understand SWESTRANS control environment. In particular we have performed the following work at Dumfries and Galloway Council who provide accounting services:

- considered procedures and controls around related parties, journal entries and other key entity level controls
- performed walkthrough procedures on key controls around identified risk areas for example operating expenses and journal entries

No material weaknesses in the accounting and internal control systems were identified during the audit which could have an adverse impact on SWESTRANS ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. We noted one very small discrepancy between the fixed asset register and the ledger – and this is reflected in the Action Plan.

Under ISA's we are required we are required to report to those charged with governance the main issues arising from our audit of the annual accounts and report. This report discharges our obligations under the relevant ISA's.

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## Internal Audit

As set out in our plan we have not placed formal reliance on the work of the in-house Internal Audit function during 2016/17, which is provided by Dumfries and Galloway Council. The Internal Audit function confirmed compliance with the Public Sector Internal Audit Standards as part of their Annual Report.

We have reviewed the internal audit plan for the Council, and the internal reports considered relevant to our external audit, in particular the reviews of internal controls and debtors where certain SWESTRAN balances were sampled.

Based on the work throughout the year, Internal Audit have concluded that the key Council systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy.

Internal audit input in relation to SWESTRANS is limited but this is to be expected given the size of the organisation and that coverage over the key financial systems and processes that is obtained through detailed internal audit work at the Council.



# Our identified audit risks

Our audit plan identified certain significant and other audit risks and our planned approach to the risks identified. We have set out below a summary of the work undertaken over these risks and our conclusions.

Audit plan identified risk and work completed	Our conclusion
<p><b>Management override of controls</b></p> <p>Under ISA (UK&amp;I) 240 there is presumed risk that the risk of management over-ride of controls is present in all entities (fraud risk).</p> <p><b>Work undertaken</b></p> <p>Completed walkthrough of the controls and procedures in place around journal entries</p> <p>Reviewed the key accounting estimates, judgements and decisions made by officers.</p> <p>Tested journal entries with a focus on unusual posting sources, times or amounts identified using our IDEA data analysis software</p> <p>Reviewed unusual and/or significant transactions.</p>	<p><b>Key accounting estimates:</b> We did not identify any significant areas of bias in key judgement around useful lives of PPE by officers and judgements were consistent with prior years.</p> <p><b>Journals:</b> We made inquiries of those members of staff who can post and authorise journals related to inappropriate or unusual activity with no concerns noted. We also targeted large and/or unusual journals and noted no issues from our testing.</p>
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA 240 (UK&amp;I) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. SWESTRANS income is composed of £3.573 million income from Dumfries and Galloway Council, and £0.557 million of other grant income towards bus services. There were no capital grant contributions in current year.</p> <p><b>Work undertaken</b></p> <p>Completed walkthrough of the controls and procedures in place around sales invoicing and sales ledger</p> <p>Agreed revenue to supporting documentation and cash receipts in the year / post period end to gain comfort over validity of these transactions</p> <p>Considered the recoverability of any outstanding balances at year end</p>	<p>We rebutted the risk of fraud related to the grant funding stream from the Scottish Government given the nature of the funding received. We completed the following procedures around revenue:</p> <ul style="list-style-type: none"> <li>- For grant funding we agreed this to the allocation letter and income receipted to bank.</li> <li>- For funding from the Council, we agreed to the corresponding Council expenditure and to underlying documentation</li> <li>- We completed substantive testing on income balances not received in the form of grants, for example income of £0.361 million towards cross boundary bus services.</li> </ul> <p>No issues noted from our review of the treatment of revenue in the year.</p>
<p><b>Completeness of operating expenditure</b></p> <p>Operating expenses are understated or not recorded in the right period. This risk also relates to Practice Note 10 (revised) in respect of public sector entities which outlines that auditors should also consider the risk that misstatement may occur by the manipulation of expenditure recognition (Fraud risk).</p> <p><b>Work undertaken:</b></p> <p>Completed walkthrough of the controls and procedures in place around purchase ordering, procurement and general payment and recording of expenditure.</p> <p>Reconciled creditors ledger to the general ledger and financial statements.</p> <p>Performed cut-off testing on pre-year end and post year end transactions to gain comfort around the completeness and accuracy of recognised expenditure.</p>	<p>Through our pre and post year end cut off testing on a sample basis we did not identify any expenditure that was incorrectly accounted for.</p> <p>Recharges and other operating costs were substantively tested with no issues noted.</p>

# The narrative elements of your annual report and 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 also compliance with Local Government Statement of Recommended Practice and relevant associated guidance, and have set out our observations below:

Management commentary	Corporate Governance Statement	Remuneration report
<ul style="list-style-type: none"> <li>The report outlines performance analysis and highlights the key issues facing SWESTRANS</li> <li>All required disclosures included in line with Code of Practice on Local Authority Accounting</li> <li>Financial performance analysis included is in line with our understanding and work performed.</li> </ul>	<ul style="list-style-type: none"> <li>All key required elements included within the corporate governance statement.</li> <li>No specific matters of concern have been highlighted within this statement.</li> </ul>	<ul style="list-style-type: none"> <li>There is no remuneration report because SWESTRANS do not employ any staff. We reviewed the role of the Council officers in relation to SWESTRANS and the seniority of staff and confirmed that this approach is still appropriate.</li> </ul>



# Judgements and estimates

In addition to our identified significant and other audit risks we consider other aspects of your financial statements in particular key areas of judgement. We have summarised below our observations in these areas:

## Accounting Policies

- Accounting policies are in accordance with the Local Government Accounting Code of Practice and we consider these to be appropriate to SWESTRANS.

## Accounting estimates and judgements

- No key estimates and judgements are recorded within the accounts other than consideration of the carrying value of vehicles. We have reviewed the useful lives of vehicles and noted no issues. The useful life ranges between 5 and 12 years and all are leased to bus operators to facilitate the delivery of their contract.

## Going Concern

- SWESTRANS has an agreed budget of £4.309 million for 2017/18
- Given the nature of SWESTRANS as a public body receiving funding from the Partners and Scottish Government grant income, we do not have reason to consider SWESTRANS not continuing to operate over the next 12 months from the account signing date.

## Timing of transactions and period in which they are recorded (Cut off assertion)

- Through our substantive audit testing we did not identify any concerns over timing of transaction or the period in which they were recorded.

## Impact on the financial statements of any uncertainties

- No uncertainties have been identified which have an impact on the financial statements.



# Overview of SWESTRANS arrangements



Recognising the Code of Audit Practice during the course of our work we have reviewed Committee minutes and associated papers to understand the key operational aspects of SWESTRANS and potential future risks and challenges. In this section we provide commentary over key aspects of SWESTRANS arrangements, including relevant observations and conclusions.

### Financial Management

Performance tracked exactly to budget in the year, which is in line with our expectations given the predictable nature of transactions. There continues to be a key focus on budgetary control recognising the financial constraints under which SWESTRANS and the wider Local Government sector are operating within.

### Financial Sustainability and Going Concern

Funding for 2017/18 was agreed in February 2017 as set out below:

	2016/17 budget £000s	2017/18 budget £000s	Movement £000s
Dumfries and Galloway Council	4,439	4,359	-80
Scottish Government Grant	259	259	0
<b>Total income</b>	<b>4,698</b>	<b>4,618</b>	<b>-80</b>
Staff	80	104	24
Other	39	70	31
Procured	4,224	4,086	-138
Central Support	46	49	3
Capital charges	309	309	0
<b>Total expenditure</b>	<b>4,698</b>	<b>4,618</b>	<b>-80</b>

The key movements are the reduction in Scottish Grant income (additional non recurring funding received in 2016/17) and the reduction in the level of the bus grants.

### Capital programme 2017/18

The capital programme was approved in March 2017, and a total of £0.9 million was approved, with commitments including Active Travel projects, bus infrastructure, cycle path development and the STAG studies outlined below.

Work continues on the development of potential new train stations, with pre-appraisals of four potential stations resulting in three (Thornhill, Eastriggs and Beattock) being taken forward to Scottish Transport Appraisal Guidance (STAG 1). These proposals have been proposed to progress to STAG 2. This step is expected to be completed in 2017/18. The submission of a Final Business Case to the Scottish Stations Fund will require 50% local funding of a project costs estimated between £8 million and £14 million. This funding would have to be raised by partners.

### Contract retender

25 bus contracts expired in April 2017, and therefore SWESTRANS ran a tender process through 2016/17, resulting in the award of £2.4 million of new contracts. There were some revisions to routes and timetables reflecting key local developments including the new Dumfries and Galloway Royal Infirmary and development of the Dumfries Learning Town model. Procurement advice and procedures were followed to ensure value for money was achieved.

### Fraud and Irregularity

We considered this element from a Dumfries and Galloway Council level given that this is the framework under which SWESTRANS operates.

Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We identified that Dumfries and Galloway Council's arrangements for the prevention and detection of fraud and other irregularities to be adequate.

There is a fraud policy in place and fraud updates are regularly circulated to staff.

# Appendix 1 Audit Adjustments

## Uncorrected and corrected misstatements

There were no uncorrected or corrected misstatements following our audit of the annual report and accounts.

## Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow SWESTRANS Partnership Committee to evaluate the impact of these matters on the financial statements. There were no material disclosure misstatements. Only very minor typing/disclosure amendments were made.



# Appendix 2 Action Plan

During the course of our 2016/17 audit work we have identified the following actions for management:

	Area	Issue & Risk	Priority	Recommendation and management response
1	<b>Fixed asset register</b>	There is currently a £4,000 difference between the accounts and the underlying fixed asset register due to a historic depreciation adjustment.		<p>We recommend that the fixed asset register is updated to reflect this historic adjustment.</p> <p><b>Management response:</b> Capital team will review options to correct this.</p> <p><b>Timescale:</b> March 2018</p> <p><b>Action Owner:</b> Treasury and Capital Manager</p>

Note that there were no prior year audit recommendations raised in 2015/16 which require follow up.



# Appendix 3 Reminder of Responsibilities

The Code of Audit Practice sets out responsibilities of the audited body (pages 10, 11 and 12) across: Corporate governance; financial statements and related reports; standards of conduct for prevention and detection of fraud and error; financial position; and value for money (as described in the Scottish Public Finance Manual). As appointed auditors our responsibilities are set out on page 13 and are summarised below.

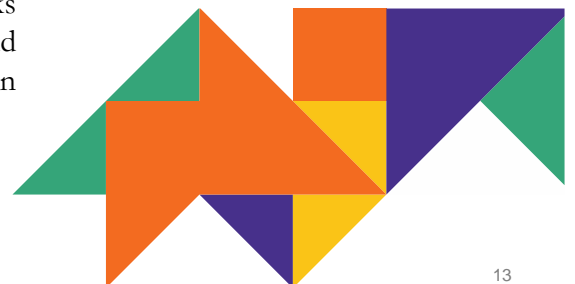


*An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with ISA's and the Code and may not be all that exist*

*Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.*

*SWESTRANS has not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our work. We have not been made aware of any incidences of fraud or corruption.*

\* We have applied the smaller body status allowable under the Code of Audit Practice to SWESTRANS. However, we have been alert to potential risks relating to: financial management; financial sustainability; governance and transparency; and value for money and have provided commentary within the section on our understanding of SWESTRANS as an organisation.





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