

South West of Scotland Transport Partnership

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Members of the South West of Scotland Transport Partnership and the
Controller of Audit

September 2024

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Key messages

2023/24 annual accounts

- 1 Audit opinions on the annual accounts are unmodified, i.e. the financial statements and related reports are free from material misstatement.

Wider scope

- 2 The South West of Scotland Transport Partnership (SWestrans) demonstrates good financial management and operated within its revised revenue budget for 2023/24.
- 3 SWestrans has no medium or long-term financial plan and needs to develop a strategic approach to planning.
- 4 Effective governance arrangements are in place although an Internal Audit review in 2023/24 highlighted that improvements are required.
- 5 SWestrans has appropriate arrangements in place to secure Best Value.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of the South West of Scotland Transport Partnership (SWestrans). The scope of the audit was set out in an Annual Audit Plan presented to the 22 March 2024 Board meeting. This Annual Audit Report comprises:

- significant matters arising from an audit of SWestrans' annual accounts
- conclusions on wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#), which for less complex bodies includes conclusions on financial sustainability and Best Value.

2. This report is addressed to the Members of SWestrans and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

3. My team and I would like to thank Board members and other staff, particularly those in finance, for their cooperation and assistance in this year.

Responsibilities and reporting

4. SWestrans has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. SWestrans is also responsible for compliance with legislation putting arrangements in place for governance and propriety.

5. The responsibilities of an independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK.

6. The weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

Auditor Independence

7. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £12,560 as set out in our 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

8. We add value to SWestrans by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice identified.

Part 1. Audit of 2023/24 annual accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual accounts are unmodified, i.e. the financial statements and related reports are free from material misstatement.

Audit opinions on the annual accounts are unmodified

9. The Board approved the annual accounts for SWestrans for the year ended 31 March 2024 on 27 September 2024. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Overall materiality was assessed on receipt of the annual accounts as £96,000

10. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the accounts, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

11. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed on receipt of the unaudited annual accounts but we concluded that no changes were required to our initial materiality levels which are summarised in [Exhibit 1](#) overleaf.

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£96,000
Performance materiality	£62,000
Reporting threshold	£5,000

Source: Audit Scotland

12. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

13. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 65 per cent of overall materiality, reflecting the fact that no significant issues or unadjusted errors were identified in the prior year audit impacting our audit approach.

14. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

15. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to the board including our view about the qualitative aspects of the body's accounting practices.

16. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

17. We have no issues to report from the audit.

Our audit work responded to the risks of material misstatement we identified in the annual accounts

18. We have obtained audit assurances over the identified significant risks of material misstatement to the annual accounts. [Exhibit 2](#) overleaf sets out the significant risks of material misstatement to the annual accounts we identified in our 2023/24 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 2

Identified significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>We assessed the design and implementation of controls over journal entry processing.</p> <p>We made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>We tested journals at the year-end with a focus on significant risk areas.</p> <p>We evaluated significant transactions outside the normal course of business.</p> <p>We assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p> <p>We carried out substantive testing of income and expenditure transactions around the year-end to confirm that they were accounted for in the correct financial year.</p> <p>We carried out focussed testing of accounting accruals and prepayments.</p>	<p>Results: We did not identify any incidents of management override of controls through our audit testing.</p> <p>Conclusion: There was no evidence of management override of controls from the work performed.</p>

Source: Audit Scotland

We identified one misstatement in the annual accounts which was corrected

19. We identified a transaction with a value of £0.316 million relating to 2023/24 that had not been included in the unaudited accounts which was above our overall materiality level. Officers agreed to update the accounts to reflect this transaction and although the amendment increased the income, expenditure, debtors and creditors balances in the accounts, the net impact of these adjustments in the Comprehensive Income and Expenditure Account and Balance Sheet were nil. This had no impact on our audit approach.

The unaudited annual accounts were received in line with the agreed timetable

20. The unaudited annual accounts were received in line with our agreed audit timetable by 28 June 2024. We thank officers for their cooperation, assistance and for meeting the deadline.

Good progress was made on prior year audit recommendations

21. SWestrans has made good progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management and are set out in [Appendix 1](#).

Part 2. Wider Scope

For less complex bodies wider-scope audit work considers the financial sustainability of the body and the services that it delivers over the medium to longer term, and the arrangements for securing Best Value.

Conclusion

SWestrans demonstrates good financial management and operated within its revised revenue budget for 2023/24.

SWestrans has no medium or long-term financial plan and needs to develop a strategic approach to planning.

Effective governance arrangements are in place although an Internal Audit review in 2023/24 highlighted that improvements are required.

SWestrans has appropriate arrangements in place to secure Best Value.

SWestrans demonstrates good financial management and operated within its revised revenue budget for 2023/24

22. SWestrans reported that it had operated within its revised revenue budget for 2023/24 of £4.439 million. The Comprehensive Income and Expenditure Statement shows a deficit on the provision of services of £0.322 million that has been met from reserves.

23. The SWestrans Board maintains oversight of financial performance through scrutiny of the budget monitoring reports presented regularly to Board meetings.

SWestrans does not yet have a medium or long-term financial plan

24. To date, SWestrans has been limited in its ability to prepare medium or long-term financial plans by the annual funding settlement arrangements in place with its parent, Dumfries and Galloway Council (the council). This arrangement restricts SWestrans ability to strategically plan solutions to financial sustainability challenges or to build up reserves.

25. SWestrans does however manage the rolling 3-year capital expenditure programme that operates in partnership between SWestrans and the council, which provides medium-term planning of the use of resources to be spent on the local bus network, active travel network, and development of Lockerbie rail station parking facilities.

26. In our 2022/23 Annual Audit Report we recommended that SWestrans and the council should explore funding arrangements that would facilitate the

medium-term financial planning of SWestrans expenditure on supported bus services. Management responded by stating that it is recognised that medium term financial planning would significantly improve financial sustainability in relation to supported bus services and officers will work closely with the council's Senior Leadership Team to develop medium to long term budget plans, however, this may take some time to fully implement due to the annual funding settlement in place with Dumfries and Galloway Council. The target date for the agreed management action is March 2025 which has not yet passed.

SWestrans faces significant challenges to the sustainable delivery of supported local bus and school bus services

27. In June 2023, a report was presented to SWestrans Board entitled, 'School Bus and Local Bus Contract Sustainability'. The report provided an update on the fragility of the local bus services market within Dumfries and Galloway, and it sought agreement to extend existing contracts with uplifts ranging from 4.7 per cent to 15.4 per cent. These contract extensions were intended to expire in August 2024 and were agreed to allow sufficient time for a full network review and development of the supply chain.

28. As reported to the March 2024 Board meeting, consultants Stantec UK completed their review and report. This report includes a detailed analysis of the current and future position of the school and local bus network, key findings and recommendations of actions required to improve the overall sustainability of the supply chain and transport model for the region.

29. Their proposals included the adoption of a new sustainable public transport model for the region based on the previously agreed 3-tier framework:

- Tier 1 – Community Level Provision
- Tier 2 – Supported Local Bus & Community Transport Services
- Tier 3 – Commercial Local Bus & Rail Services

30. In addition to the findings arising from the review there are other council transformation projects and influences that have progressed during the time of the review that could have significant impact over the transport network and potential solutions developed through the review.

31. Due to these factors, SWestrans Board approved at its meeting on 22 March 2024 that a 12 month contract extension be negotiated on the existing contracts with an inflationary uplift to provide an interim measure while the optimised network and delivery models are organised.

Effective governance arrangements are in place although an Internal Audit review in 2023/24 highlighted that improvements are required

32. SWestrans reviews its Standing Orders on an annual basis with the most recent version approved by the Board in September 2022. Effective governance is also supported by the body's procurement standing orders and the governance framework in place at Dumfries and Galloway Council.

33. The Annual Governance Statement contained within the 2023/24 Annual Accounts was evaluated and found to be prepared in line with the Local Authority Accounts (Scotland) Regulations 2014 and the CIPFA/SOLACE framework 'Delivering Good Governance in Local Government'.

34. The Annual Governance Statement highlights that the Board received the findings of an Internal Audit review of the internal control, risk management and governance arrangements at SWestrans on 22 March 2024 which contained nine recommendations for improvement. Two of the recommendations were deemed to be high priority and were as follows:

- Updated Procurement Standing Orders should be presented to the Board for consideration and approval
- The delivery plan, performance indicators and a business plan should be updated and considered by the Board for approval. Thereafter these documents should be reviewed on a regular basis.

35. The management response in the action plan in relation to the procurement standing orders recommendation noted that they had been updated in partnership with the Dumfries and Galloway Council's Procurement Manager and were the subject of a report to the March 2024 Board meeting for approval. The management response in relation to the updating and reporting of performance management information noted that this would be a key focus once the Regional Transport Strategy (RTS) 2023-2042 is approved by Scottish Ministers with a RTS Delivery Plan brought to the Board as soon as possible. The RTS 2023-2042 was approved by Scottish Ministers in March 2024 and the SWestrans RTS 2023-2042 Delivery Plan was agreed by the Board in June 2024. Internal Audit will follow up on the action taken by management to address the recommendations within this review in due course.

The lead officer of SWestrans stepped down in May 2024 after eight years in the role

36. The Lead Officer of SWestrans stepped down in May 2024 after eight years in the role and has been replaced in the interim by the Assistant Director Transport and Infrastructure at Dumfries and Galloway Council.

SWestrans has appropriate arrangements in place for securing Best Value

37. SWestrans demonstrates its commitment to best value through consideration of the needs of local communities, the sustainability of services, and equality issues, as well as the option of partnership working where available, when deciding on the effective use of resources available to the Transport Partnership. However, faced with the increasing costs of providing services and changes to passenger demographics, needs, and usage, SWestrans may find it increasingly difficult to secure a sustainable bus network provision that meets user needs within available resources.

Climate change arrangements

38. In our 2022/23 Annual Audit Report we recommended that SWestrans should ensure that clear climate targets for reducing emissions and reaching net zero by 2045 are developed as part of its Regional Transport Strategy (RTS) 2023-2042 Delivery Plan. As noted above, the RTS 2023-2042 was approved by Scottish Ministers in March 2024. Thereafter, the RTS 2023-2042 Delivery Plan was agreed by the Board on 28 June 2024 and includes appropriate emissions targets in respect of reaching net zero by 2045.

Appendix 1. Action plan 2023/24

2023/24 recommendations

There are no recommendations for 2023/24.

Follow-up of prior year recommendations

Issue/risk	Recommendation and Agreed Action	Progress
<p>b/f 1. Depreciation</p> <p>Our audit testing of accounting entries for vehicles identified that, due to delays in receiving information from another department and features of the FAM system, depreciation entries for the year were not accurately calculated.</p> <p>There is a risk that the value of vehicles disclosed in the accounts is misstated.</p>	<p>SWestrans should ensure that internal processes are in place for the timely receipt of information from the Fleet Department, and that year-end processes take account of the features of the FAM system.</p> <p><u>Agreed management action:</u></p> <p>Fleet will ensure information is passed to the Finance Team for timely input into FAM. Adjustments for any vehicles needing revalued/re-lifed will be undertaken after depreciation is calculated.</p> <p>Transport and Operations Manager/Finance Officer Capital</p> <p>March 2024</p>	<p>Implemented</p> <p>No issues were identified from audit testing of depreciation in the 2023/24 annual accounts.</p>
<p>b/f 2. Financial planning</p> <p>SWestrans' ability to plan in the medium to long-term is restricted by the annual funding settlement arrangements in place with Dumfries and Galloway Council.</p> <p>There is a risk that SWestrans is not able to</p>	<p>SWestrans and the Council should explore funding arrangements that would facilitate the medium-term financial planning of SWestrans expenditure on supported bus services.</p> <p><u>Agreed management action:</u></p> <p>It is recognised that medium term financial planning would</p>	<p>Work in progress</p> <p>Deadline for agreed management action has not yet passed.</p> <p>See Paragraph 26</p>

Issue/risk	Recommendation and Agreed Action	Progress
effectively plan for and manage risks related to financial sustainability.	<p>significantly improve financial sustainability in relation to supported bus services and officers will work closely with the Council's Senior Leadership Team to develop medium to long term budget plans, however, this may take some time to fully implement due to the annual funding settlement in place with Dumfries and Galloway Council.</p> <p>Lead Officer/Dumfries and Galloway Senior Leadership Team</p> <p>March 2025</p>	
<p>b/f 3. Climate change targets</p> <p>SWestrans has a duty to set and report on targets for reducing emissions targets as part of Scotland's move to net zero by 2045. The objectives and priorities of the RTS 2023-2042 align with national priorities to take action on climate change.</p>	<p>SWestrans should ensure that clear climate targets for reducing emissions and reaching net zero by 2045 are developed as part of the RTS delivery plan.</p> <p><u>Agreed management action:</u></p> <p>Appropriate emission targets will be set through the RTS delivery plan to ensure we meet our duties in respect of reaching net zero by 2045.</p> <p>Lead Officer</p> <p>March 2024</p>	<p>Implemented</p> <p>The RTS 2023-2042 Delivery Plan was agreed by the Board on 28 June 2024 and includes appropriate emissions targets in respect of reaching net zero by 2045.</p> <p>See Paragraph 38</p>

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www.audit-scotland.gov.uk/accessibility



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