

***South West of Scotland  
Transport Partnership***  
Annual Report to Members and the  
Controller of Audit for the year  
ended 31 March 2012

October 2012



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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 and should not be quoted in whole or in part without our prior written consent. 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 2011/12 audit process. The report is addressed to Members and the Controller of Audit.

## *Scope of the Audit*

- 1.02 Our overall responsibility as appointed external auditor of the South West of Scotland Transport Partnership ('the Partnership') is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011. In this regard, the Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than the financial statements by considering, where applicable, areas such as regularity, propriety, performance and the use of resources. The Code of Audit Practice also sets out the need to recognise that the overall audit process is a co-ordinated approach involving the "appointed auditor", the Controller of Audit and other auditors such as Audit Scotland's Local Government Public Reporting Group and its Best Value Team.
- 1.03 Our audit for 2011/12 has been planned and conducted throughout the year to take into account these wider responsibilities.
- 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 Members discharges our requirements under ISA 260.

## *Acknowledgment*

- 1.05 We would like to formally extend our thanks to all Partnership staff for the assistance they have given us during the audit process.

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## 2. Audit Process

### *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 Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (“the 2011/12 Code”) of the state of the affairs of the Partnership as at 31 March 2012 and of the income and expenditure of the Partnership 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 2011/12 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 2012, as set out in the format required by the Accounts Commission, is **unqualified**.

### *Audit Process*

- 2.03 The financial statements for the Partnership have been prepared in accordance with the accounting requirements set out in the 2011/12 Code.
- 2.04 The unaudited accounts were issued on 28 June 2012 and the audited accounts were issued on 25 September 2012. The financial statements and supporting schedules were presented to us for audit within the agreed timetable. However, supporting schedules were not as detailed as required and arrangements put in place for our audit process have not been as efficient or effective as we would have expected. ***A plan of action will be agreed with the Partnership officers for necessary improvements to be implemented for 2012/13.***

*Action 1*

### *Adjustment to the draft Financial Statements*

- 2.05 No material adjustments were required to be made in the course of this year’s audit engagement. 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 the Partnership in their governance role. There was one unadjusted misstatement in relation to certain local bus expenditure around the year-end not being correctly treated on an accruals basis. The net impact of the misstatement was an understatement of Expenditure on the Income Statement and an understatement of Balance Sheet Liabilities to the sum of £22,000. This is below our materiality level.

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## ***Significant Accounting Issues Identified***

2.06 Within our External Audit Plan dated March 2012 we identified the following areas of audit focus that we are required to report upon formally:

### ***Management Override of Controls***

2.07 In accordance with our audit plan, we tested significant manual journals and examined management's accounting estimates for bias. We are happy to confirm that we did not identify any evidence of management override of control. We identified a control weakness regarding the approval of manual journals during our year-end visit as there was no evidence of formal approval on certain manual journals. ***The Partnership should utilise the functionality of the new financial management system to ensure manual journals are approved in line with the scheme of delegation.***

***Action 2***

### ***Recognition of Expenditure***

2.08 We performed substantive testing on a sample of transactions from each material category of expenditure and confirmed with reference to supporting documentation whether it was recorded at the correct value and in the correct period. From our testing of expenditure cut-off around the year end we identified that procedures do not currently ensure that all expenditure incurred is accurately captured in the correct financial year. Only those high value items of expenditure are assessed by officers, with the assumption that opening and closing misstatements net off to an immaterial value. We found there to be an understatement of expenditure in 2011/12 of £22,000. ***The Partnership should ensure that processes are in place to accurately account for expenditure in the correct accounting period.***

***Action 3***

# 3. Financial Performance 2011/12 and Financial Outlook

## Financial Position for the year ended 31 March 2012

	£m	£m	Comment
<b>General Fund balance brought forward</b>		<b>0.000</b>	The Partnership is not permitted to hold usable reserves – total reserves of £1.483 million as at 31 March 2012 are comprised entirely of the carrying value of property, plant and equipment.
Cost of services	(5.496)		Gross expenditure of £5.496 million was up 6.2% on 2010/11. The major item of expenditure was the subsidies in respect of the local bus network, which totalled £4 million.
Income from services	5.384		Income received totalled £5.999 million with Scottish Government grants and requisitions from Dumfries and Galloway Council being the main contributors to this total. A General Capital Grant of £0.615 million was provided by Dumfries and Galloway Council towards the purchase of six new vehicles for the Partnership's fleet.
Income from grants and contributions	0.615		
<b>Surplus on provision of services</b>	<b>0.503</b>		
Adjustments relating to depreciation of non-current assets	0.112		
Adjustments relating to Capital grants and contributions applied	(0.615)		
<b>Break-even position at 31 March 2012</b>		<b>0.000</b>	

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### ***Financial Outlook for 2012/13 and beyond***

- 3.01 As detailed in the Revenue Budget paper to the Partnership's Board in March 2012, the Revenue Budget for 2012/13 is £4.326 million, and the Capital Budget (including sums brought forward) is £1.194 million, therefore total expenditure budgeted for 2012/13 is £5.520 million. The equivalent budgeted figures in 2011/12 were: £4.293m (Revenue), £1.311m (Capital), and £5.604m (Total).
- 3.02 The significant majority of the Partnership's revenue expenditure is committed to funding socially necessary local bus services. The Root and Branch Review of these services undertaken during 2011/12, and implemented for 2012/13, enabled service levels to the public to be substantially maintained within existing budgets, and in the face of inflationary pressures, through removing surplus capacity.

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

- 4.01 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 the Partnership's assets.
- 4.02 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 only evaluate, and 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***

- 4.03 The Partnership utilises the key financial systems in place at Dumfries and Galloway Council in particular general ledger, accounts payable and accounts receivable. Therefore our systems audit work has been undertaken as part of our 2011/12 audit of Dumfries and Galloway Council. The results of our work on systems of internal control were communicated to the Council's Audit and Risk Management Committee in our Interim Management Letter dated May 2012. The report contained eleven recommendations to improve controls, two of which were graded as higher risk relating to IT Change Control and User Access. Management has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion.

### ***Statement of Internal Financial Control***

- 4.04 The financial statements, in accordance with the 2011/12 Code, include a statement on the system of internal financial control which has been signed by the Partnership's Treasurer. This statement sets out the financial control arrangements in place for the year, including internal audit reviews that were undertaken, and the risk management process utilised, including key risks faced by the Partnership. This statement is in line with the requirements set out in the 2011/12 Code.



## 5. ISA 260 Communications to those charged with governance

5.01 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 Partnership:

Communication Required under ISA 260	Reference/Comment
Engagement Letters	✓ Signed Letter of Appointment from Audit Scotland at the start of our 5 year appointment and updated annually.
Independence	✓ We confirm that there were 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 the Partnership and its business. This was documented in our External Audit Plan dated March 2012.
Materiality	✓ Our calculation for materiality is based on total expenditure in year and our approach is in line with Auditing Standards. This was documented in our External Audit Plan dated March 2012.
Form and Timing of Communications	✓ Agreed as per Audit Scotland’s planning guidance, and agreed with Partnership officers. This was documented in our External Audit Plan dated March 2012.
Accounting Policies/Estimates/Disclosures	✓ Significant matters are included within Section 2 of this report.
Correspondence with management on significant matters	✓ Discussed and resolved matters arising with management throughout audit process.
Letter of Representation	✓ Signed by the Treasurer on 25 September 2012 .
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	✓ No matters to report have come to our attention as part of our normal audit work.
Material Weaknesses in Internal Controls	✓ As the Partnership uses the accounting systems of Dumfries and Galloway Council the internal controls findings from our ‘Interim Management Letter 2011/12’ will apply as well as those identified in Appendix 1 to this report.

## Appendix 1 – Action Plan

Paragraph Reference	Recommendation	Response
1	<p>2.04</p> <p><b>Audit Process</b></p> <p>The Partnership should ensure that arrangements are in place so that supporting schedules for audit purposes are sufficiently detailed. A debrief meeting should be held between management and auditors to discuss better ways of working going forward.</p>	<p><b>Management Response:</b></p> <p>A meeting has been arranged with PwC to discuss the audit process for 2012/13.</p> <p><b>Responsible Officer:</b> Treasurer</p> <p><b>Implementation Date:</b> November 2013</p>
2	<p>2.07</p> <p><b>Manual Journals Approval</b></p> <p>The Partnership should utilise the functionality of the new financial management system to ensure manual journals are approved in line with the scheme of delegation.</p>	<p><b>Management Response:</b></p> <p>Online authorisation of journals is not currently being used on Integra, however greater scrutiny of journals is being carried out.</p> <p><b>Responsible Officer:</b> Treasurer</p> <p><b>Implementation Date:</b> November 2013</p>
3	<p>2.08</p> <p><b>Accruals</b></p> <p>The Partnership should ensure that processes are in place to accurately account for expenditure in the correct accounting period.</p>	<p><b>Management Response:</b></p> <p>Steps will be put in place to ensure that the local bus invoices are split between financial years at the end of 2012/13</p> <p><b>Responsible Officer:</b> Treasurer</p> <p><b>Implementation Date:</b> April 2013</p>

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