www.pwc.co.uk

South West of Scotland Transport Partnership

Annual Report to Members and the Controller of Audit for the year ended 31 March 2013

September 2013

Final

pwc

Contents

Executive summary **1**

1. Financial Statements and Audit Opinion **2**

2. Use of Resources **4**

3. Governance **5**

Appendices **6**

Appendix 1 – ISA 260 Communications to those charged with governance 7

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In May 2011 Audit Scotland issued a revised Code of Audit Practice. The Code's purpose is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of the Code. Reports and letters prepared by appointed auditors and addressed to Members and the Controller of Audit are prepared for the sole use of the audited body or the Controller of Audit and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party not expressly stated.

PwC
141 Bothwell Street
Glasgow
G2 7EQ

Members and the Controller of Audit
South West of Scotland Transport Partnership
Dumfries and Galloway Council
Council Headquarters
Council Offices
English Street
Dumfries
DG1 2DD

24 September 2013

Dear Members and the Controller of Audit

We are pleased to enclose our Report to the Members and the Controller of Audit in respect of our external audit for the year ended 31 March 2013. The primary purpose of this report is to communicate significant findings arising from our audit that we believe are relevant to those charged with governance.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Audit and Risk Management Committee on 8 January 2013. We have subsequently updated our audit plan and have made one change which we wish to bring to members attention.

As required by auditing standards, there is a presumption that there is a risk of material misstatement due to fraud in revenue recognition and as a result we have recognised the risk of fraud in revenue recognition as an additional significant risk for the 2012/13 audit. This audit risk has been included in all of our public sector external audit plans for 2012/13 and is not specific to the South West of Scotland Transport Partnership.

We have completed our audit work and will issue an **unqualified** audit opinion on the financial statements. We would like to take this opportunity to thank management and staff for their assistance and help during the audit process.

Yours faithfully

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Executive summary

Our overall responsibility as 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 Audit Scotland Code of Audit Practice ("the Code"), revised and published in May 2011. We have a dual reporting responsibility for the audit: to the Members of the Council and to the Controller of Audit.

Under the Auditing Practices Board's International Standard on Auditing (UK and Ireland) "ISA (UK&I) 260 - Communication of audit matters with those charged with governance" we are required to report to those charged with governance on the significant findings from our audit before giving our audit opinion on the Partnership's accounts.

This Annual Audit Report to Members and the Controller of Audit, together with previous reports in the year to the Audit and Risk Management Committee and Full Council, discharges the requirements of ISA (UK&I) 260. It contains the significant matters we wish to report to you arising from all aspects of our audit work.

Financial Statements - Section 1

We are pleased to report that our opinion on the financial statements for the year ended 31 March 2013 is **unqualified**.

We proposed a number of adjustments during the audit relating to financial and disclosure matters in the 2012/13 financial statements. These have been processed by management in the final version of the financial statements and as such there are no unadjusted misstatements.

Use of Resources - Section 2

The Partnership is not allowed to retain any General Fund balances at the year-end so it cannot show a surplus. If a deficit was reported then the Partnership can requisition the shortfall from Dumfries and Galloway Council. Therefore income and expenditure will always net to zero, excluding accounting entry requirements, and the budget has been set to take account of this requirement.

The Partnership budgeted for, and achieved, a breakeven position in 2012/13 with total gross expenditure before capital grants and contributions of £4.895 million, matched by Government grants and other income.

Governance - Section 3

The Code of Audit Practice requires us to review and report on the Partnership's Statement on the System of Internal Financial Control. The Partnership has outlined the processes it employed to identify and evaluate risks. In addition, key elements of the Partnership's control framework have been highlighted. Based on our normal audit procedures, **we do not disagree** with the disclosures contained in the Statement.

Acknowledgement

We would like to formally extend our thanks to the Partnership's managers and staff for the assistance they have given us during the audit process.

1. Financial Statements and Audit Opinion

Audit Opinion

We have completed the audit of the Partnership's accounts in line with current International Standards on Auditing (UK and Ireland) ("ISAs") and have given an **unqualified** opinion that the financial statements of the Partnership for 2012/13 give a true and fair view of the financial position and expenditure and income of the Partnership for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

Audit Approach

1.01 Our audit approach was set out in our Annual Audit Plan as presented to the Audit and Risk Management Committee on 8 January 2013. We have subsequently updated our audit plan and have made one change which we wish to bring to members attention.

1.02 As required by auditing standards, there is a presumption that there is a risk of material misstatement due to fraud in revenue recognition and as a result we have recognised the risk of fraud in revenue recognition as an additional significant risk for the 2012/13 audit.

Audit Process

1.03 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The working papers provided were of a high standard and reflected the deliverables listing we issued to management in advance of the audit. Overall we believe an efficient audit process was achieved and an effective working relationship has been developed between us and your officers. This is a significant improvement on last year and our thanks are offered to the Finance team.

Basis of Preparation

1.04 The financial statements were prepared in accordance with the accounting requirements contained in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Service Reporting Code of Practice 2012/13, supported by International Financial Reporting Standards (IFRS).

Misstatements and significant audit adjustments

1.05 We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature. In the context of the Partnership we consider that amounts of a value less than 2.5% of materiality (£2,500) to be trivial.

1.06 Financial and disclosure adjustments have been raised and discussed during the course of our audit and have been processed by management in the final version of the 2012/13 financial statements. There are no unadjusted misstatements.

Areas of Audit Focus and Significant Accounting Issues Identified

1.07 Our response to areas of audit focus per our audit plan and other significant accounting issues identified is detailed below:

Area of Focus	Response
Risk of Fraud in Revenue Recognition As required by auditing standards, there is a rebuttable presumption that there is a risk of material misstatement due to fraud relating to revenue recognition.	As the majority of revenue within public sector bodies comes from government grants and assistance, this may not necessarily be a significant risk for the Partnership; however our work has been planned to ensure the auditing standard requirements have been addressed. We performed audit testing on a sample of transactions across the service level and other income and confirmed, with reference to supporting documentation, that it was recorded at the correct value and in the correct period. We have also performed substantive testing over government funding. In addition, we identified higher audit risk manual journals posted to revenue accounts and identified the rationale for these transactions. Our work did not identify any errors that required adjustment to the financial statements.
Risk of Fraud in Expenditure Recognition As the Partnership has financial targets to meet, the risk of fraud in expenditure recognition has also been considered as part of the audit process.	We performed substantive testing on a sample of transactions from each material category of expenditure to confirm, with reference to supporting documentation, that it was recorded at the correct value and in the correct period. This also included audit testing over the year-end payables and accruals balances. We identified higher audit risk manual journals posted to expenditure accounts and identified the rationale for these transactions. Our work did not identify any errors that required adjustment to the financial statements.
Management override of controls In any organisation, management may be in a position to override the financial controls. A control breach of this nature may result in a material misstatement of your financial position. For all of our audits, ISAs require us to consider this as a significant risk and adapt our audit procedures accordingly.	Manual journals are a key way in which the financial statements of an organisation can be misstated. To test this we utilised computer assisted audit techniques (CAATs) to review the entire population of journals to identify those which would be regarded as unusual or higher risk. These journals were then tested to ensure they were authorised and appropriate. There were no misstatements identified as a result of the work on journals. However; we were unable to perform complete testing to verify that the persons processing journals were appropriate due to limitations in the current reporting functionality of the Integra system, which meant that the listing of journals provided did not contain an automatic name stamp showing who posted each journal. As the Partnership utilises the key financial systems in place at Dumfries and Galloway Council this control point has been raised in the Council's Annual Report.

2. Use of Resources

2012/13 Financial Performance

2.01 The Partnership's performance for 2012/13 is summarised in the table below.

Provision of Services and General Fund	2012/13 actual £000	2011/12 actual £000
Cost of Services	(4,895)	(5,496)
Income from Services	4,737	5,384
Income from grants and other contributions	335	615
Surplus on the provision of services	**177**	**503**
Adjustments relating to depreciation of non-current assets	158	112
Adjustments relating to capital grants and contributions	(335)	(615)
Closing useable reserves balance	**0**	**0**

2.02 The Partnership has achieved a breakeven position for the 2012/13 financial year. The main expenditure pressure in the year was in relation to the subsidies in respect of the local bus network, which totalled £4.0 million.

2.03 The Partnership is not allowed to retain any General Fund balances so it cannot show a surplus. If a deficit was reported then the Partnership can requisition the shortfall from Dumfries and Galloway Council. Therefore income and expenditure will always net to zero, excluding accounting entry requirements, and the budget is set to take account of this requirement.

2.04 Of the total income received, £0.335 million was provided from a General Capital Grant by Dumfries and Galloway Council. The Partnership awarded capital grants to Dumfries and Galloway Council to support public transport infrastructure works.

Revenue budget 2013/14

2.05 As detailed in the Revenue Budget paper presented to the Partnership's Board in March 2013, the revenue budget for 2013/14 is £4.405 million, and the Capital Budget (including sums brought forward) is £1.213 million. Therefore total expenditure budgeted for 2013/14 is £5.618 million (2012/13: £5.520 million).

2.06 The significant majority of the Partnership's revenue expenditure is committed to funding socially necessary local bus services. The Scottish Government has offered £0.260 million revenue funding for 2013/14, the same level as applied in 2011/12 and 2012/13. Funding of £0.1 million is also provided in kind by Dumfries and Galloway Council in the form of staff costs and central support charges. The remaining funding is from Dumfries and Galloway Council and other contributors to the value of £4.045 million to procure bus contracts.

3. Governance

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 the Partnership's 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 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.

Accounting Systems and Systems of Internal Control

3.03 It is the responsibility of the Partnership to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice.

3.04 The Partnership utilises the key financial systems in place at Dumfries and Galloway Council in particular the general ledger, accounts payable and accounts receivable. Therefore our systems audit work has been undertaken as part of our 2012/13 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 March 2013 and our Annual Report dated September 2013.

Statement on the System of Internal Financial Control

3.05 The financial statements, in accordance with the 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. Based on our normal audit procedures, we **do not disagree** with the disclosures contained in the Statement.

Follow up of outstanding recommendations

3.06 Good progress has been made by the Partnership on the actions raised in our 2011/12 Annual Report and we are pleased to report that all three agreed actions have been fully implemented.

Appendices

Appendix 1 – ISA 260 Communications to those charged with governance

Communication Required under ISA 260	Reference/Comment
Engagement Letters	• Signed Engagement Letter with Audit Scotland at the start of our 5 year appointment and updated annually.
Independence	• We confirm that, in our professional judgement, as at the date of this document, we are independent auditors with respect to the Partnership and its related entities, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.
Audit Approach and Scope	• This was set out within the Annual Audit Plan (reported to Audit and Risk Management Committee in January 2013). There were no significant changes to the audit approach set out within our audit plan, except for our change to audit risk ratings (see covering letter to this Report).
Materiality	• Contained in our Annual Audit Plan (reported to Audit and Risk Management Committee in January 2013) and updated as noted in this Report.
Form and Timing of Communications	• Annual Audit Plan (reported to Audit and Risk Management Committee in January 2013). • Annual Report to Members and Controller of the Audit (reported to SWestrans Board in September 2013).
Accounting Policies/Estimates/Disclosures	• Significant matters are included within this Report. • No other significant estimates have been used in the preparation of the financial statements.
Correspondence with management on significant matters	• Discussed and resolved matters arising with management throughout the audit process.
Letter of Representation	• Signed by the Treasurer on 24 September 2013.
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	• Discussed fraud arrangements with the Audit and Risk Management Committee and management throughout audit process.
Material Weaknesses in Internal Controls	• As the Partnership uses the accounting systems of Dumfries and Galloway Partnership the internal controls findings from our 'Interim Management Letter 2012/13' will apply as well as those identified in the Annual Report.

In the event that, pursuant to a request which the South West of Scotland 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. The South West of Scotland Partnership agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the South West of Scotland Partnership shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the South West of Scotland 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.