

South West of Scotland Transport Partnership

Report to those charged with governance

Annual Report to Members and the Controller of Audit for the year
ended 31 March 2014

Government and
Public Sector

September 2014

Contents

Code of Audit Practice

In May 2011 Audit Scotland issued a revised version of the 'Code of Audit Practice'. The purpose of the statement 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 this Code. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

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An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

Executive summary

Background

This report tells you about the significant findings from our audit. We presented our audit plan to you in February 2014; we have reviewed the plan and concluded that it remains appropriate.

Audit Summary

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the Statement of Accounts on 23 September 2014.

The key outstanding matters, where our work has commenced but is not yet finalised, are:

- Completion procedures including subsequent events review; and
- Approval of the Statement of Accounts and letters of representation.

Financial Statements

We expect to issue an unqualified audit opinion on the financial statements for the year ended 31 March 2014.

We proposed a number of adjustments during the audit relating to disclosure matters in the 2013/14 financial statements. These have been processed by management in the final version of the financial statements. There are no unadjusted misstatements to report.

Management responsibility

It is the responsibility of the Partnership and the Responsible Financial Officer to prepare the financial statements in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003. This means:

- selecting suitable accounting policies and applying them consistently;
- making reasonable and prudent judgements and estimates;
- maintaining proper accounting records; and

Executive Summary

- preparing financial statements timeously which give a true and fair view of the financial position of the Partnership and its expenditure and income for the year ended 31 March 2014 and which comply with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14 (the Code)

Auditors' responsibilities

Our responsibilities in accordance with the Code of Audit Practice are to provide you with an audit report stating whether, in our opinion the financial statements:

- give a true and fair view of the financial position of the Partnership and its expenditure and income for the year;
- were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
- the information which comprises the annual report included with the financial statements is consistent with the financial statements.

We are also required to review and report as necessary on other information published with the financial statements, including the explanatory forward and the statement on the system of internal financial control.

Other Matters

Please note that this report will be sent to Audit Scotland in accordance with the requirements of its standing guidance.



Audit approach

Our approach to the audit of the financial statements was set out in our Audit Plan which we presented to you in February 2014. Our audit approach is risk based, informed by a good understanding of the operations of the Partnership and an assessment of the risks associated with the financial statements

During the course of the audit we have found no issues which have necessitated a change in our audit strategy.

For all significant audit areas, we used a variety of audit techniques, including technology enabled audit techniques to drive quality and insight. We reviewed the accounting systems and management controls operated by the Partnership only to the extent we consider necessary for the effective performance of our audit. However, where we have uncovered any significant deficiencies we have reported these to you within our recommendations for improvement.

We have summarised below the significant risks relevant to the audit of SWestrans, the audit approach we took to address them and an update on the outcome of our testing.

Risk	Risk Level as per Audit Plan	Audit approach	Outcome	Conclusion
Management override of controls	Significant	<p>ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit.</p> <p>In any organisation, management may be in a position to override the financial controls that are in place. The current economic conditions may also increase fraud risk.</p> <p>In response to this risk we have:</p> <ul style="list-style-type: none"> • Applied Computer Assisted Audit Techniques (CAATs) and statistical sampling to undertake substantive testing of journals. This has provided the audit team with assurance over the level of manual and automated journals; • Incorporated elements of unpredictability in our selection of audit procedures. Such tests have included performing audit procedures related to accounts, disclosures and assertions that would not otherwise be tested based on their value or our risk assessment and selecting items for testing that have lower amounts or are otherwise outside customary selection parameters; • Reviewed accounting estimates for bias and evaluated whether circumstances producing any bias represent a risk of material misstatement due to fraud; and • Evaluated the business rationale underlying significant transactions. 	In respect of work performed in response to the risk of management override of controls, from the work that has been undertaken we have not identified any risks that need to be brought to your attention.	 Satisfactory
Fraud in income and expenditure recognition	Significant	<p>Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition. There is a risk that the Partnership could adopt accounting policies or treat income transactions in such a way as to lead to material misstatement in the reported revenue position.</p> <p>We have extended this presumption to the recognition of expenditure within Local Government organisations. There is a risk that the Partnership could adopt accounting policies or treat expenditure transactions in such a way as to lead to a material misstatement in the reported expenditure position. In particular, management may face pressure to deliver within a reduced budget or conversely may face pressure to utilise full budget allocations by year end, resulting in a material misstatement of year end expenditure.</p>	In respect of work performed in response to the risk of fraud in income and expenditure recognition, from the work that has been undertaken we have not identified any risks that need to be brought to your attention.	 Satisfactory

		<p>In response to this risk we have:</p> <ul style="list-style-type: none"> • Understood and evaluated controls relating to this risk; • Tested a sample of income journals recognized in 2013/14 to ensure income was appropriately included within the accounts; • Tested a sample of expenditure journals recognised in 2013/14 to ensure expenditure was appropriately included within the accounts; • Examined and tested the underlying information supporting the income and expenditure recognition policies to ensure that they comply with current accounting standards; • Performed detailed testing of income and expenditure transactions and ensured that they are accounted for on an accurate basis and in the proper period; • Performed controls testing over payroll processing and standing data; and • Reviewed accounting estimates for income and expenditure, for example, accruals and provisions, to ensure that they are accounted for on an accurate basis and in the proper period. 		
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Significant audit and accounting matters

Auditing Standards require us to tell you about relevant matters relating to the audit of the financial statements sufficiently promptly to enable you to take appropriate action and this report is part of that continuing communication with those charged with governance.

We are pleased to advise that there is no significant audit or accounting matters within the Partnership to report.

Subject to the finalisation of the Financial Statements and their approval we expect to issue an unqualified audit opinion.

Misstatements and significant audit adjustments

We are required to tell you about all uncorrected misstatements we found during the audit, other than those which are clearly trivial.

We are pleased to advise that no corrections were required to be made to the financial statements and that there are no uncorrected misstatements to report.

Management representations

The final draft of the representation letter that we ask management to sign is attached in Appendix 1.

Governance and Internal Control

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.

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

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.

The Partnership utilises the key financial systems in place at Dumfries and Galloway Council, in particular the general ledger, accounts payable and accounts receivable systems. Therefore our systems audit work has been undertaken as part of our 2013/14 audit of Dumfries and Galloway Council. During the course of our work at Dumfries and Galloway Council we noted no control deficiencies in respect of the Council's financial systems which are also applicable to the Partnership.

Statement of Internal Financial Control

The financial statements, in accordance with the 2013/14 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 risk management arrangements, including the key risks faced by the Partnership. This statement is in line with the requirements set out in the 2013/14 Code.

Financial Performance

The Partnership's General Fund financial performance for 2013/14 is summarised in the table below:

	2013/14 £000	2012/13 £000
Cost of Services	(5,064)	(4,895)
Income from services	4,866	4,737
Income from grants and other contributions	250	335
Surplus on the provision of services	52	177
Adjustments relating to depreciation of non-current assets	198	158
Adjustments relating to capital grants and contributions	(250)	(335)
Closing usable reserve balance	0	0

The Partnership has achieved a breakeven position for the financial year. Expenditure incurred amounted to £5.1m with the main source expense being payments made by the Partnership to bus contractors amounting to £4.2m. Income received totalled £5.1m with the main sources of income being Scottish Government Grants and requisitions from Dumfries and Galloway Council and other external parties.

The Partnership cannot retain any General Fund balances at the year end and therefore the Partnership's Comprehensive Income and Expenditure Statement cannot show a surplus, excluding accounting entry requirements. As noted above the Partnership achieved such a position as at 31 March 2014 and the 2013/14 budget was also set to reflect this requirement.

The Partnership agreed a capital allocation of £0.8m for 2013/14 in October 2012. Overall slippage of £0.2m was noted when comparing budget with final outturn at year end. This was largely due to rail station improvements expected at Lockerbie Station which did not proceed beyond purchase of land. The Board has agreed that this underspend of £0.2m will be carried forward into 2014/15.

Budget 2014/15

As detailed in the Revenue Budget presented to the Partnership's Board in May 2014 and approved by the Board, the revenue budget for 2014/15 is £4.6m and the Capital Budget (including sums brought forward) is £0.9m.

The significant majority of the Partnership's revenue expenditure is committed to funding local bus services. The Scottish Government has provided £0.3m revenue funding for 2014/15, the same level applied since 2011/12. Funding of £0.1 million is also provided in kind by Dumfries and Galloway Council to fund staff costs and central support charges. In addition Dumfries and Galloway Council also will also contribute £3.6m to procure bus contracts with a further £0.7m provided by other third parties.

The majority of the capital budget will be used for the purchase of buses, bus infrastructure costs and rail station improvements.

Financial standing

Based on our audit work performed, we have no concerns over the financial standing of the Partnership.

Risk of fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised in Appendix 3.

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.

Prevention and detection of fraud and corruption

Based on audit work performed we consider controls in place to prevent and detect fraud or corruption to be suitable for the operations of the Partnership.

Appendix 1: Letter of representation

PricewaterhouseCoopers LLP
141 Bothwell Street
Glasgow
G2 7EQ

Dear Sirs

Representation letter – audit of South West of Scotland Transport Partnership’s (the Partnership) Statement of Accounts for the year ended 31 March 2014

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Partnership give a true and fair view of the affairs of the Partnership as at 31 March 2014 and of its surplus and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the Service Reporting Code of Practice 2013/14.

I acknowledge my responsibilities as Treasurer for preparing the Statement of Accounts as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the Partnership and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the Partnership with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

Statement of Accounts

- I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the Service Reporting Code of Practice 2013/14; in particular the Statement of Accounts gives a true and fair view in accordance therewith.

- All transactions have been recorded in the accounting records and are reflected in the Statement of Accounts.
- Significant assumptions used by the Partnership in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 requires adjustment or disclosure have been adjusted or disclosed.
- The Statement of Accounts disclose all matters of which we are aware that are relevant to the Partnership's ability to continue as a going concern, including all significant conditions and events, mitigating factors and the Partnership's plans. The Partnership also has the intent and ability to take actions necessary to continue as a going concern.

Information Provided

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the Partnership's auditors, are aware of that information.
- I have provided you with:
 - access to all information of which I am aware that is relevant to the preparation of the Statement of Accounts such as records, documentation and other matters, including minutes of the Partnership and its committees, and relevant management meetings;
 - additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to persons within the Partnership from whom you determined it necessary to obtain audit evidence.
- So far as I am aware, there is no relevant audit information of which you are unaware.

Accounting policies

I confirm that I have reviewed the Partnership's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the Partnership's particular circumstances.

Fraud and non-compliance with laws and regulations

I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud. I have disclosed to you:

- the results of our assessment of the risk that the Statement of Accounts may be materially misstated as a result of fraud.
- all information in relation to fraud or suspected fraud that we are aware of and that affects the Partnership and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the Statement of Accounts.
- all information in relation to allegations of fraud, or suspected fraud, affecting the Partnership's Statement of Accounts communicated by employees, former employees, analysts, regulators or others.
- all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing Statement of Accounts.

Management, employees and former employees referred to above is a reference to Dumfries and Galloway Council who provide all staff support, supplies and other support services to the Partnership.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Partnership conducts its business and which are central to the Partnership's ability to conduct its business or that could have a material effect on the Statement of Accounts.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the Statement of Accounts.

Related party transactions

I confirm that we have disclosed to you the identity of the Partnership's related parties and all the related party relationships and transactions of which we are aware.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Employee Benefits

I confirm that the Partnership does not employ its own staff. Dumfries and Galloway Council charged the Partnership £0.2m in respect of staff support, supplies and other support services during 2013/14.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the Partnership have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Taxation

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken the Partnership's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the Partnership or any associated company for whose taxation liabilities the Partnership may be responsible.

Provisions

Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the statement of accounts and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the Partnership's business. In this respect I am

satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.

Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the statement of accounts.

Assets and liabilities

- The Partnership has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the Statement of Accounts.
- In my opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.
- The Partnership has satisfactory title to all assets and there are no liens or encumbrances on the Partnership's assets, except for those that are disclosed in the Statement of Accounts.
- I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.
- Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the year-end have been properly valued and that valuation incorporated into the statement of accounts. When appropriate, open positions in off-balance sheet financial instruments have also been properly disclosed in the Statement of Accounts.

Leases


I confirm that we have applied the guidance in IFRIC 4, '*Determining whether an Arrangement contains a Lease*', to identify all arrangements that are leases, or contain leases, which should, therefore, be accounted for as such. Such 'arrangements' may comprise a transaction or series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments.

Bank accounts

I confirm that there are no bank accounts held in the Partnership's name.

Subsequent events

There have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the statement of accounts or in the notes thereto.



For and on behalf of South West of Scotland Transport Partnership

.....
Treasurer

Date

Appendix 2: Audit independence

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) “Communication with those charged with governance”, UK Ethical Standard 1 (Revised) “Integrity, objectivity and independence” and UK Ethical Standard 5 (Revised) “Non-audit services provided to audited entities” issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers’ firms and associated entities (“PwC”) and the Partnership that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

For the purposes of this letter we have made enquiries of all PricewaterhouseCoopers’ teams whose work we intend to use when forming our opinion on the truth and fairness of the Statement of Accounts.

Relationships and Investments

We have not identified any potential issues in respect of personal relationships with the Partnership or investments in the Partnership held by individuals.

Employment of PricewaterhouseCoopers staff by the Partnership

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Partnership as a director or in a senior management position covering financial, accounting or control related areas.

Business relationships

We have not identified any business relationships between PwC and the Partnership.

Services provided to the Partnership

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm’s internal policies. The audit is also subject to internal PwC quality control procedures such as peer reviews by other offices.

Fees

The fee for our audit of the Partnership for the year ended 31 March 2014 is £11,328. Please note that no non-audit services were provided by PwC during 2013/14.

Services to Directors and Senior Management

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.

Gifts and hospitality

We have not identified any significant gifts or hospitality provided to, or received from, a member of Partnership's Treasurer, senior management or staff.

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We would ask the Audit and Risk Management Committee to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

Appendix 3: Risk of Fraud

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Audit Committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

Conditions under which fraud may occur

Management or other employees have an incentive or are under pressure

Incentive / pressure

Why commit fraud?

Opportunity	Rationalisation/attitude
Circumstances exist that provide opportunity – ineffective or absent control, or management ability to override controls	Culture or environment enables management to rationalize committing fraud – attitude or values of those involved, or pressure that enables them to rationalize committing a dishonest act



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 document has been prepared only for South West of Scotland Transport Partnership and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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