

South West of Scotland Transport Partnership

Financial year ended 31 March 2021

Audit Report to Members of the South West of Scotland
Transport Partnership and the Controller of Audit

Final External Audit Report – 30 November 2021



Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our external audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the South West of Scotland Transport Partnership or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2016). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Key messages

This is our final report to South West of Scotland Transport Partnership ('SWestrans') and the Controller of Audit and concludes our audit on the financial year ended 31 March 2021. We have issued an unmodified audit opinion on the annual report and accounts. We thank Officers for all their assistance during the audit process.

03 Other audit matters

Our final report summarises a number of other audit matters, including:

- We have concluded that the South West of Scotland Transport Partnership ('SWestrans') meets the definition of a going concern, reflecting on FRC Practice Note 10 considerations.
- We set out our roles and responsibilities on fraud. During the course of our work we did not identify fraud and/or material error.

There was one unadjusted misstatement in relation to the allocation of creditors and funding from Dumfries and Galloway Council. There were a number of disclosure adjustments. These are detailed in Appendix 1 and not considered material to the accounts.

01 Materiality

We re-calculated our materiality based on the unaudited annual report and accounts. The benchmark of 2% of operating expenditure remained the same. This resulted in:

- Materiality of £90,020 and a performance materiality (75% of materiality) of £67,515.
- All audit adjustments above £4,500 were reported to management and captured in this report.

04 Wider Scope Audit

In accordance with the Code we determined that SWestrans meet the definition of a smaller body. This is based on SWestrans' income and expenditure transactions and balances held being relatively smaller than other public bodies and the financial statements are considered less complex.

In accordance with the Code we have concluded in this report on your governance statement and SWestrans' financial sustainability arrangements. During our audit we did not identify any further areas of wider scope risk.

02 Financial statement audit risks

At planning, in accordance with the ISAs (UK) and FRC Practice Note 10 we have identified the following significant financial statement audit risks:

- Management override of controls (ISA UK 240)
- Risk of fraud in expenditure recognition around the year end (FRC PN10)

We have no matters to bring to your attention arising from our work over these significant audit risks.

05 Our Audit Fee

Our audit fee, set out in our audit plan, of £10,240 was our final audit fee. There were no non-audit services (fees) during the year and we did not need to vary our agreed fee.

Introduction

Scope of our audit work

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2021 at SWestrans. The scope of our audit was set out in our External Audit Plan communicated to SWestrans in April 2021.

The main elements of our audit work in 2020/21 have been:

- An audit of SWestrans' annual report and accounts for the financial year ended 31 March 2021; and
- Consideration financial sustainability and the Governance Statement, as required under the smaller body classification, within the Audit Scotland Code of Practice (2016).

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Code.

This report is addressed to the Accountable Officer and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Responsibilities

SWestrans is responsible for preparing an annual report and accounts which show a true and fair view and prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

The audit of the financial statements does not relieve Officers or SWestrans of your responsibilities. It is the responsibility of the Partnership to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We will consider how SWestrans is fulfilling these responsibilities.

The recommendations or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Adding value through our audit work

We aim to add value to SWestrans throughout our audit work. In delivering our audit we use a dedicated public sector audit team. This ensures our team have a comprehensive understanding of SWestrans and the wider public sector to focus on key areas of risk relevant to your financial statements.

As a result of the social distancing and travel restrictions implemented in response to the Covid-19 pandemic our audit work was delivered remotely. We continue to share recommended practices with management, where relevant, and contribute to wider discussions at SWestrans during the year.

Audit of the annual report and accounts

Key messages and judgements

We have issued an **unmodified** audit opinion on the annual report and accounts.

There were no adjustments to the primary financial statements. There was one unadjusted misstatement to the draft financial statements in relation to the allocation of funding from Dumfries and Galloway Council. We raised a number of minor disclosure adjustments. We do not consider these to be material. Further details are provided in [Appendix 1](#).

We would like to thank Officers for all their assistance during the year.

Our audit opinion

For the financial year ended 31 March 2021 we have issued an **unmodified opinion** on the annual report and accounts. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the 2020/21 Code)
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 Code
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.
- the information given in the Management Commentary, Annual Governance Statement and the Governance Compliance Statement for the financial year is consistent with the financial statements and have been prepared with statutory guidance issued under the Local Government in Scotland Act 2003; and, Delivering Good Governance in Local Government: Framework (2016).

The audit process

As a result of the social distancing measures introduced in response to Covid-19 our audit work has been undertaken remotely with audits taking longer to complete throughout the year. Consequently, we agreed with Officers to undertake our detailed fieldwork throughout September and October to finalise for SWestrans in November 2021. We received a good set of draft financial statements from Officers. There were no audit adjustments to the primary financial statements. There was one unadjusted misstatement to the draft financial statements in relation to the allocation of funding from Dumfries and Galloway Council. We identified a number of disclosure adjustments in respect of the draft financial statements. A full listing of disclosure misstatements is detailed in [Appendix 1](#). We do not consider these to be material to the financial statements.

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. We updated our audit materiality to reflect the 2020/21 draft financial statements. It is set at £90,020 representing 2% of net operating expenditure. Performance materiality was set at £69,120, representing 75% of our calculated materiality. We report to management any difference identified over £4,500 (Being 5% of materiality).

Responding to significant financial statement risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

Management override of controls

As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override SWestrans' controls for specific transactions.

We consider those key judgements that are most susceptible to significant audit risk of management override are those over the valuation of investments. These are areas where management has the potential to influence the financial statements through estimate and judgement. This includes manual journals as well as critical judgements or estimates.

Commentary

- We considered the design of controls in place over key accounting estimates and judgements through performance of walkthrough procedures.
- We reviewed accounting estimates for management bias / indication of fraud that could result in material misstatement. This included review of estimates as at 31 March 2021.

Journals testing including:

- Assessment of the design of controls in place over journal entries, including journal preparation, authorisation and processing onto the financial ledger;
- Risk assessment of the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We tested these journals to ensure they are appropriate and suitably recorded in the financial ledger;
- Target testing of transactions around the financial year end, reviewing large journals and those which appear unusual to understand the rationale for the transaction.

Conclusion Through our audit procedures performed we found that there was no evidence of management override in our testing of transactions tested. We did not identify indication of fraud or inappropriate management bias in accounting estimates that could result in a material misstatement.

Risks identified in our Audit Plan

Risk of fraud in expenditure recognition (cut-off)

Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As payroll expenditure is well forecast and agreeable to underlying payroll systems, there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on material non-pay expenditure streams. We consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of these expenditure streams and the completeness of expenditure.

Our testing includes a specific focus on year end cut-off arrangements, where it may be advantageous for management to show an enhanced/different financial position in the context of reporting in-year to Scottish Government and the need to achieve the financial targets set.

Commentary

- We performed walkthroughs of the controls and procedures over non-pay expenditure streams;
- Substantive testing of expenditure throughout the year to confirm its occurrence and accuracy of recording with a heightened risk around the year-end where we consider greatest incentive / opportunity for material misstatement;
- Focused substantive testing of non-pay expenditure recognised post year end to identify if there is any potential understatement to address the risk of cut-off; and
- Review of accruals and payables, where material, around the year end to consider if there is any indication of understatement or overstatement of balances held through consideration of accounting estimates.

Conclusion Through our audit procedures performed we did not identify any exceptions in our year end cut-off testing of expenditure. We did not identify any exceptions in the completeness and accuracy of accruals or payables balances at year end.

We did not identify any further areas of significant risk through the course of our audit work.

Significant estimates and judgements

SWestrans' annual report and accounts contain limited areas of estimation and judgement. The only area of estimation in the accounts relates to depreciation. Depreciation is charged over the expected useful economic life of the assets and our audit testing did not identify any indication of management bias or error in the calculation of depreciation. We are satisfied this does not represent an area of significant estimation or judgement.

Internal control environment

In accordance with ISA requirements we have developed an understanding of the control environment in place within SWestrans. We did this through a walkthrough of key controls within SWestrans including expenditure, income, and journals. Dumfries and Galloway Council provide administration services, including key financial processing on behalf of SWestrans, and our walkthroughs considered the controls in place at the Council. We have separately raised recommendations to the Council in relation to enhancing controls around journals approval processes. These should enhance the control environment around journals processing. However, from our testing over SWestrans journals we have not identified any inappropriate or unauthorised journals and we identified no material weaknesses from this work which would have caused us to alter the planned approach as documented in our plan. We identified

Detecting Irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to SWestrans and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the CIPFA Code of Practice on Local Authority Accounting 2020/21 (the 2020/21 Code).
- We enquired of Officers and the SWestrans' Board, concerning SWestrans' policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of Officers (Management) and SWestrans, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of SWestrans' financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries that altered SWestrans' financial performance for the year and potential management bias in determining accounting estimates. Our audit procedures involved are documented within our response to the significant risk of management override of controls on Page 6.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in expenditure recognition and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - SWestrans' operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - SWestrans' control environment, including the policies and procedures implemented to ensure compliance with the requirements of the financial reporting framework.

Other key elements of the financial statements

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of focus either in accordance with the Audit Scotland Code of Audit Practice or ISAs or through due to their complexity or importance to the user of the accounts.

Issue	Commentary
Matters in relation to fraud and irregularity	It is SWestrans' responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Accounting practices	We have evaluated the appropriateness of SWestrans' accounting policies, accounting estimates and financial statement disclosures. Disclosures and accounting policies are in line with the 2020/21 Code and we have no matters to report.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have 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 audit work.
Opinion on other aspects of the annual report and accounts	The information given in the Management Commentary is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003. We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are consistent with the financial statements and that the report is prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Issue	Commentary
Matters on which we report by exception	<p>We are required by the Auditor General for Scotland to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.</p>
Annual Governance statement	<p>The governance statement outlines the governance framework in place at SWestrans. The Annual Governance Statement is consistent with the financial statements and the report is prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016). We identified opportunities to enhance the disclosures in the Annual Governance statement, particularly around the assurances over internal control from Internal Audit and opportunities for improvement and these have been reflected in the updated disclosure (Appendix 1). There were no further matters arising from our review of the governance statement that we want to draw attention to.</p>
Written representations	<p>A letter of representation has been requested from the Executive Chief Officer, Resources and Finance, including specific representations, which is included in SWestrans' papers. Specific representations have been requested from officers in line with prior years and confirms as auditors all records have been made available to us.</p>
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by SWestrans meets this criteria, and so we have applied the continued provision of service approach. In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered Officer's assessment of the appropriateness of the going concern basis of accounting and conclude that:</p> <ul style="list-style-type: none"> • a material uncertainty related to going concern has not been identified • Officer's (Management's) use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Wider scope audit – Smaller body

As set out in our Audit Plan, SWestrans meets the definition of a smaller body in accordance with the Audit Scotland Code of Practice (2016). Therefore, as auditors we are required to include in our annual report commentary on arrangements as they relate to financial sustainability and the Annual Governance Statement. Our work on the Annual Governance Statement, and conclusions are set out on page 12 of this report. Below we have captured our commentary and conclusions on financial sustainability and other matters of interest during the year.

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant Thornton conclusion
Governance arrangements (Audit Scotland planning guidance consideration)	No significant risks identified within our audit planning.	<p>Governance</p> <p>As a result of the outbreak of Covid-19, SWestrans meeting in March and May 2020 was cancelled. However, key business, was covered through subsequent meetings. As a result of the travel restrictions and social distancing measures introduced as a result of Covid-19, the Dumfries and Galloway Council, as administering authority, have implemented remote working and governance arrangements during the year, including remote meetings of SWestrans.</p> <p>Dumfries and Galloway Council provide administration services, including financial management arrangements, on behalf of SWestrans. Officers and the Partnership Board take assurances from the Council’s Internal Audit service around the effectiveness of Internal Control environment. However, there is no formal reporting arrangement in place to provide independent assurance from Internal Audit to SWestrans. As noted in Appendix 1, we raised presentational changes to the Annual Governance statement to reflect the governance arrangements in place during the year, including the impact of Covid-19 on the organisation as well as opportunities for enhancing assurances over internal controls.</p>	<p>We did not identify any significant concerns around SWestrans’ governance arrangements. We are satisfied that the updated Governance Statement reflects the arrangements in place during the year.</p> <p>We found that there is an opportunity for enhancing assurance arrangements over the systems of internal control at SWestrans. While the Partnership Board takes assurance from the Council’s internal controls through the work of Internal Audit, there is no formal reporting or assurances from Internal Audit over the internal controls at the Partnership.</p>

Action Plan follow up – 2.

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant Thornton conclusion
Financial Sustainability, (as applicable to a smaller body)	No significant risks identified within our audit planning.	<p>For the year ended 31 March 2021, SWestrans reported total comprehensive income for the year of £22,000 (2019/20: expenditure £270,000). During the year, SWestrans delivered an overall breakeven position against budget. SWestrans' main area of expenditure is in subsidise in respect of the local bus network. During 2020/21 this expenditure totalled £4.1 million. This has been funded primarily through funding from Scottish Government Grants and Dumfries and Galloway Council.</p> <p>SWestrans recognise the financial pressures facing the organisation as it looks to subsidise transport services across the region within the financial resources available. The impact of Covid-19 is expected to have ongoing implications for service providers and one SWestrans' recognise. However, as the constituent authorities have a statutory obligation to funding the Transport Partnership's activities the Partnership Board is satisfied that it will continue to receive sufficient funding to deliver services in the region.</p> <p>The Transport (Scotland) Act 2019, provides the SWestrans with the statutory authority to generate a surplus and therefore a General Fund Balance to support future spend. However, for 2020/21 no surplus has been generated and there are no immediate plans to generate reserves. However, over the longer term, SWestrans may identify opportunities to generate reserves to support strategic investment in the region. In March 2021, SWestrans approved a three year capital programme from 2021-2024 covering the strategic capital investment over the coming years. However, the revenue budget continues to be set for a single year, reflecting the annual funding settlement from constituent authorities and the Scottish Government. SWestrans' should look to develop medium to longer term financial plans to support the organisation take a strategic approach to addressing the financial pressures facing the organisation. <i>Action plan follow up - 3</i></p>	<p>Through our audit procedures we have not identified any significant risks in relation to SWestrans' financial sustainability.</p> <p>For 2020/21 SWestrans' have delivered a breakeven position, operating within resources available. Over the longer term SWestrans continue to be funded through constituent authority funding and while recognising financial pressures facing the organisation, have no underlying concerns around sustainability.</p>

Appendices

1. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. We are pleased to report that there were no corrected misstatements to the primary financial statements. We identified one unadjusted misstatement to the primary financial statements in relation to the recognition of amounts held in the Councils' loans fund as cash and cash equivalents rather than payables. This misstatement is not considered material to the financial statements.

Impact of unadjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Statement of Comprehensive Net Expenditure £'000	Statement of Financial Position £' 000
Being misstatement in relation to amounts held in the Council's Loans Fund (overdraft) and the creditors.		Dr Creditors 81 Cr Creditors – overdraft (cash and equivalent) (81)
Overall impact	-	-

Misclassification and disclosure changes

The table below provides details of substantive misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure	Auditor recommendations	Adjusted?
Annual Report	There is an opportunity to enhance the current management commentary to provide a greater focus on SWestrans' strategic objectives and progress towards the delivery of these.	✓
Statement of Cash Flows	The presentation could benefit from a note to the financial statements to support the disclosure of non-cash movements throughout the year.	No – Officers are satisfied that the Management commentary reflects the overall outturn position. Audit are satisfied this is not material to the Annual Accounts and that the actual performance reported is consistent with the financial statements.
Management Commentary	There is an opportunity to enhance the disclosure on financial performance to link between budget outturn against performance reported in the CIES.	No – Officers are satisfied that the Management commentary reflects the overall outturn position. Audit are satisfied this is not material to the Annual Accounts and that the actual performance reported is consistent with the financial statements
Accounting policies	Accounting policies do not explicitly refer to IFRS 15 and there is an opportunity to enhance the disclosures to cover the different revenue streams including capital funding.	No – Officers are satisfied that the disclosure provides sufficient understanding of SWestrans' accounting policies on income recognition. Audit are satisfied that the accounting policy is not misleading and that the policies followed by Management are in accordance with the Code.
Revaluation reserve	There is a legacy revaluation reserve balance of £25,000 of which there has been no movement for a number of years (release to General Fund / Capital adjustment account).	No – Officers are satisfied the legacy balance is immaterial to the financial statements. As part of the production of the 2021/22 accounts this reserve balance will be investigated.

Disclosure	Auditor recommendations	Adjusted?
Accounting standards issued	Updating disclosure of IFRS 16 to note that this accounting standard has been issued but not yet adopted by the Code.	✓
Key Management Personnel	SWestrans do not prepare a Remuneration Report as they do not have any direct employees and Members are not remunerated for their role on SWestrans. However, the Annual Accounts should include disclosures in accordance with the Code and IAS 24 around Key Management Personnel.	Partly – Management have updated the disclosures to reflect the role of the Lead Officer and recharge of costs (50%) of payroll costs. However, this does not include the entity’s share of employee benefit obligations including pension benefits. While we are satisfied the disclosure material to the accounts, there is an opportunity to enhance the disclosure in line with the requirements of the Code.
Annual Governance statement	<p>The Annual governance statement should be updated to disclose the impact of Covid-19 on the organisation’s governance arrangements during the year.</p> <p>The Governance Statement should be updated to confirm the overall governance arrangements in place during the year. This should include; the role of the Treasurer, risk management arrangements; and improvements identified in the systems of governance, including the role of Internal Audit.</p>	Partly – Officers have updated disclosures to enhance governance arrangements in place at SWestrans in accordance with the Delivering Good Governance in Local Government: Framework (2016). However, there is an opportunity to further develop the Governance Statement disclosures to enable the reader a clearer understanding of the systems of internal control and assurances in place during the year.
Related party	Related party note updated to include amounts held with Council’s loans fund account.	✓
Capital financing Note	The Code requires entities to disclose capital financing in year and sources of funding for this finance, Currently this is not included in the accounts.	No – Capital financing activity is limited to PPE additions funded through Capital Grants. This information is currently disclosed in the Notes to the Accounts and therefore Officers do not consider further disclosure is required. Audit are satisfied this is not material omission for the reader of the accounts.

There were minor presentational (rounding / formatting) changes recommended to Management. This included incorrect referencing of Note 13 instead of note 12 in the Notes to the accounts. These are not considered material to the accounts.

2. Follow up of 2019/20 recommendations

We are pleased to report there were no audit recommendations arising from our audit work in the current year. We set out below our follow up of our 2019/20 recommendation and this is reflected below for information.

1. Management commentary (original recommendation 2018/19)

The Management Commentary provides users of the accounts with information on the SWestrans' financial and non-financial performance during the year and its financial outlook for 2019/20. While the Commentary includes a review of 2018/19 key developments and achievements, there is an opportunity to further develop the reporting in future years to provide performance against key performance outcomes. We recommend that officers look to enhance the Management Commentary contained within the financial statements to provide quantifiable measures of performance against key priorities.

Initial management response: We will continue to review and enhance the commentary where appropriate that will look to add value to the document

Follow up: **Closed:** Officers have reviewed the Management commentary for 2020/21 to provide the reader of the accounts commentary on financial and non financial performance during the year. This has included impact of Covid-19 on the organisation. While Officers' recognise this is an area that can continue to be refined and enhanced the commentary provides a balanced overview of performance in the year.

2. Internal Audit(original recommendation 2018/19)

The Internal Audit section of Dumfries & Galloway Council has reviewed these systems and has determined that reasonable assurance can be placed upon the adequacy and effectiveness of the systems. While we recognise that the assurance provided by the Council's Internal Audit services provides some assurance to SWestrans around design and operating effectiveness of key financial processes, there is limited assurance over key strategic risks to the organisation. We recommend that SWestrans explore options, including utilising Internal Audit to obtain independent assurance over key areas of strategic risk. Areas could include financial and operational planning and governance arrangements. During 2019/20 while some assurance to SWestrans around design and operating effectiveness of key financial processes, there is limited assurance over key strategic risks to the organisation. There is an opportunity for SWestrans to obtain independent internal audit assurance over governance, risk management and internal controls relevant to SWestrans.

Initial management response: Options to obtain independent assurance continue to be explored

Follow up: **Outstanding**

While the Transport Partnership take some assurance from the controls in operation at Dumfries and Galloway Council, there is no formal independent internal audit assurance over governance, risk management and internal controls.

Responsible Officer: Lead Officer

Implementation Date: 2021/22 financial year end

3. Strategic Financial Planning (original recommendation 2018/19)

Due to annual funding settlement as well as restrictions on the organisation's ability to hold reserves, SWestrans financial plans are primarily based on an annual basis. Given the financial pressures facing the organisation it is important that medium to longer term financial plans are in place to ensure that SWestrans has a sustainable operating model in place to support service delivery. With the draft Transport Bill, there is potentially opportunity for SWestrans to retain reserves in the future providing an opportunity for more strategic financial planning and investment decisions.

The provisions within the act would enable SWestrans to building reserves in futures years. This would enable SWestrans to work with its strategic partner to look to generate reserves that would provide greater financial autonomy in future years to make strategic investments in year funded through reserves. SWestrans' has an approved budget for 2019/20. While there is a longer term view for capital investment (3 year plan), SWestrans' should look to develop medium to longer term financial plans to support the organisation take a strategic approach to addressing the financial pressures facing the organisation

Initial management response: We will review the introduction of a draft financial plan linked to the Council's 3 year plan.

Follow up: **Outstanding:**

In March 2021, SWestrans approved a three year capital programme from 2021-2024 covering the strategic capital investment over the coming years. However, the revenue budget continues to be set for a single year, reflecting the annual funding settlement from constituent authorities and the Scottish Government. SWestrans' should look to develop medium to longer term financial plans to support the organisation take a strategic approach to addressing the financial pressures facing the organisation

Responsible Officer: Lead Officer

Implementation Date: 2021/22

3. Audit fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	8,900
Pooled Costs	850
Contribution to Audit Scotland costs	-
Contribution to Performance Audit and Best Value	490
2020/21 Fee	10,240

Fees for other services

Service	Fees £
We confirm that for 2020/21 we did not receive any fees for non-audit services	Nil

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.
- We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.
- We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.
- We can confirm no independence concerns have been identified.

Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact John Boyd (john.p.boyd@uk.gt.com), Audit Director, in the first instance or Joanne Brown, Head of Public Sector Assurance Scotland who oversees our portfolio of Audit Scotland work (joanne.e.brown@uk.gt.com). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to Elaine Boyd, Assistant Director, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \[grantthornton.co.uk\]](https://www.grantthornton.co.uk/transparency-report-2020)

4. Communication of audit matters

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table below.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of SWestrans' accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•



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