

South West of Scotland Transport Partnership

2022/23 Annual Audit Report



 AUDIT SCOTLAND

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

October 2023

Contents

Key messages	3
Introduction	4
Part 1. Audit of 2022/23 annual accounts	6
Part 2. Wider Scope	11
Appendix 1. Action plan 2022/23	14
Appendix 2. Summary of uncorrected misstatements	16

Key messages

2022/23 annual accounts

- 1 Audit opinions on the annual accounts are unmodified. The financial statements show a true and fair view and were prepared in accordance with the financial reporting framework.

Wider scope

- 2 The South West of Scotland Transport Partnership (SWestrans) demonstrates good financial management and operated within its revised budget for 2022/23.
- 3 SWestrans has no medium or long-term financial plan and needs to develop a strategic approach to planning.
- 4 SWestrans has appropriate arrangements in place to secure Best Value.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of the South West of Scotland Transport Partnership (SWestrans). The scope of the audit was set out in an Annual Audit Plan presented to the 30 June 2023 Board meeting. This Annual Audit Report comprises:

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

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

Audit appointment from 2022/23

3. I, Peter Lindsay, have been appointed by the Accounts Commission as auditor of SWestrans for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice](#) (the Code) which was introduced for financial years commencing on or after 1 April 2022.

4. My team and I would like to thank board members and other staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

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

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

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

8. This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

Auditor Independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £11,850 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. We add value to SWestrans by:

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

Part 1. Audit of 2022/23 annual accounts

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

Main judgements

Audit opinions on the annual accounts are unmodified. The financial statements show a true and fair view and were prepared in accordance with the financial reporting framework.

Audit opinions on the annual accounts are unmodified

11. The Board approved the annual accounts for SWestrans for the year ended 31 March 2023 on 27 October 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

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

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

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

13. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#) overleaf.

Exhibit 1

Materiality values

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

Source: Audit Scotland

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

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

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

Significant findings and key audit matters

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

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

19. The significant findings and key audit matters are summarised in [Exhibit 2](#) overleaf.

Exhibit 2

Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
<p>1. Depreciation of vehicles</p> <p>During our audit testing of non-current assets, we identified that three vehicles acquired during the year were added to the Fixed Asset Management (FAM) system later than they were available for use, resulting in an undercharge to depreciation of £0.020 million.</p> <p>In addition, testing of the eight vehicles that were “relifed” at 31 March 2023 identified that depreciation was incorrectly charged based on the year-end net book value (NBV), resulting in an overcharge to depreciation of £0.006 million.</p>	<p>The late additions were due to a delay in finance staff receiving information from the fleet department as well as the limitations of the FAM system itself, which does not allow back posting into a closed accounting period.</p> <p>Depreciation on relifed assets was calculated by the system due to depreciation being run after the assets were revalued. The order in which year-end capital accounting procedures are carried out will be considered in the preparation of the 2023/24 accounts.</p> <p>The net impact of correcting these misstatements would be to increase expenditure and reduce net assets by £0.014 million and is set out in Appendix 2.</p> <p>Management has chosen not to revise the annual accounts for these misstatements. We are satisfied that the value of the misstatements is below our performance materiality.</p> <p>We have made a recommendation in relation to implementing a suitable process to address this issue in future.</p> <p>Recommendation 1 (Refer Appendix 1, action plan)</p>

Source: Audit Scotland

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

20. We have obtained audit assurances over the identified significant risks of material misstatement to the annual accounts. [Exhibit 3](#) overleaf sets out the significant risks of material misstatement to the annual accounts we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Identified significant risks of material misstatement in the annual accounts

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

Source: Audit Scotland

There were two non-material misstatements identified within the financial statements

21. We identified two non-material misstatements within the financial statements (refer [Exhibit 2](#)) which were not corrected by management in the audited accounts. We considered the size, nature and circumstances leading to the uncorrected misstatements, individually and in aggregate, and concluded that

these were not material. Further details of the uncorrected misstatements are included in [Appendix 2](#).

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

22. The unaudited annual accounts were received in line with our agreed audit timetable on 30 June 2023. We thank officers for their cooperation, assistance and for meeting the deadline.

Prior year recommendations

23. There were no recommendations made by the previous external auditor (Grant Thornton) that required our follow up.

Part 2. Wider Scope

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

Conclusion

SWestrans demonstrates good financial management and operated within its revised budget for 2022/23.

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

SWestrans has appropriate arrangements in place to secure Best Value.

SWestrans demonstrates good financial management and operated within its revised budget for 2022/23

24. SWestrans reported a breakeven position after receiving additional funding of £0.067 million from Dumfries and Galloway Council to support payments under the fuel cost sharing agreement to bus service operators entered into due to the inflationary increase of fuel during 2022/23.

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

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

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

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

Recommendation 2

SWestrans and the Council should explore funding arrangements that would facilitate the medium-term financial planning of SWestrans expenditure on supported bus services.

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

28. During 2022/23, SWestrans faced significant challenges in relation to the sustainable delivery of supported bus services in Dumfries and Galloway. SWestrans supports a total of 57 socially necessary bus services in the area, which are delivered through contracts awarded to local bus operators. Of these services, 55 were awarded 1-year contracts commencing August 2022 with the option to extend for an additional year. Since the contracts were awarded, increased operational costs, low passenger numbers, and a shortage of drivers has caused delivery challenges and highlighted the increasing financial sustainability challenges in the current local bus network provision. It was agreed by the SWestrans Board at the 27 January 2023 meeting that these contracts will end in August 2023, with work commencing on procurement of replacement contracts within a prioritisation framework.

29. SWestrans and its partners, Scottish Borders Council (SBC) and Strathclyde Partnership for Transport (SPT) also faced significant challenges replacing a contract for the 101/102 Dumfries to Edinburgh bus service, which provides a crucial link for communities in Dumfries and Galloway, South Lanarkshire, Scottish Borders, and Midlothian to Edinburgh. Tender bids received by SWestrans for a like-for-like replacement service returned an 86 per cent price increase above the previous price of £272,417 per annum, which was deemed unaffordable by all partners. However, in order to retain service on this route a short-term contract was awarded at this price for a period of 20 weeks plus a possible additional 13 weeks.

30. SPT agreed to be the lead partner in seeking to procure an affordable replacement on a 5-year basis from March 2023. A replacement contract which offers similar levels of service was awarded on a 3-year term at a cost of £385,000 per annum.

31. The SWestrans board were advised in June 2022 of the withdrawal of the commercial bus service 502 Castle Douglas to Dumfries. As no other commercial bus operators wished to take on the service, SWestrans issued a procurement for this service which required SWestrans to request a budget enhancement of £97,000 (prorated to £63,500 for the remainder of 2022/23) from Dumfries and Galloway Council to support the provision of this service.

Effective governance arrangements are in place

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

33. The Annual Governance Statement contained within the 2022/23 Annual Accounts was evaluated and found to be prepared in line with the Local Authority Accounts (Scotland) Regulations 2014 and the CIPFA/SOLACE framework 'Delivering Good Governance in Local Government'.

SWestrans has appropriate arrangements in place for securing Best Value

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

Climate change arrangements

35. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75 per cent reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

36. SWestrans current Climate Change Strategy was approved by the Board in March 2013 and does not set out quantified targets for reducing its greenhouse gas emissions. The SWestrans Regional Transport Strategy (RTS) 2023-2042 has been developed and submitted to the Scottish Government for approval. The RTS has been developed in line with the Sustainable Transport Hierarchy set out by the National Transport Strategy (NTS) 2 with five out of six of its objectives in line with the NTS "Takes Climate Action" priority.

37. As a subsidiary of Dumfries and Galloway Council which utilises Council staff and infrastructure, the only measurable emission source under SWestrans direct control is the total passenger km procured to deliver the supported bus services. SWestrans monitors and reports on this measure to the Scottish Government under the requirements of the Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Order 2015. In 2021/22, this total decreased to 5,008,848 km from 5,057,266 km in 2020/21.

38. The Climate Change Duties – Reporting 2021/22 paper that was considered at the 25 November 2022 board meeting advises that SWestrans will set climate targets and establish a clear delivery plan of how emissions will be reduced and ultimately reach net zero by 2045 in line with Scottish Government targets as part of the new RTS. As targets have not been included in the RTS, it is recommended that SWestrans include targets and plans for achieving these in the delivery plan that is to be developed to support the RTS.

Recommendation 3

SWestrans should ensure that clear climate targets for reducing emissions and reaching net zero by 2045 are developed as part of the RTS delivery plan.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Depreciation</p> <p>Our audit testing of accounting entries for vehicles identified that, due to delays in receiving information from another department and features of the FAM system, depreciation entries for the year were not accurately calculated.</p> <p>There is a risk that the value of vehicles disclosed in the accounts is misstated.</p>	<p>SWestrans should ensure that internal processes are in place for the timely receipt of information from the Fleet Department, and that year-end processes take account of the features of the FAM system.</p> <p>Exhibit 2</p>	<p>Fleet will ensure information is passed to the Finance Team for timely input into FAM. Adjustments for any vehicles needing revalued/re-lifed will be undertaken after depreciation is calculated.</p> <p>Transport and Operations Manager/Finance Officer Capital</p> <p>March 2024</p>
<p>2. Financial planning</p> <p>SWestrans' ability to plan in the medium to long-term is restricted by the annual funding settlement arrangements in place with Dumfries and Galloway Council.</p> <p>There is a risk that SWestrans is not able to effectively plan for and manage risks related to financial sustainability.</p>	<p>SWestrans and the Council should explore funding arrangements that would facilitate the medium-term financial planning of SWestrans expenditure on supported bus services.</p> <p>Paragraph 26.</p>	<p>It is recognised that medium term financial planning would significantly improve financial sustainability in relation to supported bus services and officers will work closely with the Council's Senior Leadership Team to develop medium to long term budget plans, however, this may take some time to fully implement due to the annual funding settlement in place with Dumfries and Galloway Council.</p> <p>Lead Officer/Dumfries and Galloway Senior Leadership Team</p> <p>March 2025</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>3. Climate change targets</p> <p>SWestrans has a duty to set and report on targets for reducing emissions targets as part of Scotland's move to net zero by 2045. The objectives and priorities of the RTS 2023-2042 align with national priorities to take action on climate change.</p>	<p>SWestrans should ensure that clear climate targets for reducing emissions and reaching net zero by 2045 are developed as part of the RTS delivery plan.</p> <p>Paragraph 38.</p>	<p>Appropriate emission targets will be set through the RTS delivery plan to ensure we meet our duties in respect of reaching net zero by 2045.</p> <p>Lead Officer</p> <p>March 2024</p>

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £5,000.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 1](#). We are satisfied that these errors do not have a material impact on the financial statements.

Narrative	Account areas	Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
Accounting Misstatements					
1. Depreciation – under charge on additions	Depreciation – Charge for year				20
	Expenditure	20			
2. Depreciation – over charge on revaluations	Depreciation – Charge for year			6	
	Expenditure		6		
Overall impact		20	6	6	20

South West of Scotland Transport Partnership

2022/23 Annual Audit Report

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk