



Scott-Moncrieff  
business advisers and accountants

# Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee

External Audit Plan  
2017/18

January 2018

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# Introduction

# Introduction

1. This document summarises the work plan for our 2017/18 external audit of Strathclyde Partnership for Transport ("SPT") and Strathclyde Concessionary Travel Scheme Joint Committee ("SCTS").
2. The core elements of our work include:
  - an audit of the 2017/18 financial statements of both SPT and SCTS and related matters;
  - a review of SPT's arrangements for governance and transparency, financial management, financial sustainability and value for money; and
  - any other work requested by Audit Scotland.

## Audit appointment

3. The Accounts Commission is an independent body appointed by Scottish Ministers responsible for securing the audit of local authorities and other local government bodies. The Commission's work is governed mainly by the Local Government (Scotland) Act 1973.
4. Audit Scotland is an independent statutory body that provides the Accounts Commission with the services required to carry out their statutory functions, including monitoring the performance of auditors through a quality control process.
5. The Accounts Commission has appointed Scott-Moncrieff as external auditor of SPT and SCTS for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2017/18 and summarises:
  - the responsibilities of Scott-Moncrieff as the external auditor;
  - our audit strategy;
  - our planned audit work and how we will approach it;
  - our proposed audit outputs and timetable; and
  - background to Scott-Moncrieff and the audit team.

## Adding value through the audit

6. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to SPT and SCTS through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help SPT and SCTS promote improved standards of governance, better management and decision making and more effective use of resources.
7. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: [www.surveymonkey.co.uk/r/S2SPZBX](http://www.surveymonkey.co.uk/r/S2SPZBX)
8. While this plan is addressed to SPT and SCTS, it will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

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# Respective responsibilities of the auditor, SPT and SCTS

# Respective responsibilities of the auditor, SPT and SCTS

## Auditor responsibilities

### Code of Audit Practice

9. The Code of Audit Practice (the Code) outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.
10. A new Code of Audit Practice was published in 2016 and applies to external audits for financial years starting on or after 1 April 2016. This Code replaces the previous one issued in 2011.

### Our responsibilities

11. Auditor responsibilities are derived from statute, the Code, International Standards on Auditing (UK) (ISAs (UK)), professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities (paragraph 13). These are to:
  - undertake statutory duties, and comply with professional engagement and ethical standards
  - provide an opinion on audited bodies' financial statements
  - review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports
  - notify the Controller of Audit when circumstances indicate that a statutory report may be required
  - demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':
    - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets
    - suitability and effectiveness of corporate governance arrangements

- financial position and arrangements for securing financial sustainability
12. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements 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.

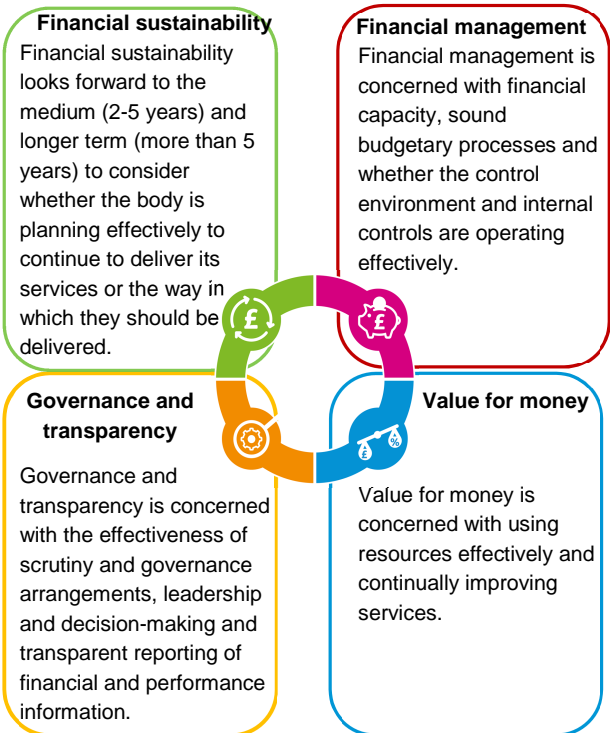
### Wider scope audit work

13. The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.
14. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.
15. Where the application of the full wider scope is judged by us not to be appropriate then our annual audit work on the wider scope is restricted to:
  - Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and
  - Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.
16. Our assessment takes into account the size, nature and risks of the organisation.
17. Taking these factors into consideration, we have concluded that application of the full wider scope is appropriate at SPT. We will apply the 'restricted' wider scope to SCTS.

### SPT and SCTS responsibilities

18. The Partnership and Joint Committee have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives. The Partnership and Joint Committee responsibilities are summarised in Exhibit 2.

### Exhibit 1: Audit dimensions of wider scope public audit



**Exhibit 2 – SPT and SCTS responsibilities**

Area	Partnership and Joint Committee responsibilities
<p><b>Financial statements:</b> Annual accounts containing financial statements and other related reports should be prepared.</p>	<p>The Partnership and Joint Committee have responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures</li> <li>• maintaining proper accounting records</li> <li>• preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements.</li> </ul>
<p><b>Financial sustainability:</b> Financial sustainability looks forward to the medium and longer term to consider whether the organisation is planning effectively to continue to fulfill its functions in an affordable and sustainable manner.</p>	<p>The Partnership and Joint Committee are responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with any statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• How the organisation plans to deal with uncertainty in the medium and long term; and</li> <li>• The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>



## Exhibit 2 – SPT and SCTS responsibilities

Area	Partnership and Joint Committee responsibilities
<p><b>Financial management:</b> Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>It is the Partnership and Joint Committee's responsibility to ensure that financial affairs are conducted in a proper manner. Management are responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.</p> <p>The Partnership and Joint Committee are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>It is the Partnership and Joint Committee's responsibility to establish arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
<p><b>Governance and transparency:</b> Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>The Partnership and Joint Committee are responsible for establishing arrangements to ensure the proper conduct of their affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p> <p>The Partnership and Joint Committee are also responsible for establishing effective and appropriate internal audit and risk management functions.</p>
<p><b>Value for money:</b> Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.</p>	<p>The Partnership and Joint Committee have a specific responsibility to ensure that arrangements have been made to secure best value. They are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p>

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# Audit strategy

# Audit strategy

## Risk-based audit approach

19. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to SPT and SCTS. This ensures that our audit focuses on the

areas of highest risk. Our audit planning is based on:



20. Planning is a continuous process and our audit plans are therefore updated during the course of our audit to take account of developments as they arise.

## Communications with those charged with governance

21. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed with SPT that these communications will be through the Audit and Standards Committee.

## Professional standards and guidance

22. We perform our audit of the annual accounts in accordance with International Standards on Auditing (UK) (ISAs (UK)), the International Standard on Quality Control 1 (UK), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

## Partnership working

23. We will coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

## Audit Scotland

24. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We will share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

25. Audit Scotland undertakes national performance audits on issues affecting the public sector. We will review SPT's arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We plan to assess the extent to which SPT uses the national performance reports as a means to help improve performance at a local level.

26. During the year we may also be required to provide information to Audit Scotland to support the national performance audits.

## Internal audit

27. We are committed to avoiding duplication of audit effort and ensuring an efficient use of SPT's total audit resource. SPT has an in-house internal audit team. We will consider the findings of the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource to SPT is used efficiently and effectively.



# Annual accounts – Strathclyde Partnership for Transport

# Annual accounts – Strathclyde Partnership for Transport

## Introduction

28. Audited bodies' annual accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of both SPT's annual accounts.

## Approach to the audit of the annual accounts

29. Our opinion on the annual accounts will be based on:

### Risk-based audit planning

30. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the annual accounts will be based.

### An audit of key systems and internal controls

31. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the annual accounts.
32. The systems we review and the nature of the work we perform will be based on the initial risk assessment. We will examine and test compliance with best practice and SPT's own policies and procedures.
33. We will take cognisance of any relevant internal audit reviews of systems and controls.
34. We will update the risk assessment following our evaluation of systems and controls and this will ensure that we continue to focus attention on the areas of highest risk.

### A final audit of the annual accounts

35. During our final audit we will test and review the material amounts and disclosures in the annual accounts. The extent of testing will be based on our risk assessment.
36. Our final audit will seek to provide reasonable assurance that the annual accounts are free from material misstatement and comply with the

Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code).

### Independent auditor's report

37. Our opinion on whether the financial statements give a true and fair view of the financial position and the income and expenditure will be set out in our independent auditor's report which will be included in the annual accounts.

### Materiality

38. Materiality is an expression of the relative significance of a matter in the context of the annual accounts as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We will review our assessment of materiality throughout our audit.
39. Our initial assessment of materiality for SPT' annual accounts is £1.2million. Our assessment of materiality equates to approximately 1.5% of SPT's 2016/17 gross expenditure. Our assessment of materiality is set with reference to gross expenditure. We consider this to be the principal consideration for the users of the accounts when assessing the performance of SPT. We will review and update our assessment of materiality following receipt of the unaudited annual accounts.
40. We set a performance (testing) materiality for each area of work which is based on a risk assessment for the area. We will perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be of significant risk of material misstatement.

Area risk assessment	Weighting	Performance materiality
High	45%	£540,000
Medium	55%	£660,000
Low	70%	£840,000

## Key audit risks in the annual accounts

42. Auditing standards require that we inform the Audit and Standards Committee of our assessment of the risk of material misstatement in the annual accounts. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the Audit and Standards Committee if our assessment changes significantly during the audit.

41. We will report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements;
  - Uncorrected misstatements with a value in excess of 2% of the overall materiality figure; and
  - Other misstatements below the 2% threshold that we believe warrant reporting on qualitative grounds.

### Exhibit 3: Key audit risks in the annual accounts

#### 1. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

43. In response to this risk we will review SPT's accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business are valid and accounted for correctly.

#### 2. Revenue recognition

Under ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that SPT could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement the reported financial position.


44. Our work on income will include an evaluation of each type of revenue transaction and review the controls in place over revenue accounting. We will consider SPT's key revenue transactions and streams and carry out testing to confirm that SPT's revenue recognition policy is appropriate and has been applied consistently throughout the year.

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## Exhibit 3: Key audit risks in the annual accounts

### 3. Risk of fraud in the recognition of expenditure


In 2016, the Public Audit Forum issued Practice Note 10 “The Audit of Public Sector Financial Statements” which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

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45. In response to this risk we will evaluate the significant expenditure streams (excluding payroll which is not deemed to be a significant risk area) and review the controls in place over accounting for expenditure. We will consider SPT’s key areas of expenditure and obtain evidence that the expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.

### 4. Property, plant and equipment


SPT has a significant capital investment programme. The Capital Programme 2017/18 (March 2017) planned for capital expenditure of £82.806 million (Category 1 programmes).

There is a risk of material misstatement to the financial statements relating to the recognition of capital expenditure, impairments, subsequent expenditure and disposals.

- 
46. Our audit work will review delivery of the 2017/18 capital budget against outturn. We will also review management’s impairments and agree the valuation of assets to the independent valuer’s report. We will also undertake testing on additions, disposals and depreciation and review SPT’s accounting policies to ensure compliance with these.

### 5. Pension liability assumptions

An actuarial estimate of the pension fund liability is calculated on an annual basis under IAS 19 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate.

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47. We will review the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate. We will review the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. We will agree the disclosures in the financial statements to information provided by the actuary.



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**Wider scope audit  
– Strathclyde  
Partnership for  
Transport**

# Wider scope audit – Strathclyde Partnership for Transport

## Introduction


48. As described in section 2, the Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. As part of our annual audit we consider and report against these four dimensions; financial sustainability, financial management, governance and transparency and value for money.
49. Our planned audit work against the four dimensions is risk based and proportionate. Our initial assessment builds upon our understanding of SPT’s priorities and risks which we developed in 2016/17, discussions with management and review of SPT minutes and key strategy documents. In 2017/18 we have also considered the following risk areas as they relate to SPT:
- EU withdrawal
  - New financial powers
  - Ending of public sector pay cap
  - Response to cyber security risks
  - Openness and transparency.
50. At this stage of our audit planning, we have identified one significant risk to the wider scope of our audit in relation to financial sustainability (Exhibit 4).

### Exhibit 4 – Significant risk: financial sustainability

#### 1. Financial sustainability

Each year, the Partnership is presented with a rolling two-year revenue budget. In addition, management consider differing budget scenarios for a further four year period.

SPT also prepares a three year rolling capital programme and budget which seeks to balance the transport project delivery aspirations and the funding available to it.

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51. During our audit we will consider whether SPT has adequate arrangements in place for managing its financial position and its use of resources. Our conclusion will be based on a review of SPT’s financial performance, underlying financial position, financial plans, financial reporting and achievement of savings targets.

52. We have not, at this stage, identified any significant risks in relation to the other dimensions. Audit planning however is a continuous process and we will report any identified significant risks, as they relate to the four dimensions, in our annual audit report. The table below summarises our audit work in respect of each dimension.



## Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the organisation's planning processes support the future delivery of services.

Consideration	Our audit approach
<p><b>As noted in Exhibit 4:</b></p> <p>Each year, the Partnership is presented with a rolling two-year revenue budget. In addition, management consider differing budget scenarios for a further four year period.</p> <p>SPT also prepares a three year rolling capital programme and budget which seeks to balance the transport project delivery aspirations and the funding available to it.</p> <p>The subway modernisation comprises a significant proportion of the capital plan (approximately £61.646million). Ministers previously committed to fund up to £246million of the total project cost with SPT directly contributing the remaining £42million. The Partnership have been advised that the profile for funding the subway modernisation project has been agreed covering the period to 2020/21.</p>	<p>During our 2017/18 audit we will consider SPT's financial standing. This will involve a review of the arrangements in place for short, medium and long term financial planning, budgetary control and financial reporting. It is important that such arrangements are adequate in order to properly control SPT's operations and use of resources</p>



## Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Consideration	Our audit approach
<p>In February 2017 the Partnership approved a net revenue budget for 2017/18 of £37.670million; funded by local authority requisitions of £36.633million and a contribution of £1.037million from the Scottish Government. This represented an overall reduction of 2% in support from the constituent local authorities in comparison with 2016/17. As part of approving the 2017/18 budget, the Partnership also agreed to an increase in fares, fees and charges.</p> <p>For 2017/18 the capital budget is £82.806million. SPT sets a capital plan which is greater than the funding</p>	<p>During our 2017/18 audit we will review, conclude and report on the following:</p> <ul style="list-style-type: none"> <li>• Whether SPT has arrangements in place to ensure systems of internal control are operating effectively;</li> <li>• Whether SPT can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely performance;</li> <li>• How SPT has assured itself that its financial</li> </ul>

Consideration	Our audit approach
<p>available to ensure that the plan delivery is maximised within the funding available and project delivery movements. As a consequence, for 2017/18, there is a projected short fall of £2.549million. SPT expect movement in the project delivery from the previous financial year which will impact on the 2017/18 capital budget.</p> <p>Financial position against revenue and capital budgets is formally reported to the Strategy &amp; Programmes Committee on a regular basis. In November 2017, SPT reported an underspend of £2.536million, which Committee agreed to contribute to the Subway Fund.</p> <p>For the same period, SPT's capital spend totaled £19.739million, compare to a planned spend position of £20.071million. Amendments have been made to the capital programme representing a net expenditure reduction of £10.653million.</p>	<p>capacity and skills are appropriate;</p> <ul style="list-style-type: none"> <li>• Whether SPT has established appropriate and effective arrangements for the prevention and detection of fraud and corruption; and</li> <li>• SPT's participation and progress in the National Fraud Initiative.</li> </ul>



## Governance and transparency

**Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.**

Consideration	Our audit approach
<p>The Partnership consists of twenty elected members representing the twelve constituent local authorities in the West of Scotland and between seven and nine appointed members.</p> <p>Following the local government elections in May 2017, there has been 13 changes in elected members. The newly appointed Chair and two Vice Chairs were previously on the Partnership (albeit in different roles).</p> <p>An induction programme has been developed for new members to ensure they understand their role and the roles of the committees.</p> <p>Partnership and Joint Committee meetings are open to the public and all papers are published on the website.</p>	<p>We will review the effectiveness of the SPT's governance framework and the extent to which the Partnership and committee roles, membership and terms of reference comply with current guidance: <i>Delivering good governance in local government framework (2016)</i>.</p> <p>We will consider whether the information provided to the Partnership and committees is sufficient for members to assess the impact of decisions on resources and performance.</p> <p>Our work will include consideration of how risk management has been addressed within SPT. We will also consider SPT's internal audit arrangements to determine their role in examining the control systems established by management.</p>



## Value for money

Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.

Consideration	Our audit approach
<p>SPT has developed a performance management framework. Financial performance information is monitored via revenue and capital monitoring reports presented to the Strategy and Programmes Committee. Operational performance relating to transport services is reported to the Operational Committee. Minutes of both these committees are reported to meetings of the Partnership.</p> <p>'A Catalyst for Change' the statutory Regional Transport Strategy (RTS) for the west of Scotland 2008-21 was approved by Scottish Ministers in 2008. A RTS Delivery Plan links the RTS to SPT's business planning processes through the strategic priorities and sets out the services, projects and initiatives that will enable the delivery of the RTS. The existing RTS Delivery Plan covers the three year period 2014-2017.</p> <p>Key indicators have been developed for each RTS outcome. Each year, SPT produces a Transport Outcomes Reports which demonstrates how its activities contribute to single outcome agreements and provide a summary of what it is doing in each council area. Trend information is also available on SPT's website.</p> <p>In 2016, the Partnership approved a review of the RTS. The current RTS Delivery Plan has a lifespan to the end of the financial year 2016/17. To allow the current RTS review to be completed, the development of a new RTS, and subsequently a new Delivery Plan, the existing Delivery Plan has been extended to the end of 2017/18.</p>	<p>We will work with SPT to identify and review evidence which demonstrates the achievement of value for money in the use of its resources.</p> <p>We will seek evidence from SPT that outcomes are improving and there is sufficient focus on improvement and the pace of it.</p> <p>Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. We will work with Audit Scotland during the year to understand the outputs from this work and identify any particular reports that SPT may have a direct interest in.</p>

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**Annual accounts  
– Strathclyde  
Concessionary  
Travel Scheme  
Joint Committee**

# Annual accounts – Strathclyde Concessionary Travel Scheme Joint Committee

## Annual accounts

### Approach to the audit of annual accounts

53. Our opinion on the annual accounts will be based on:

### Risk-based audit planning

54. We focus our work on the areas of highest risk in all aspects of our work, including our audit of the financial statements. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the financial statements will be based.

55. During our audit we will test and review the material amounts and disclosures in the financial statements. The extent of testing will be based on the risk assessment.

### Materiality

56. Our initial assessment of materiality for SCTS' annual accounts is £80,000. Our assessment of materiality equates to approximately 1.8% of SCTS' 2016/17 gross expenditure. Our assessment of materiality is set with reference to gross expenditure. We consider this to be the principal consideration for the users of the accounts when assessing the performance of SCTS. We will review and update our assessment of materiality following receipt of the unaudited annual accounts.

57. We set a performance (testing) materiality for each area of work which is based on a risk assessment for the area. We will perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be of significant risk of material misstatement.

58. We will report any misstatements identified through our audit that fall into one of the following categories:

- All material corrected misstatements;

Area risk assessment	Weighting	Performance materiality
High	45%	£36,000
Medium	55%	£44,000
Low	70%	£56,000

- Uncorrected misstatements with a value in excess of 2% of the overall materiality figure; and
- Other misstatements below the 2% threshold that we believe warrant reporting on qualitative grounds.

### Key audit risks in the annual accounts

59. Auditing standards require that we inform the Audit and Standards Committee of our assessment of the risk of material misstatement in the financial statements. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the Audit and Standards Committee if our assessment changes significantly during the audit.

## Exhibit 5: Key audit risks in the annual accounts

### 1. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

- 60.** In response to this risk we will review SCTS' accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business are valid and accounted for correctly.

### 2. Revenue recognition

Under ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that SCTS could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement the reported financial position.

- 61.** SCTS is funded by contributions received from the local authorities within the area served by the Scheme and from a draw on reserves. The funding is set as part of the budget process. These income streams are agreed in advance of the year and any changes require approval. At this stage of our audit cycle, we do not believe the risk of fraud in revenue recognition is material to the financial statements and have therefore rebutted this risk. We will however continue to review this position throughout the audit.

### 3. Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 "The Audit of Public Sector Financial Statements" which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

- 62.** In response to this risk we will evaluate the significant expenditure streams and review the controls in place over accounting for expenditure. We will consider key areas of expenditure and obtain evidence that the expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.

## Wider scope

- 63.** The Code of Audit Practice (the Code) recognises that planned audit work should be risk based and proportionate to the nature and size of an audited body. The Code recognises that it is not likely to be appropriate or proportionate to apply the full wider scope audit to some small audited bodies.
- 64.** We consider the audit of the SCTS should be carried out under the small body provisions of the Code. We have reached this conclusion through our assessment of:
- The relative size of SCTS;
  - The relative simplicity of SCTS' functions; and




- SCTS' risk profile, as informed through discussions with management.
- 65.** Application of the small body provisions of the Code results in a targeted and tailored wider scope audit for SCTS. Our work in 2017/18 will comprise of an assessment of:
- appropriateness of the disclosures in the governance statement; and
  - financial sustainability of the body and the services that it delivers over the medium to longer term.
- 66.** Audit planning is a continuous process and our application of the small body provision will be
- subject to ongoing review to ensure it remains appropriate. Should we identify any particular issue or risk during our audit that we consider requires additional work, or the full wider scope to be applied, we will update our audit plan.
- 67.** At this stage of our audit planning process, we have identified one significant risk to the wider scope of our audit. Audit planning is a continuous process and we will report any identified significant risks, as they relate to the wider scope, in our annual audit report. The tables below summarises our wider scope audit work.

## Exhibit 6 – Key audit risks in the wider scope audit

### 1. Financial sustainability

In 2017, the Joint Committee approved its 2017/18 budget (along with an indicative budget for 2018/19). A budget of £4.173million was approved for 2017/18, to be funded fully by local authority requisitions. This represented a reduction in local authority requisition in comparison with 2016/17 (2% reduction). The approved budget takes account of the on-going pressures facing local authorities to reduce their overall expenditure. The reduction in requisition is however being managed with a small increase in concessionary fares; the first increase in since 2011/12. The impact of this will be monitored by the Joint Committee throughout the year. In preparing the budgets, we note that SPT, on behalf of the Joint Committee, have prepared indicative budgets up to 2022/23.

- 
- 68.** During our 2017/18 audit we will consider the SCTS' financial standing. This will involve a review of the arrangements in place for short, medium and long term financial planning, budgetary control and financial reporting. It is important that such arrangements are adequate in order to properly control the SCTS' operations and use of resources.



# Audit outputs, timetable and fees

# Audit outputs, timetable and fees

Audit output	Format	Description	Target month
External audit plan	Report	This report sets out the scope of our audit for 2017/18.	February 2018
Interim audit report	Report	This report will summarise our interim work on accounting systems.	February 2018
Independent Auditor's Report	Report	This report will contain our opinions on the truth and fairness of the annual accounts.	September 2018
Annual Report to SPT and SCTS and the Controller of Audit	Report	At the conclusion of each year's audit we will issue an annual report setting out the nature and extent of our audit work for the year and summarising our opinions, conclusions and the significant issues arising from the work. This report will pull together all of our work under the Code of Audit Practice.	September 2018

## Audit outputs

38. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.
39. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

## Audit fee

40. Audit Scotland has completed a review of funding and fee setting arrangements and as a result revised its fee strategy. It now sets an expected fee for each audit carried out under appointment that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.
41. As auditors we negotiate a fee with the audited body during the planning process. The fee may be varied above the expected fee level to reflect

the circumstances and local risks within the body.

42. For 2017/18 we propose setting the audit fees at the expected fee level. The expected fee for SPT and SCTS for the 2017/18 audits are as follows:

2017/18	SPT	SCTS
Auditor remuneration	£47,120	£4,330
Pooled costs	£4,190	£380
Performance audit and Best Value	£14,340	£0
Audit support costs	£2,990	£270
<b>Total expected fee</b>	<b>£68,640<sup>1</sup></b>	<b>£4,980</b>

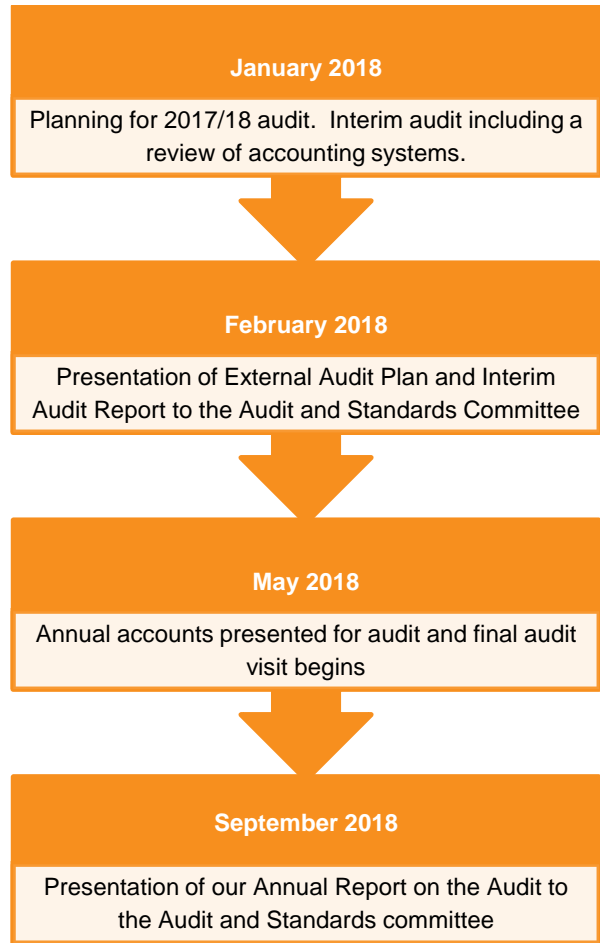
43. We will take account of the risk exposure of SPT and SCTS and the management

<sup>1</sup> The audit fee in 2016/17 was £68,330 for SPT and £4,920 for SCTS

assurances in place. We assume receipt of the draft accounts and working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

### Audit timetable

44. The dates for our interim and final audits have been discussed with the Director of Finance & HR and Chief Accountant. A summary timetable, including audit outputs, is set out below:



# 8

## Appendices

# Appendix 1: Your audit management team

Scott-Moncrieff is one of the largest independent accountancy firms in Scotland. We have 17 partners and over 200 staff operating from Edinburgh, Glasgow and Inverness. We are also part of the global Moore Stephens network.

We have been external auditors within the public sector for at least fifty years. We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE colleges. We also provide services to charities, schools, as well as private and public limited companies.

Edinburgh	Glasgow	Inverness
Exchange Place 3 Semple Street Edinburgh EH3 8BL	25 Bothwell Street Glasgow G2 6NL	Scott-Moncrieff 10 Ardross Street Inverness IV3 5NS
(0131) 473 3500	(0141) 567 4500	(01463) 701 940

## Your audit management team



**Gary Devlin**  
Partner  
[gary.devlin@scott-moncrieff.com](mailto:gary.devlin@scott-moncrieff.com)

Gary has over 20 years' experience in undertaking audit work across a wide range of public sector organisations.

Gary will have overall responsibility for the delivery of the audit.



**Karen Jones**  
Director  
[karen.jones@scott-moncrieff.com](mailto:karen.jones@scott-moncrieff.com)

Karen is one of our directors responsible for the audit of our Audit Scotland external audit appointments. Karen has over 15 years' experience in auditing the public sector. She has extensive experience in auditing local authorities.

Karen will manage the onsite audit team and work alongside Gary to deliver the audit engagement.



**Nicola MacKenzie**  
Audit Senior  
[nicola.mackenzie@scott-moncrieff.com](mailto:nicola.mackenzie@scott-moncrieff.com)

Nicola joined the firm in 2014 as a public sector audit trainee and has since achieved her CA qualification. She has experience delivering external audit services to a range of public sector bodies, including local government.

Nicola will be responsible for the delivery of the onsite work.

## Confirmation of independence

International Standard on Auditing (UK) 260  
“Communication with those charged with governance”  
requires us to communicate on a timely basis all facts  
and matters that may have a bearing on our  
independence.

We confirm that we will comply with FRC’s Revised  
Ethical Standard (June 2016). In our professional  
judgement, the audit process is independent and our  
objectivity has not been compromised in any way. In  
particular there are and have been no relationships  
between Scott-Moncrieff and the Partnership, its  
Partnership members and senior management that  
may reasonably be thought to bear on our objectivity  
and independence.

# Appendix 2: Statement of understanding

## Introduction

The purpose of this statement of understanding is to clarify the terms of our appointment and the key responsibilities of SPT, SCTS and Scott-Moncrieff.

## Annual accounts

We will require the annual accounts and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant SPT staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit. We will issue a financial statements strategy which sets out roles, responsibilities and expectations in terms of audit deliverables. This document helps to ensure we can work together effectively to deliver an efficient and effective audit.

## Scope of audit

As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for SPT's responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from the Partnership during the course of the audit on matters having a material effect on the annual accounts. This will take place by means of a letter of representation, which will require to be signed by the Assistant Chief Executive (Business Support).

## Internal audit

It is the responsibility of SPT to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective internal audit function exists.

We will liaise with internal audit to ensure an efficient audit process.

## Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

## Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants of Scotland.

## Fees

We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved. The indicative financial statements strategy referred to above is a key means for us to clarify our expectations in terms of quality, quantity and extent of working papers and supporting documentation.

## Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting Gary Devlin. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants of Scotland.

We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

## Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work.

Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target



dates for implementation and details of the responsible officer.

## **Agreement of terms**

We shall be grateful if the Audit and Standards Committee would consider and note this statement of understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.



**Scott-Moncrieff**  
business advisers and accountants

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