

Tay Road Bridge Joint Board

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

Prepared for Tay Road Bridge Joint Board

February 2021

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit including the audit of Best Value.
2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.
3. Supplementary Guidance allows appointed auditors to use judgement to conclude that the full application of the wider scope is not appropriate based on the risks, nature and size of an audited body (a small audited body clause). In our judgement the small audited body clause applies to the Tay Road Bridge Joint Board (the joint board).
4. The public health crisis caused by the coronavirus disease 2019 (Covid-19) pandemic has had a significant and profound effect on every aspect of Scottish society. The well-being of the joint board's staff and the audit team and the delivery of a high-quality audit remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

Extension of audit appointment

5. Auditors appointed under statute by the Auditor General for Scotland are engaged for a five-year period. The current audit engagement was due to end after the conclusion of the 2020/21 audit. Normally at the end of each five-year period a new auditor is appointed, either Audit Scotland or a private sector accountancy firm. Covid-19 had an impact on the 2019/20 audits of public sector bodies and the vast majority of these audits were reported later than normal. Planning for and potentially reporting of 2020/21 annual audit work is also being affected. In October 2020 Audit Scotland approved the extension of current audit appointments for a year to include the 2021/22 audit year. This decision reflects the need for stability and continuity given the longer-term impact of Covid-19 on audited bodies and the difficulty of running the necessary audit procurement exercise during the pandemic.

Adding value


6. We aim to add value to the joint board through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the Tay Road Bridge Joint Board promote improved standards of governance, better management and decision making and more effective use of resources.


Audit risks

7. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risk for the joint board. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement due to fraud caused by the management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.
<p>2 Risk of material misstatement caused by fraud in expenditure</p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements. This risk may be higher during the Covid-19 pandemic where there is a risk that internal controls and governance may not be fully functioning.</p>	<ul style="list-style-type: none"> Budget monitoring by management. Governance arrangements including Standing Orders, Standing Financial Instructions and Fraud Guidelines. Internal controls in financial systems to mitigate risks of error or manipulation. 	<ul style="list-style-type: none"> Assessment of key financial controls over expenditure. Detailed testing of transactions focusing on the greater areas of risk.
<p>3 Risk of material misstatement caused by estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and pensions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> Actuarial valuation to provide pensions figures for the financial statements. Officer review of actuary information to ensure data and assumptions used are reasonable. Valuation and impairment review of non-current assets by a professional valuer. 	<ul style="list-style-type: none"> Review of the 'work of an expert' for the actuary and valuer. Focused testing of noncurrent assets and pension figures. Assessment of the appropriateness of actuarial assumptions.
Wider dimension risks		
<p>4 Capital programme</p> <p>There continues to be significant slippage in the capital programme. As at 31 October 2020 slippage of £0.7 million is anticipated in the 2020/21 capital programme of £1.4 million approved by the Board in</p>	<ul style="list-style-type: none"> Regular capital monitoring reports to Joint Board. 	<ul style="list-style-type: none"> On-going monitoring of capital budget, plans and monitoring reports and inclusion in annual audit report as appropriate.

	Audit Risk	Source of assurance	Planned audit work
	December 2019. This compares with slippage of £0.3 million carried forward from 2019/20 into 2020/21 (the 2019/20 capital programme was £1.1 million). While recognising that Covid-19 may have impacted on the joint board's ability to progress capital projects, there is a risk that projects are not completed timeously which could impact on service delivery.		

Source: Audit Scotland

8. As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted the risk of material misstatement caused by fraud in income recognition in 2020/21 because most of income received by the joint board is grant income from the Scottish Government, over which there is deemed to be a low risk of fraud.

Reporting arrangements

9. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#) and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

10. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

11. We will provide an independent auditor's report to Tay Road Bridge Joint Board and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Treasurer and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2 2020/21 Audit outputs

Audit outputs	Target date	Board meeting date
Annual Audit Plan	17 February 2021	1 March 2021
Proposed Annual Audit Report *	31 August 2021	13 September 2021
Signed Independent Auditor's Report	13 September 2021	13 September 2021

* The final Annual Audit Report cannot be submitted until after the independent auditor's report is signed

Source: Audit Scotland

Audit fee

12. The proposed audit fee for the 2020/21 audit of the joint board is £12,930 (2019/20 £12,640). In determining the audit fee we have taken account of the risk exposure of Tay Road Bridge Joint Board, the planned management assurances in

place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package by 30 June 2021.

13. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Board and Treasurer

14. Audited bodies 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.

15. The audit of the annual accounts does not relieve management or the Board, as those charged with governance, of their responsibilities.

Appointed auditor

16. Our responsibilities as independent auditors are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

17. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual accounts

18. The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Tay Road Bridge Joint Board and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the joint board will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

19. We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of affairs of the joint board as at 31 March 2021 and of the income and expenditure of the joint board for the year then ended
- 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.



characteristics



responsibilities



principal activities



risks



governance arrangements

Statutory other information in the annual accounts

20. We also review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the annual remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

21. We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

22. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

23. We calculate materiality at different levels as described below. The calculated materiality values for the joint board are set out in [Exhibit 3](#).

Exhibit 3

Materiality values

Materiality	Amount (£000)
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of net assets for the year ended 31 March 2020, based on the latest audited accounts.	663
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	497
Lower level performance materiality – A lower performance materiality has been set for classes of transactions where lesser amounts could influence the decisions of the users of the accounts (i.e. comprehensive income and expenditure statement transactions). This has been set at 2% of gross expenditure for the year 2019/20, based on the latest audited accounts.	78
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	33



Source: Audit Scotland

Timetable

24. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#). This timetable is subject to continuing Covid-19 implications on officers and the audit team which may impact on the timeframe for completing the audit.

Exhibit 4

Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual report and accounts by those charged with governance	22 June 2021
Latest submission date of unaudited annual report and accounts with complete working papers package	30 June 2021
Latest date for final clearance meeting with the Treasurer	23 August 2021
Agreement of audited unsigned annual report and accounts	30 August 2021
Issue of proposed Annual Audit Report, Letter of Representation and proposed independent auditor's report *	31 August 2021

**Key stage****Date**

Independent auditor's report signed	13 September 2021
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Latest date for signing of WGA return	To be confirmed
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* The final Annual Audit Report cannot be submitted until after the independent auditor's report is signed.

Source: Audit Scotland

25. Audit Scotland's 2020/21 audit planning guidance sets sign-off deadlines for all local government audits of the end of October 2021. However, the dates included at Exhibit 4 (and Exhibit 2) are based on being able to certify the audited 2020/21 annual accounts by 13 September 2021. If issues arise during the course of the audit that mean this is not practical (i.e. impact of Covid-19 on the production or audit of accounts), then we will communicate this to the joint board at the earliest opportunity available and agree a revised timetable for the completion of the audit.

Internal Audit

26. Internal audit is provided by MHA Henderson Loggie. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA (UK)610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

27. Overall, we have concluded that the internal audit service complies with the main requirements of PSIAS and has sound documentation standards and reporting practices in place.

Using the work of internal audit

28. International Auditing Standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

29. From our initial review of internal audit plans we do not plan to place formal reliance on internal audit work for our financial statements work, however we do plan to consider internal audit's work for the purpose of our wider dimension audit responsibilities.

Audit dimensions

30. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.

31. The Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. In the light of the volume and lack of complexity of the financial transactions, we plan to apply the small body provisions of the Code to the 2020/21 audit of the joint board.

Financial sustainability

32. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

Governance and transparency

33. 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. We will review, conclude and report on:

- whether the joint board can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Independence and objectivity

34. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

35. The engagement lead (i.e. appointed auditor) for the joint board is Bruce Crosbie, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Tay Road Bridge Joint Board.

Quality control

36. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

37. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code

of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

38. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Tay Road Bridge Joint Board

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