

South West of Scotland Transport Partnership

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for South West of Scotland Transport Partnership

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of the South West of Scotland Transport Partnership (SWestrans). The main elements of our work include:

- an audit of the annual accounts, and provision of an independent auditor's report
- an audit opinion on other statutory information published within the annual accounts including the management commentary and the governance statement.
- consideration of arrangements in relation to wider scope area of financial sustainability.
- consideration of Best Value arrangements.

Audit Appointment

2. We are pleased to be appointed as the external auditor of SWestrans for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at [appendix 1](#).

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to SWestrans 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 will help SWestrans promote improved standards of governance, better management and decision making and actively participate in discussions.

Respective responsibilities of the auditor and SWestrans

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the audited body. Key responsibilities are summarised below.

Auditor responsibilities

7. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

8. 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 SWestrans to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

SWestrans' responsibilities

9. SWestrans is responsible for maintaining accounting records and preparing annual accounts that give a true and fair view.

10. SWestrans is responsible for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives.

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

Communication of fraud or suspected fraud

12. In line with ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), in presenting this plan to the SWestrans Board we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. During our audit, should members of the Board have any such knowledge or concerns relating to the risk of fraud within it, we invite them to communicate this to us for our consideration.

Annual Accounts audit planning

Introduction

13. The annual accounts are an essential part of demonstrating the South West of Scotland Transport Partnership's (SWestrans) stewardship of resources and its performance in the use of those resources.

14. We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the annual accounts.

Materiality

15. Materiality is an expression of the relative significance of a matter in the context of the annual accounts. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2022/23 audit of SWestrans

16. The materiality levels for SWestrans are set out in [exhibit 1](#).

Exhibit 1

2022/23 materiality levels for SWestrans

Materiality	SWestrans
Planning materiality: This is the figure we calculate to assess the overall impact of audit adjustments on the annual accounts. It has been set at 2% of gross expenditure based on the latest audited annual accounts for 2021/22.	£90,000
Performance materiality: This acts as a trigger point. If the aggregate of errors identified during the annual accounts audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 65% of planning materiality.	£59,000

Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. £5,000

Source: Audit Scotland

Significant risks of material misstatement to the annual accounts

17. Our risk assessment draws on our knowledge of SWestrans, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management and internal audit, attendance at board meetings and a review of supporting information.

18. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

19. Based on our risk assessment process, we identified the following significant risk of material misstatement to the annual accounts. This risk has the greatest impact on our planned audit procedures. [Exhibit 2](#) overleaf summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2022/23 significant risk of material misstatement to the annual accounts

Significant risk of material misstatement	Sources of management assurance	Planned audit response
<p>1. Management override of controls</p> <p>As stated in ISA (UK) 240 (<i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i>), management is in a unique position to perpetrate fraud because of their ability to override controls that otherwise appear to be operating effectively.</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"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas. Evaluate significant transactions outside the normal course of business. We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.

Source: Audit Scotland

Consideration of the risks of fraud in the recognition of income and expenditure

20. As set out in ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), there is a presumed risk of fraud over the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the annual accounts. We have rebutted this risk for SWestrans because most of the funding received is through requisitions from Dumfries and Galloway Council. This income stream is deemed to represent a low fraud risk.

21. In line with Practice Note 10 (*Audit of financial statements and regularity of public sector bodies in the United Kingdom*), as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to income recognition. We have rebutted this risk for SWestrans because the nature of expenditure is predominantly on payments to bus service operators. This expenditure stream is deemed to represent a low risk of being materially misstated due to fraud.

22. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures. Our audit testing will maintain an oversight of any unusual transactions or accounting entries.

Audit of the management commentary and annual governance statement

23. In addition to the appointed auditor's opinion of the financial statements, the Accounts Commission prescribes that the appointed auditor should provide opinions as to whether the management commentary and annual governance statement have been compiled in accordance with the appropriate regulations and frameworks and are consistent with the financial statements.

24. To inform these opinions we will consider whether the disclosures within each statement comply with the requirements of the applicable guidance, and confirm that relevant information reflects the contents of the financial statements and other supporting documentation, including:

- **Management commentary:** Consideration of performance information reported to the SWestrans Board and published during the year.
- **Annual governance statement:** Reviewing the Local Code of Corporate Governance and Internal Audit's annual assurance statement.

25. Based on our knowledge of the audit, and the established procedures in place to produce these statements, we have not identified any specific risks to be communicated to those charged with governance in relation to the audit of the management commentary and annual governance statement.

Wider Scope and Best Value

Introduction

26. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

27. In summary, the four wider scope areas cover the following:

- **Financial management:** means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability:** 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).
- **Vision, leadership, and governance:** we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by the audited body. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes:** we will consider how the audited body demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

28. The Code includes a provision relating to the audit of less complex audited bodies. In the light of the limited volume and lack of complexity of the financial transactions and its low-risk nature, we plan to apply this provision of the Code to the 2022/23 audit of SWestrans.

29. Where the application of the full wider scope is judged by auditors not to be appropriate then the annual audit work can focus on a review of the annual governance statement and the financial sustainability of the organisation and its services. We will report on these areas in our 2022/23 annual audit report.

Significant wider scope risks

30. Our risk assessment has not identified any significant risks in respect of the above wider scope areas.

Financial sustainability

31. Whilst not a significant audit risk, the challenging financial environment in which SWestrans, along with other public sector bodies, is operating, has been identified as an area of audit focus. There are challenges to the medium and longer-term financial sustainability due to the uncertainty over future funding allocations and the rising cost of inflation. Our annual audit report will include comment on SWestrans' 2022/23 financial outturn, 2023/24 budget and medium-term financial plans.

Best Value

32. Auditors have a duty to be satisfied that bodies that fall within section 106 of the Local Government (Scotland) Act 1973 have made proper arrangements to secure Best Value. Through our wider scope work detailed in paragraph 29 above, we will consider how SWestrans demonstrates that it is meeting its Best Value responsibilities and we will report our findings as part of our annual audit report.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

33. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs, as detailed in [exhibit 3](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

34. 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 officers to confirm factual accuracy.

35. We will provide an independent auditor's report to the South West of Scotland Transport Partnership (SWestrans) and the Accounts Commission setting out our opinions on the annual accounts. We will provide SWestrans and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

36. [Exhibit 3](#) outlines the target dates for our audit outputs.

Exhibit 3

2022/23 Audit outputs

Audit Output	Latest date	SWestrans Date
Annual Audit Plan	30 April 2023	30 June 2023
Independent Auditor's Report	31 October 2023	By 31 October 2023
Annual Audit Report	31 October 2023	By 31 October 2023

Source: Audit Scotland

Timetable

37. To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [exhibit 4](#) that has been discussed and agreed with management.



38. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the

reporting of audited annual accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

39. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes for the completion of the audit under review. Progress will be discussed with management over the course of the audit.

Exhibit 4

Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	30 June 2023
Latest submission date for the receipt of the unaudited accounts with complete working papers package.	30 June 2023
Latest date for final clearance meeting with officers, agreement of the audited and unsigned annual accounts and the proposed annual audit report.	By 30 September 2023
Issue of proposed annual audit report, letter of management representation and proposed independent auditor's report to those charged with governance.	By 31 October 2023
Presentation of proposed annual audit report to those charged with governance. Approval of the SWestrans annual accounts by those charged with governance, independent auditor's report signed electronically following this approval and the final annual audit report issued.	By 31 October 2023

Source: Audit Scotland

Audit fee

40. In determining the audit fee, we have taken account of the risk exposure of SWestrans and the planned management assurances in place. The agreed audit fee for 2022/23 is £11,850.

41. In setting the fee for 2022/23 we have assumed that SWestrans has effective governance arrangements and will prepare comprehensive and accurate annual accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during

the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

42. It is the responsibility of the South West of Scotland Transport Partnership (SWestrans) to establish adequate internal audit arrangements. Dumfries and Galloway Council's internal audit function, led by the Internal Audit Manager, provides SWestrans with its internal audit service.

43. While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our annual accounts and wider scope audit responsibilities.

Independence and objectivity

44. Auditors appointed by the Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the annual accounts, 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.

45. 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 Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

46. The appointed auditor for SWestrans is Peter Lindsay, 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 SWestrans.

Audit Quality

47. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value, and can support public bodies to achieve their objectives.

48. Audit Scotland are committed to delivering high quality audits. 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 supplementary 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 England

and Wales (ICAEW) have been commissioned to carry out external quality reviews.

49. 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.

Appendix 1. Your audit team

50. The core members of the audit team involved in the audit of the South West of Scotland Transport Partnership (SWestrans) are noted below. The audit team will be supplemented by additional staff during peak times.

Peter Lindsay CPFA
Senior Audit Manager
plindsay@audit-scotland.gov.uk

Peter is the engagement lead for the audit of SWestrans and will sign off the independent auditor's report on the annual accounts. Peter has 26 years of auditing experience and has delivered external audit services to a range of organisations across all areas of the Scottish public sector. Peter will have overall control of the delivery and quality of the audit including audit engagement and ensuring the audit is properly planned, resourced, and executed.

Ciaran O'Brien
Auditor
cobrien@audit-scotland.gov.uk

Ciaran has experience in planning and delivering audits across the public sector. Ciaran will lead and be responsible for day-to-day management of the audit and will be your primary contact.

51. The local audit team is supported by a specialist technical accounting team, all of whom have considerable experience of public bodies and work with accounting regulatory bodies.

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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

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