

South West of Scotland Transport Partnership

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for the South West of Scotland Transport Partnership Board
March 2024

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2023/24 external audit of 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 Annual Governance Statement
- consideration of arrangements in relation to wider scope area of financial sustainability and a review of the Annual Governance Statement
- consideration of Best Value arrangements.

Audit appointment

2. Peter Lindsay, Audit Scotland, has been appointed as the external auditor of SWestrans for the period from 2022/23 to 2026/27 inclusive. The 2023/24 financial year is therefore the second of the five-year audit appointment.

3. 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.

Respective responsibilities of the auditor and SWestrans

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

Auditor responsibilities

5. My responsibilities as appointed auditor 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.

6. 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 wider scope arrangements in place at SWestrans. In doing this, we aim to support improvement and accountability.

SWestrans' responsibilities

7. SWestrans is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true and fair view. They are also required to produce other reports in the annual accounts in accordance with statutory requirements.

8. SWestrans has 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 deliver their objectives.

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

Communication of fraud or suspected fraud

10. 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.

Adding Value

11. 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.

Annual accounts

Introduction

12. Our approach to the audit of the 2023/24 annual accounts, including the financial statements, has been designed to support the appointed auditor's opinion as to whether the annual accounts give a true and fair view of SWestrans' finances for the year ended 31 March 2024, and have been properly prepared in accordance with International Financial Reporting Standards and the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the 2023/24 Code).

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. I am required to plan my audit to obtain reasonable assurance about 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 2023/24 audit

14. We assess materiality at different levels as described in [Exhibit 1](#), along with the levels set for the 2023/24 audit of SWestrans.

Exhibit 1

Materiality levels for the 2023/24 audit

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the SWestrans' operations. For the year ended 31 March 2024, we have set our materiality at 2% of gross expenditure based on the audited accounts for 2022/23.	£96,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 65% of planning materiality.	£62,000
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.	£5,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

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

16. 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.

17. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2

2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<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. • Consider the need to test journal entries and other adjustments throughout the year. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
		<ul style="list-style-type: none"> • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.

Source: Audit Scotland

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

18. As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

19. We have rebutted this risk as funding received from the Dumfries and Galloway Council is clearly communicated and can be readily agreed to third party confirmations. In addition, SWestrans other income streams comprise of contributions from partners that can be readily agreed to supporting documentation, and we have concluded there is limited opportunity or incentive to manipulate the recognition of income in the financial statements.

20. 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 revenue recognition.

21. We have rebutted this risk as the main expenditure streams of SWestrans can be readily forecast based on a predictable pattern of spend and mainly comprise of payments to bus operators which can be agreed to contracts. We also consider there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements.

22. We have not, therefore, incorporated specific additional audit procedures into our audit plan in relation to the risks of fraud in the recognition of income and expenditure, over and above our standard audit procedures.

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 Partnership 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. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit, and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

27. In summary, the four wider scope areas are:

- **Financial management** – this 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** – we will look ahead to consider whether the body is planning effectively to continue to deliver services, also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – we conclude on the clarity of plans 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 2023/24 audit of SWestrans. The annual audit work will 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 2023/24 annual audit report.

Conclusions on wider scope responsibilities

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

30. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Accounts Commission to

consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

Best Value

31. 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. 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

32. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

33. We will provide:

- an Independent Auditor's Report to SWestrans and the Accounts Commission setting out our opinions on the annual accounts.
- SWestrans and the Accounts Commission with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

34. [Exhibit 3](#) outlines the target dates for our audit outputs set by the Accounts Commission. In determining the target reporting date, due regard is paid to the dates for approving the annual accounts set out in regulations of 30 September 2024.

35. We plan to issue our Independent Auditor's Report and Annual Audit Report by the target date.

Exhibit 3 2023/24 Audit outputs

Audit Output	Target date	Board Date
Annual Audit Plan	31/03/2024	22/03/2024
Independent Auditor's Report	30/09/2024	27/09/2024
Annual Audit Report	30/09/2024	27/09/2024

Source: Audit Scotland



36. All Annual Audit Plans and the outputs detailed in [Exhibit 3](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

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 with management.

38. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers 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	28 June 2024
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	28 June 2024
Latest date for final clearance meeting with officers, agreement of the audited and unsigned annual accounts and the proposed annual audit report.	23 August 2024
Issue of proposed annual audit report, letter of management representation and proposed independent auditor's report to those charged with governance.	26 August 2024
Agreement of audited and unsigned annual accounts.	26 August 2024
Issue of Annual Audit Report to those charged with governance.	27 September 2024
Signed Independent Auditor's Report	27 September 2024

Source: Audit Scotland

Audit fee

39. 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 2023/24 is £12,560 (£11,850 in 2022/23).

40. In setting the fee for 2023/24, we have assumed that SWestrans has effective governance arrangements and will prepare a comprehensive and accurate set of 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

41. It is the responsibility of SWestrans to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

42. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

43. We are independent of SWestrans in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

44. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard 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.

45. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. We are not aware of any such relationships pertaining to the audit of SWestrans.

Audit Quality

46. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

47. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

48. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

49. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

50. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

The audit team

51. Key contacts in the audit team are:

- Peter Lindsay CPFA, Senior Audit Manager
- Ciaran O'Brien CA, Senior Auditor

52. The local audit team is supported by a specialist technical accounting team, all of whom have significant 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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