

## **External Audit Plan 2021/22**

### **1. PURPOSE OF REPORT**

- 1.1 To present the External Audit Plan for 2021/22.

### **2. SESTRAN 2021/22 – ANNUAL AUDIT PLAN**

- 2.1 Azets, as the appointed independent external auditor of the Partnership, have prepared an Annual Audit Plan for 2021/22. This plan details the audit approach based on an understanding of the characteristics, responsibilities and principal activities, risks and governance arrangements of the Partnership. A copy of the Plan is appended to this report.
- 2.2 The External Audit Plan 2021/22 was considered and noted by Performance and Audit Committee at its meeting on 4 March 2022.

### **3 RECCOMENDATION**

- 3.1 It is recommended that members review and note the External Audit Plan for 2021/22.

Karen Jones  
**External Auditor, Azets**  
11 March 2022

**Appendix:** External Audit Plan 2020-21



# South East of Scotland Transport Partnership

External Audit Annual Plan 2021/22

March 2022



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# Introduction

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## Introduction

1. This document summarises the work plan for our 2021/22 external audit of the South East of Scotland Transport Partnership (“the Partnership”).
2. The core elements of our work include audits of:
  - the 2021/22 annual accounts and related matters;
  - the Partnership’s arrangements for, where applicable, financial sustainability, financial management, governance and transparency 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 its statutory functions, including monitoring the performance of auditors through a quality control process.
5. The Accounts Commission has appointed Azets as external auditor of the Partnership for the six year period

2016/17 to 2021/22<sup>1</sup>. This document summarises the audit plan for 2021/22 and includes;

- the responsibilities of Azets 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 Azets and the audit management team.

## Auditor independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We comply with the Financial Reporting Council’s (FRC) Ethical Standard. In our professional judgement, the audit process is independent and our objectivity is not compromised in any way.
8. We set out in Appendix 2 our assessment and confirmation of independence.

## Adding value through the audit

9. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Partnership through our external audit work by being constructive and forward

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<sup>1</sup> In October 2020, the Accounts Commission extended our audit appointment for one year through to the audit of the 2021/22 financial year to provide

continuity and stability in the current challenging environment.

looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Partnership promote improved standards of governance, better management and decision making and more effective use of resources.


## Feedback

10. 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 any member of your audit team.

## Openness and transparency

11. This report will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

# Respective responsibilities of the auditor and the Partnership

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## Respective responsibilities of the auditor and the Partnership

### Auditor responsibilities

#### Code of Audit Practice

12. The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.

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.

#### Our responsibilities

13. Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK) (ISAs (UK)), professional requirements and best practice. These are to:
- undertake statutory duties, and comply with professional engagement and ethical standards;
  - provide an opinion on 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; and
  - demonstrate compliance with the wider scope of public audit.

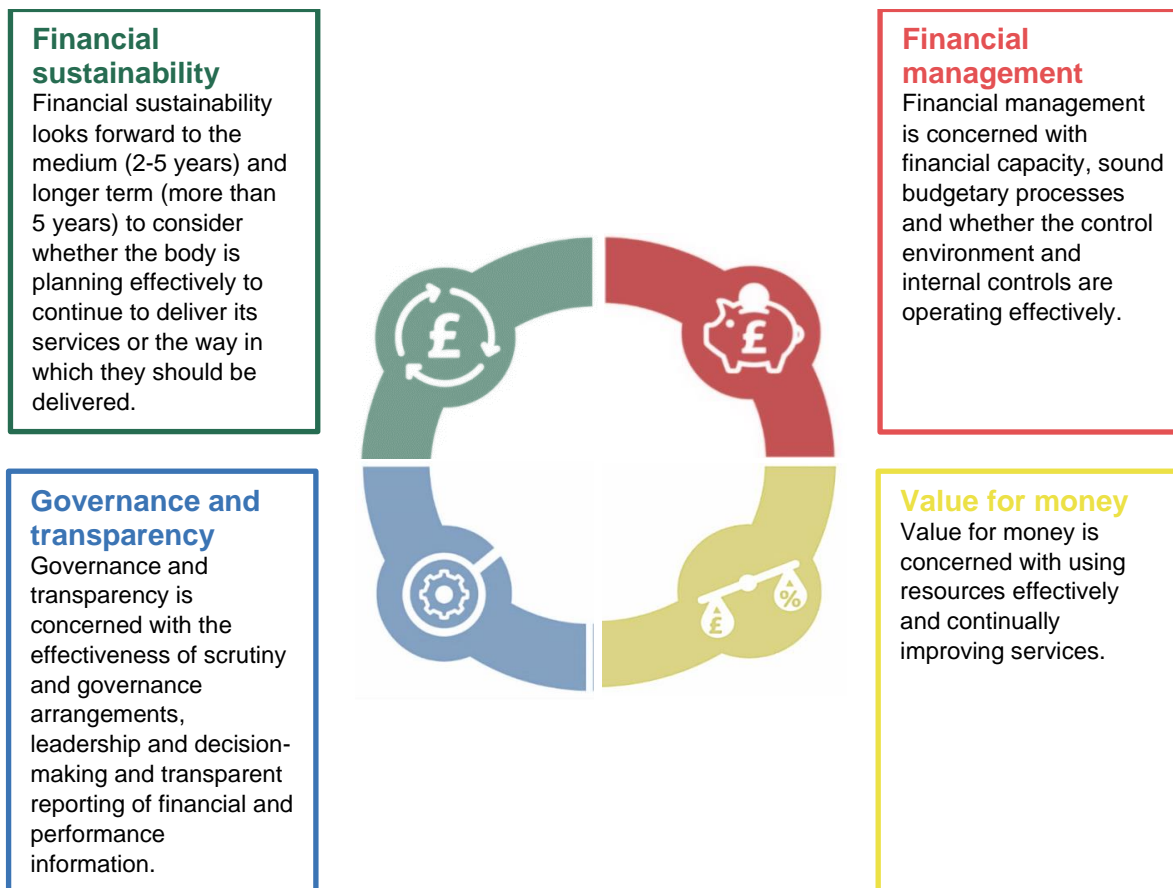
15. The Code of Audit Practice sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.

#### Wider scope audit work

14. 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



## Exhibit 1: Audit dimensions within the Code of Audit Practice



16. 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.
17. Our assessment takes into account the size, nature and risks of the organisation. Taking these factors into consideration, we have concluded that application of the restricted wider scope is appropriate at the Partnership.
18. 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 of Audit Practice and may not be all that exist. Communication by Azets 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.

## Best Value

19. Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.
20. Our work in respect of the Partnership's best value arrangements will be integrated into our audit approach, including our work on the wider scope audit dimensions as set out in this plan.
21. Audit Scotland has requested that external auditors focus on the audited body's arrangements relating to the best value theme of fairness and quality. We will consider this in the context of our wider scope audit work

and include commentary in our annual audit report as appropriate.

## Partnership responsibilities

22. The Partnership has 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's responsibilities are summarised in Exhibit 2.

## Exhibit 2: Partnership responsibilities

Area	Partnership responsibilities
<b>Financial statements:</b> Annual accounts containing financial statements and other related reports should be prepared.	<p>The Partnership has responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of its financial position and its 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 its financial statements and related reports disclosures;</li> <li>• maintaining proper accounting records; and</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>

Area	Partnership responsibilities
<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 fulfil its functions in an affordable and sustainable manner.</p>	<p>The Partnership is 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>• 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>
<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>The Partnership is responsible for ensuring that financial affairs are conducted in a proper manner. Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the entity and its financial performance.</p> <p>The Partnership is 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 its objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>The Partnership is responsible for establishing 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.</p>

Area	Partnership responsibilities
<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 is responsible for establishing arrangements to ensure the proper conduct of its 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 is 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 has 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>

# Audit strategy

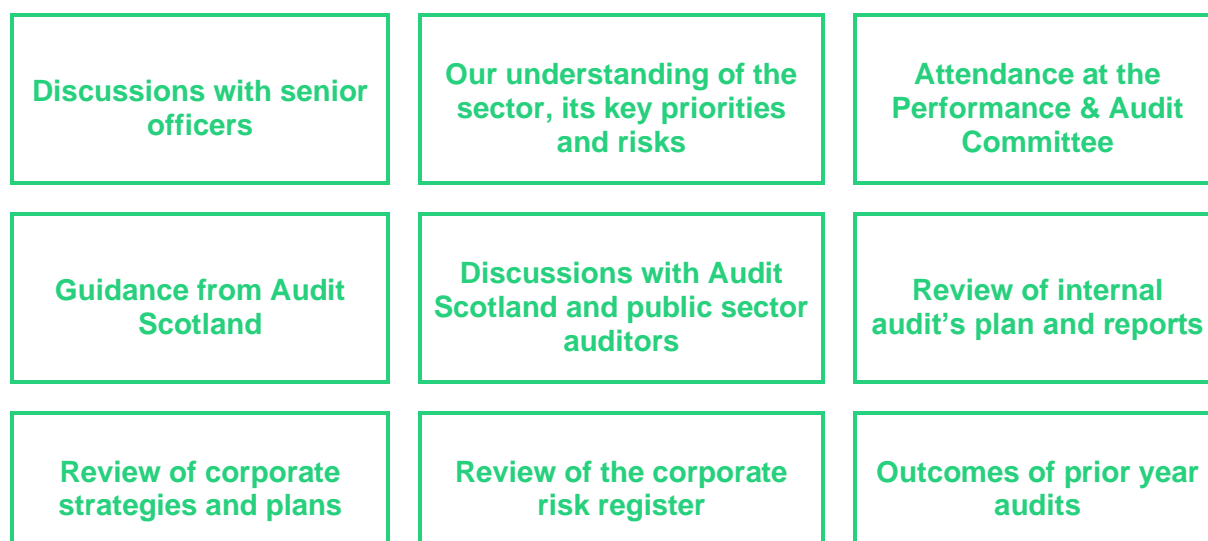


## Audit strategy

### Risk-based audit approach

23. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Partnership. This ensures

that our audit focuses on the areas of highest risk. Our audit planning is based on:



24. 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.

### Communication with those charged with governance

25. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed with the Partnership that these communications will be through the Performance & Audit Committee.

### Professional standards and guidance

26. We perform our audit of the financial statements 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

27. We 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 with the public sector.

## Audit Scotland

28. Although we are independent of Audit Scotland and are responsible for forming our own views and opinion, 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 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.
29. Audit Scotland undertakes national performance audits on issues affecting the public sector. We review the Partnership's arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We also consider the extent to which the Partnership uses the national performance reports as a means to help improve performance at the local level.

## Internal Audit

30. 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 the Partnership is used efficiently and effectively.

## Service organisations

31. A number of the constituent local authorities provide services to the

Partnership including financial ledger, payroll and human resources services. Where those services (and associated systems) have a material impact on the annual accounts we will work with those authorities to understand the controls in place over the systems used in delivering these services.

## COVID-19 – impact on our 2021/22 audit strategy

32. The COVID-19 pandemic has had, and continues to have, a significant and profound effect on every aspect of Scottish society.
33. We appreciate that different organisations have been impacted differently by COVID-19, as have finance teams, and some organisations are better set up for remote working. We also know that plans can change quickly and it only takes the absence of one key member of staff from a finance team to have a big impact. Equally our own teams may also be impacted by the pandemic. The wellbeing of our clients and our staff is paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance.

## Remote working

34. As we continue to follow Scottish Government guidelines, and acknowledge the Partnership's working arrangements, we are currently planning to carry out our audit remotely. We have the following arrangements in place:
  - All of our people have the equipment, technology and systems to allow them to work remotely, including secure access

to all necessary data and information.

- All of our staff are fully contactable by email, phone call and video-conferencing.
- All meetings are now held over Skype, Microsoft Teams or by telephone.
- We are keeping all of our staff fully up to date with the latest government guidance in order to keep everyone as safe as possible.

35. If resourcing levels in any part of our business are compromised due to illness or inability to work, we will refocus our teams as necessary to deliver to deadlines. Our teams are holding regular catch ups to allow us to re-prioritise workloads as necessary.

### Secure sharing of information

36. We use a cloud-based file sharing service that enables users to easily and securely exchange documents.

### Audit evidence

37. Working remotely, does unfortunately result in the audit team requesting audit evidence which we would have previously obtained through other means, for example, face to face meetings or access to systems and client premises.
38. Where required we will consider other ways in which we can obtain audit evidence or carry out alternative audit procedures.
39. We will employ greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

### Regular contact

40. During the 'fieldwork' phase of our audit, we will look to agree regular catch-ups with key personnel to discuss the progress of the audit. The frequency of these meetings will be discussed and agreed with management.

### Audit reporting

41. It may be likely that the current circumstances lead to more modified opinions in auditor's reports, than would typically have been the case in previous years.
42. Where necessary, we will engage with the Performance & Audit Committee to explain the implications of our proposed report and consider whether there are other procedures that could be undertaken, at a future point yet to be determined which could mitigate any modification either fully or in part.
43. Sufficient time should be set aside by the Performance & Audit Committee to allow for comprehensive, complete and informed communication with the auditor. This will need to take account of the potential for extended communication to explain any modified audit reports, or to report any higher than expected deficiencies or misstatements, that may result from the current circumstances.
44. We will use DocuSign (electronic signatures) for signing annual accounts.
45. Electronic signatures simplify the process of signing the accounts. Accounts can be signed using any device from any location. There is no longer a need for duplicate copies to be signed, thus reducing the risk of missing a signature and all signatories



have immediate access to a high  
quality PDF version of the accounts.

# Annual accounts



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## Annual accounts

### Introduction

46. 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 the Partnership's annual accounts.

### Approach to audit of the annual accounts

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

#### Risk-based audit planning

48. 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 key systems on which the annual accounts will be based.

#### Accounting systems and internal controls

49. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the annual accounts.
50. 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 the Partnership's own policies and procedures.
51. We will take cognisance of any relevant internal audit reviews of systems and controls.

52. Since the start of the pandemic, the risk of fraud and error has increased as the control environment and internal controls change. Potential areas of risk include:
- Public sector staff working under extreme pressure leading to some internal controls suspended or relaxed;
  - Procurement fraud or, normal controls being relaxed to allow bodies to buy goods or services which are required urgently, possibly from new suppliers;
  - Weakened governance arrangements;
  - Admin and finance staff being redeployed to operational areas; and
  - Staff working remotely may pose potential security risks e.g. when using personal devices and/or using removable devices to download data.
53. We will update the risk assessment following our evaluation of systems and controls, considering the impact pandemic has had on the Partnership's accounting systems and controls. This will ensure that we continue to focus attention on the areas of highest risk.
54. This work is not for the purpose of expressing an opinion on the effectiveness of internal controls. We will report to the Partnership significant deficiencies in internal controls that we identify during the audit. These matters will be limited to those which we conclude are of

sufficient importance to merit being reported to the Partnership. The scope of our work is not designed to be an extensive review of all internal controls.

#### **Prevention and detection of fraud or error**

55. We plan our audit in such a way to obtain reasonable assurance of detecting material misstatements in the annual accounts resulting from fraud or error.
56. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the annual accounts.
57. We will assess the susceptibility of the Partnership's annual accounts to material misstatement, including obtaining an understanding of how fraud might occur, by:
- making enquiries of management as to where they considered there is susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and
  - considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations.
58. Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose. Material misstatements that arise due to fraud

can be harder to detect than those that arise from error as they may involve deliberate concealment or collusion.

#### **Laws and regulations**

59. We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact the annual accounts. Our audit procedures include the following:
- Identification of the laws and regulations applicable to the Partnership through enquiries with management, and from our knowledge and experience of the Partnership and the sector;
  - A focus on specific laws and regulations which we consider may have a direct material effect on the annual accounts or the operations of the Partnership;
  - Reviewing minutes of relevant meetings;
  - Enquiring of management and the Partnership's legal representatives the position in relation to litigation, claims and assessments; and
  - Performing detailed testing of transactions and balances.
60. There are however inherent limitations in our audit procedures described above. The more removed that laws and regulations are from financial transactions, the less likely it is that we would become aware of non-compliance.

#### **A final audit of the annual accounts**

61. 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.

62. 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 2021/22 (the Code).

### Independent auditor's report

63. 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.
64. We also provide an opinion on other prescribed matters including the remuneration report, annual governance statement and management commentary.

### Materiality

65. Materiality is an expression of the relative significance of a matter in the context of the financial statements 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 review our assessment of materiality throughout our audit.
66. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or group 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 at significant risk of material misstatement.

67. Performance materiality set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
68. Our initial assessment of materiality and performance materiality is set out in the table below:

	Materiality £
<b>Overall materiality:</b> Our initial assessment is based on approximately 1.5% of the Partnership's 2020/21 gross expenditure as disclosed in the 2020/21 audited annual accounts. We consider this to the principal consideration for the users of the annual accounts when assessing the financial performance of the Partnership.	23,000
In performing our audit we apply a lower level of materiality to the audit of the Remuneration Report. Our materiality is set at £5,000.	
<b>Performance materiality:</b> using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.	17,250

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

- All material corrected misstatements;
- Uncorrected misstatement with a value in excess of 5% of the overall materiality figure; and
- Other misstatements below 5% threshold that we believe warrant reporting on qualitative grounds.

#### Key audit risks in the annual accounts

70. Auditing standards require that we inform the Performance & Audit 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 Performance & Audit Committee if our assessment changes significantly during the audit.

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


#### 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 financial statements. 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*.

71. In response to this risk we will review the Partnership's accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business are valid and accounted for correctly. We will adopt data analytics techniques to review and test aspects of this significant risk. We will assess whether judgements and assumptions made in determining accounting estimates as set out in the annual accounts are indicative of potential bias.


## 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 the Partnership could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

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72. In respect of the Partnership's funding received as requisition from the constituent local authorities and Scottish Government grant funding, we do not consider the risk of revenue recognition to be significant due to a lack of incentive and opportunity to manipulate transactions of this nature. We have concluded, however, the risk of fraud in relation to revenue recognition is present in all non-government or requisition revenue streams.
73. We will evaluate each material revenue stream, including the controls over revenue accounting. We will conduct substantive testing on all material revenue streams to confirm revenue has been recognised appropriately and in line with accounting policies.

## Risk of fraud in the recognition of expenditure

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.

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74. In response to this risk we will evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. (Payroll is subject to separate tailored testing). We will consider the Partnership'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. We will review accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

### Pension liability(significant accounting estimate)

An actuarial estimate of the pension fund asset/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 date 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.

75. 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.

## Other risk factors

### Impact of COVID-19 on the annual accounts

76. Further to the identification of significant audit risks, we also continue to monitor the impact COVID-19 could have on the annual accounts. COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. It is uncertain how long these challenges will persist.
77. We continue to monitor government and relevant announcements as they pertain to the audit and will adapt our audit approach as required.

### Accounting estimates

78. Changes to ISA (UK) 540 - *Auditing Accounting Estimates and Related Disclosures* which is applicable for

accounting periods beginning on or after 15 December 2019 places increased regulatory requirements on the auditor in respect of the auditing of significant estimates at the planning and completion stages of the audit.

79. As part of the planning stages of the audit we identify all accounting estimates made by management and determine which of those are significant to the overall annual accounts. Consideration was given to asset valuations and impairment, pension assumptions, provisions, depreciation and accruals. Other than pension assumptions we have not determined the accounting estimates to be significant. We will however revisit our assessment during the fieldwork and completion stages of our audit.



# Wider scope audit



## Wider scope audit

### Introduction

80. As described previously, the Code of Audit Practice frames a significant part of our wider scope responsibilities. Following consideration of the size, nature and risks of the Partnership, the application of the full wider scope audit is judged by us not to be appropriate. Our annual audit work will therefore be 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.
81. Our planned audit work against these two areas is risk based and proportionate. Our initial assessment builds upon the understanding of the Partnership's key priorities and risks which we developed from previous years, along with discussions with management and review of committee minutes and key strategy documents.
82. At this stage of our audit planning process, we have identified one significant risk to the wider scope of our audit (Exhibit 4).
83. Audit planning however is a continuous process, and we will report all identified significant risks in our annual audit report.


## Exhibit 4 – Wider scope significant risk

### Financial sustainability

The Partnership approved the Indicative Financial Plan 2022-2025 in December 2021. This presents a balanced budget across all three years, assuming Scottish Government funding and council requisitions will remain at the same level as 2021/22 and will remain at this level over the three year period. The achievement of a balanced financial outturn depends upon continued tight control and monitoring of income and expenditure. The 2022/23 revenue budget will be presented to the Partnership in March 2022, including an update on the General Fund reserve position as per the Reserves Policy.

With Scottish Government grant funding and council requisitions remaining at the same level, representing a reduction in real terms, the Partnership relies on external funding to ensure a balanced position. However, with European Union projects ending over the next two years, funding will reduce from £106,000 in 2021/22 to nil by 2023/24. The Partnership do not see this as a significant risk to its financial sustainability but are looking into arrangements to succeed those existing funding streams and has identified the need to increase funding levels as a key objective within its Business Plan 2021/22 to 2023/24.

The development of the new Regional Transport Strategy (RTS) has been a key area of focus in 2021/22, with the draft RTS due to be considered by the Partnership in March 2022 and subsequently shared with Scottish Government for approval. The RTS will set out a clear framework for how transport and mobility will be provided, developed and improved in the South East of Scotland region, whilst meeting aspirations for a sustainable and economically active growth area over and beyond the next 10 years. As a key driver for service delivery in the medium to long term, it is essential that SEStran has appropriate financial plans in place to support the delivery of this strategy in a sustainable manner.

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84. During our audit we will continue to review whether the Partnership has appropriate arrangements in place to manage its financial position. Our work will include an assessment of progress made in developing financially sustainable plans which reflect the medium and longer term impact of COVID-19 and that continue to support the delivery of the Partnership's statutory functions and strategic objectives.

# Audit outputs, timetables and fees



## Audit outputs, timetable and fee

### Audit outputs

Audit Scotland has set target dates for 2021/22 which transition to more regular timescales. This is subject to agreement with the Scottish Government, and Audit Scotland will confirm the dates in due course. Audit Scotland has provisionally set a target date of 31 October (which requires a further amendment to the accounts regulations for 2021/22).

We have set out below target months which align to the Partnership's schedule of Performance & Audit Committee and Partnership meetings. We aim to meet these scheduled meetings however this will be monitored during the audit process and may require to be revised to reflect emerging issues as a result of the pandemic.

Audit output	Description	Target month	Deadline for submission to Audit Scotland
External audit plan	This report sets out the scope of our audit for 2021/22.	March 2022	31 March 2022
Independent Auditor's Report	This report will contain our opinion on the financial statements, the audited part of the remuneration report, annual governance statement and management commentary.	September 2022	31 October 2022
Annual Report to the Partnership and the Controller of Audit	At the conclusion of each year's audit we issue an annual report setting out the nature and extent of our audit work for the year and summarise our opinions, conclusions and the significant issues arising from our work. This report pulls together all of our work under the Code of Audit Practice.	September 2022	31 October 2022

85. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.
86. 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

87. Audit Scotland sets an expected fee 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.
88. As auditors we negotiate a fee with the Partnership during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.
89. For 2021/22 we proposed setting the audit fee at the expected fee level

	2021/22	2020/21
Auditor remuneration	£9,090	£8,900
Pooled costs	£950	£850
Audit support costs	£490	£490
<b>Total fee</b>	<b>£10,530</b>	<b>£10,240</b>

90. We will take account of the risk exposure of the Partnership and the management assurances in place. We assume receipt of the draft 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

91. A summary timetable, including audit outputs, is set out as follows:

<b>FEB 22</b>	●	Planning meeting to inform the 2021/22 audit
<b>MAR 22</b>	●	Presentation of External Audit Plan to the Performance and Audit Committee
<b>JUN 22</b>	●	Unaudited annual accounts presented to those charged with governance
<b>JUL 22</b>	●	Final audit commences
<b>SEP 22</b>	●	Presentation of our Annual Audit Report to the Performance and Audit Committee

# Appendices



## Appendix 1: Azets

Azets deliver accounting, tax, audit, advisory and business services, digitally and locally.

With over 6,500 advisers and specialists across our office network, we help people and organisations of all shapes and sizes save time, work smarter and achieve their goals. Our job is to give you the support you need so you can focus on what you do best.

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.

### Your audit management team

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#### Karen Jones

##### Director

karen.jones@azets.co.uk

Karen is one of our directors responsible for the audit of some of our Audit Scotland external audit appointments. She has considerable experience in planning and delivering audits, producing management reports and liaising with senior officers.

Karen will be the Engagement Lead in charge of our audit of the Partnership.

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#### Nicola MacKenzie

##### Manager

nicola.mackenzie@azets.co.uk

Nicola has over 7 years' public sector external audit experience, joining the firm in 2014 as an audit trainee. She has extensive experience of public sector audit across local government, central government, health and further education sectors.

Nicola will manage the fieldwork team and work alongside Karen to deliver the audit engagement.

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## Appendix 2: 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.

In particular, FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. Azets has not been appointed by the Partnership to provide any non-audit services during the year.

We confirm that we comply with FRC's Ethical Standard. 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 Azets, the Partnership, its Partnership members and senior management that may reasonably be thought to bear on our objectivity and independence.

## Appendix 3: Statement of understanding

### Introduction

The purpose of this statement of understanding is to clarify the terms of our appointment and the key responsibilities of the Partnership and Azets.

### 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 Partnership 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 in advance of our final audit visit which sets out our expectations in terms of audit deliverables. This document helps to ensure we can work together effectively to deliver an efficient and effective audit.

### 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.

### Representations

As auditors we do not act as a substitute for the Partnership'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 Treasurer.

### Internal audit

It is the responsibility of the Partnership 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. In particular we require to be notified of all frauds which:

- Involve the misappropriation of theft of assets or cash which are facilitated by weaknesses in internal control
- Are over £5,000

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.

## Anti-money laundering

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 impose an obligation on the Auditor General to inform the National Crime Agency (NCA) if he knows or suspects that any person has engaged in money laundering or terrorist financing. Audit Scotland has extended this responsibility to the Accounts Commission in respect of local government.

We require the Partnership to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

## Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants in England and Wales.

## 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 Karen Jones. 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 in England and Wales.

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 Performance & Audit 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.

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We are an accounting, tax, audit, advisory and business services group that delivers a personal experience both digitally and at your door.

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