

External Audit - Annual Audit Plan 2022/23

1. INTRODUCTION

1.1 This report presents the External Auditor's Annual Audit Plan for 2022/23.

2. MAIN REPORT

2.1 Audit Scotland has been appointed as the Partnership's External Auditor for the period from 2022/23 until 2026/27.

2.2 The Annual Audit Plan for 2022/23 is appended.

3 RECOMMENDATIONS

It is recommended the Partnership Board:

3.1 review and notes the External Audit Plan;

Hugh Dunn
Treasurer
27th February 2023

Appendix Annual Audit Plan 2022/23
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Policy Implications	There are no policy implications arising as a result of this report.
Financial Implications	There are no financial implications arising.
Equalities Implications	There are no equality implications arising as a result of this report.
Climate Change Implications	There are no climate change implications arising as a result of this report.

South East Scotland Transport Partnership

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for South East Scotland Transport Partnership

March 2023

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of South East Scotland Transport Partnership (SEStran). 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 the other statutory information published within the Annual Accounts including the Management Commentary, the Annual Governance Statement and the Remuneration Report
 - a review of the Annual Governance Statement, and concluding on the financial sustainability of SEStran over the medium to longer term.
 - reporting on the arrangements for securing Best Value.

Audit Appointment

2. We are pleased to be appointed as the external auditor of SEStran for the period 2022/23 to 2026/27 inclusive.
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 SEStran through our external audit work by being constructive and forward looking, by attending meetings of the Performance and Audit Committee, and by recommending good practice. In so doing, we will help SEStran promote improved standards of governance, better management and decision-making and more effective use of resources.
6. The Code of Audit Practice includes provisions relating to the audit of less complex bodies. Where the application of the full wider scope is judged by auditors not to be appropriate to an audited body, then the annual audit work can focus on the appropriateness of the disclosures in the governance statement

and the financial sustainability of the body and its services. We plan to apply the less complex body provision of the Code to the 2022/23 audit of SEStran.

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

Auditor responsibilities

8. 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.
9. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also aim to support accountability and improvement.

The responsibilities of SEStran

10. SEStran is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.
11. SEStran 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.

Financial statements audit planning

Introduction

12. The Annual Accounts are an essential part of demonstrating SEStran's stewardship of resources and its performance in the use of those resources.
13. 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 financial statements.

Materiality

14. 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. 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

15. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for SEStran are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Materiality levels for SEStran

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 SEStran's operations. For the year ended 31 March 2023 we have set our materiality at 1.5% of gross expenditure based on the audited financial statements for 2021/22.	£31,000
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 should be considered. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.	£23,500

Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. £1,500

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

16. Our risk assessment draws on our cumulative knowledge of SEStran, 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.
17. 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.
18. 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 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 risks of material misstatement to the financial statements

Significant risk of material misstatement	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 International Standard on Auditing (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>	<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"> Test journal entries with a focus on significant risk areas. We will consider any unusual material transactions identified through our audit testing for any evidence of management override of controls. Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. Review accounting estimates for evidence of management bias including assessing any changes

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>2. Risk of material misstatement caused by fraud in expenditure</p> <p>The Code of Audit Practice expands the consideration of fraud under ISA 240 to include the risk of fraud over expenditure. There is a risk that expenditure may be materially misstated in the 2022/23 financial statements due to the extent and nature of the following significant expenditure streams:</p> <ul style="list-style-type: none"> • Project-related expenditure (2021/22: £1.335m) • Other service expenditure (2021/22: £0.185m) 	<ul style="list-style-type: none"> • Controls over expenditure and payment processes. • Scrutiny of monthly financial reports by management and quarterly financial monitoring reports by the Partnership Board and Performance & Audit Committee. • Fraud prevention arrangements. 	<p>to the methods and underlying assumptions used.</p> <ul style="list-style-type: none"> • Testing of expenditure transactions, focusing on the areas of greatest risk. • Review of budget monitoring reports focusing on significant budget variances. • Review of arrangements in place to detect and prevent fraud.

Source: Audit Scotland

19. As set out in International Standard on Auditing (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 revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for SEStran because, while the possibility of fraud exists, we assess the risk of the financial statements being materially misstated as a result of fraud to be low. This is due to the nature of the partnership's revenue streams and key sources of income, namely government grants and the constituent councils' contributions.

20. We have not, therefore, incorporated specific work into our audit plan in this area over and above our standard audit procedures.

Audit dimensions

21. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. These are: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

22. The Code of Audit Practice includes provisions relating to the audit of less complex bodies. Where the application of the full wider scope is judged by auditors not to be appropriate to an audited body, then the annual audit work

can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services.

23. We plan to apply the less complex body provision of the Code to the 2022/23 audit of SEStran. Our wider scope work will therefore focus on the financial sustainability of SEStran and the services that it delivers over the medium to long term, and the arrangements in place for securing best value.

Best Value

24. Auditors have a duty to be satisfied that bodies that fall within section 106 of the 1973 Act have made proper arrangements to secure Best Value. We will consider how SEStran demonstrates that it is meeting its Best Value responsibilities and we will report our findings as part of our Annual Audit Report.

Wider scope risks

25. We have identified one wider scope audit risk in the area set out in [Exhibit 3](#). This exhibit sets out the risk, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 3

2022/23 wider scope risks

Description of risk	Sources of assurance	Planned audit response
<p>1. Financial sustainability</p> <p>Funding from the Scottish Government and constituent councils has remained at the same level for several years and the partnership's budget assumes that this will continue. In addition, European Union funding for several projects is expected to end during 2023.</p> <p>There is a risk that SEStran may not be able to secure further funding or meet cost pressures as they arise.</p>	<ul style="list-style-type: none"> The partnership's business plan 2021-24 has identified a requirement to increase funding for the partnership in the medium term as an objective. Ongoing budget monitoring and reporting arrangements by management. 	<ul style="list-style-type: none"> Ongoing review of financial budget monitoring and reporting arrangements in place to achieve a balanced budget. Review of SEStran's strategy to seek additional funding in the short to medium term.

Climate change

26. The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on SEStran's arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

27. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.
28. 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.
29. We will provide an independent auditor's report to SEStran and the Accounts Commission setting out our opinions on the annual report and accounts. We will provide SEStran and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.
30. [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 30 September 2023.

Exhibit 4 2020/21 Audit outputs

Audit Output	Target date	Performance and Audit Committee Date
Annual Audit Plan	3 March 2023	3 March 2023
Independent Auditor's Report	8 September 2023	8 September 2023
Annual Audit Report	8 September 2023	8 September 2023

Source: Audit Scotland



Timetable

31. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

- 32.** 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 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.
- 33.** 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 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 5

Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	2 June 2023
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	30 June 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	TBC August 2023
Agreement of audited and unsigned annual report and accounts	TBC August 2023
Issue of Annual Audit Report to those charged with governance.	1 September 2023
Signed Independent Auditor's Report	8 September 2023

Source: Audit Scotland

Audit fee

- 34.** In determining the audit fee, we have taken account of the risk exposure of SEStran and the planned management assurances in place. The audit fee for 2022/23 is £11,850 as set out in [Exhibit 6](#).
- 35.** Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

Exhibit 6**Audit fees (including VAT)**

Fee component	Fees (£)
External Auditor Remuneration	22,750
Contribution to Audit Scotland costs	860
Sectoral Cap Adjustment	(11,760)
Total 2022/23 fee	11,850

Source: Audit Scotland

- 36.** In setting the fee for 2022/23 we have assumed that SEStran has effective governance arrangements and will prepare comprehensive and accurate 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

- 37. It is the responsibility of SEStran to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.
- 38. 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 financial statements and wider scope audit responsibilities.

Independence and objectivity

- 39. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.
- 40. 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.
- 41. The appointed auditor for SEStran is Christopher Gardner, 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 SEStran.

Audit Quality

- 42. 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.
- 43. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.
- 44. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

45. Audit Scotland is 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) has been commissioned to carry out external quality reviews.
46. 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.

South East Scotland Transport Partnership

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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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