

External Audit - Annual Audit Plan 2023/24

1. INTRODUCTION

- 1.1 This report presents the External Auditor’s Annual Audit Plan for 2023/24.
- 1.2 The Annual Audit Plan 2023/24 was reviewed by the Performance and Audit Committee at its meeting on 1st March 2024.

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 2023/24 is appended.

3 RECOMMENDATIONS

It is recommended the Partnership Board:

- 3.1 notes the External Audit Plan.

Richard Lloyd-Bithell

Treasurer

8th March 2024

Appendix Annual Audit Plan 2023/24
Contact iain.shaw@edinburgh.gov.uk

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



 AUDIT SCOTLAND

Prepared for South East Scotland Transport Partnership
March 2024

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2023/24 audit of South East Scotland Transport Partnership (SEStran). The main elements of the audit include:

- an audit of the financial statements and an Independent Auditor's Report expressing an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on other statutory information published with the financial statements in the annual accounts, including the Management Commentary, the Annual Governance Statement, and the Remuneration Report
- consideration of arrangements in relation to wider scope areas including the appropriateness of the disclosures in the governance statement and the financial sustainability of SEStran and its services
- consideration of the arrangements to secure Best Value

Respective responsibilities of the auditor and SEStran

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

Auditor responsibilities

3. Our 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.

4. 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 SEStran. In doing this, we aim to support improvement and accountability.

5. The appointed auditor, and engagement lead, for SEStran is Christopher Gardner, Senior Audit Manager.

The responsibilities of SEStran

6. SEStran 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.

7. 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.

Adding Value

8. 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.

9. The Code of Audit Practice included 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.

10. We plan to apply the less complex body provision of the Code to the 2023/24 audit of SEStran. This is based on our assessment of SEStran complying with both the quantitative and qualitative criteria for defining less complex bodies:

- SEStran has gross revenue, gross assets and gross liabilities less than £10.2 million
- We have not identified any wider scope risks beyond financial sustainability as part of our financial audit planning; SEStran was not subject to a statutory report in the prior year, and is not subject to significant public scrutiny

Annual accounts

Introduction

- 11.** The annual accounts are an essential part of demonstrating SEStran's stewardship of resources and its performance in the use of those resources.
- 12.** Appointed auditors are required to perform an audit of the financial statements, consider other information within the annual accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.
- 13.** We focus our work on the areas of highest risk. As part of our planning process, we perform 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. 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

- 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

2023/24 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 2024, we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2022/23.	£41,340
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	£26,500

professional judgement, we have assessed performance materiality at 65% of planning materiality.

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.	£2,000
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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 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>	<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 journals with a focus on significant risk areas. We will consider any unusual or 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. Focussed testing of accounting accruals and prepayments.
<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 (UK) 240 to include the risk of fraud over expenditure. There is a risk that expenditure may be materially misstated in the 2023/24 financial statements due to the extent and nature of the following significant expenditure streams:</p> <ul style="list-style-type: none"> Project-related expenditure (2022/23: £1.472m) Other service expenditure (2022/23: £0.211m) 	<ul style="list-style-type: none"> Controls in place over expenditure approval and payment processes. Scrutiny of monthly financial reports by management and quarterly budget monitoring reports by the Performance & Audit Committee and Partnership Board Fraud prevention arrangements 	<ul style="list-style-type: none"> Detailed testing of expenditure transactions, focussing on the areas of greatest risk. Review of budget monitoring reports, focusing on significant budget variances. Review of arrangements in place to prevent and detect fraud.

Source: Audit Scotland

19. 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. We have rebutted this risk for SEStran because, whilst the possibility of fraud exists, we consider this specific risk of misstatement to be low. This is due to the nature of the partnership's revenue streams and key sources of income, namely government grants, constituent council contributions and grants from other public bodies which is clearly communicated and can be readily agreed to third party confirmations.

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

Wider scope risks

21. We have identified significant risks in the wider scope areas set out in [Exhibit 3](#). This exhibit sets out the risks, management's sources of assurance for the risks, and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 3

2023/24 wider scope risks

Description of risk	Management's sources of assurance	Planned audit response
<p>1. Financial sustainability</p> <p>SEStran has submitted a proposal to Transport Scotland for additional Scottish Government funding of c.£5m to administer Active Travel awards from 2024/25 onwards, representing a significant increase in the partnership's overall expenditure. Without adequate planning for this expansion in activity, there is a risk that resources are strained and the partnership is unable to secure best value.</p>	<ul style="list-style-type: none"> • Ongoing budget monitoring and reporting arrangements by management. • Appropriate procurement procedures and arrangements in place to support good governance 	<ul style="list-style-type: none"> • Consideration of SEStran's strategy to accommodate organisational and financial changes due to increased government funding. • Ongoing review of financial budget monitoring and reporting arrangements in place to achieve a balanced budget. • Review and assessment of SEStran's revised governance arrangements to accommodate increased government funding and change of role.

Source: Audit Scotland

Best Value

22. 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 SEStran 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

23. 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.

24. We will provide:

- an Independent Auditor's Report to SEStran and the Accounts Commission setting out our opinions on the annual accounts
- SEStran 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.

25. [Exhibit 4](#) 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.

Exhibit 4 2023/24 Audit outputs

Audit Output	Performance and Audit Committee Date
Annual Audit Plan	1 March 2024
Independent Auditor's Report	13 September 2024
Annual Audit Report	13 September 2024

Source: Audit Scotland

26. All Annual Audit Plans and the outputs detailed in [Exhibit 4](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.



Timetable

27. 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 5](#) that has been discussed with management.

28. 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 accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	7 June 2024
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	TBC August 2024
Agreement of audited and unsigned annual accounts	TBC August 2024
Issue of Annual Audit Report to those charged with governance.	6 September 2024
Signed Independent Auditor's Report	13 September 2024

Source: Audit Scotland

Audit fee

29. In determining the audit fee, we have taken account of the risk exposure of SEStran and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The proposed audit fee for 2023/24 is £12,560 as set out in [Exhibit 6](#).

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

Fee component	Fees (£)
External Auditor Remuneration	24,110
Pooled costs	880
Sectoral Cap Adjustment	(12,430)
Total 2023/24 fee	12,560

Source: Audit Scotland

30. In setting the fee for 2023/24, we have assumed that SEStran 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

31. 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.

32. 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

33. The appointed auditor for SEStran is Christopher Gardner, Senior Audit Manager. Auditing and ethical standards, including the Financial Reporting Council's Ethical Standard, 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.

34. 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.

Audit Quality

35. 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](#).

36. 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.

37. 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.

38. 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.

39. 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.

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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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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk