

Tayside and Central Scotland Transport Partnership

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Tayside and Central Scotland Transport Partnership

April 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 Tayside and Central Scotland Transport Partnership (Tactran). The main elements of our work include:

- assessing the risk of material misstatement in the financial statements
- evaluation of the key controls within the main accounting systems
- an audit of the 2022/23 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 audited part of the Remuneration Report
- consideration of arrangements in relation to wider scope areas including Best Value. As a less complex body, wider scope requirements are restricted to conclusions on financial sustainability, and the adequacy of the disclosures in the Annual Governance Statement.

Audit appointment

2. We are pleased to be appointed as the external auditor of Tactran for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of senior members of your audit team in the [Appendix](#).

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 Tactran through our external audit work by being constructive and forward looking, by attending meetings of the Partnership Board and by recommending and encouraging good practice. In so doing, we will help

Tactran promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and Tactran

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

Auditor responsibilities

7. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice 2021](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

8. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at Tactran. In doing this, we aim to support improvement and accountability.

Tactran's responsibilities

9. Tactran is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. Tactran 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.

Communication of fraud or suspected fraud

11. In line with ISA 240, in presenting this audit plan to the Partnership 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. Should members of the Partnership Board have any such knowledge or concerns relating to the risk of fraud within Tactran, we invite them to communicate this to the appointed auditor for consideration.

Financial statements audit planning

Introduction

12. The annual accounts are an essential part of demonstrating Tactran'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 obtain reasonable assurance that 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. The materiality values for Tactran are set out in [Exhibit 1](#).

Exhibit 1

2022/23 materiality levels for Tactran

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 Tactran's operations. For the year ended 31 March 2023 we have set our materiality at 2% 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.	£23,000

Reporting threshold (ie clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality. £1,500

Source: Audit Scotland

Risks of material misstatement to the 2022/23 financial statements

16. Our risk assessment draws on our knowledge of Tactran, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, and a review of supporting information.

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. We also identify any other non-significant risks of material misstatement that require a specific audit response over and above our standard 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 risks.

Exhibit 2

Risks of material misstatement to the 2022/23 financial statements

Nature of risk	Sources of assurance	Planned audit response
Significant risks of material misstatement		
<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>	<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 during the year. Evaluate significant transactions outside the normal course of business.

Nature of risk	Sources of assurance	Planned audit response
		<ul style="list-style-type: none"> • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantively test income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Test accounting accruals and prepayments focusing on significant risk areas.

Other non-significant risks of material misstatement

2. Estimation in the valuation of pension assets and liabilities

Actuarial estimates are a complex combination of liabilities over significant future periods based on life expectancy, CPI growth and discounting (based on corporate bond rates).

Assets are based on an individual employer body's share of assets at the last triennial valuation. Roll forward adjustments are provided to members data and to asset valuations.

There is a risk that small changes in the assumptions used can lead to large changes in the resulting valuations resulting in material misstatement in the annual accounts.

- | | |
|--|---|
| <ul style="list-style-type: none"> • Use of professional actuaries appointed by the Pension Fund to value pension adjustments required by IAS19. • Actuarial valuations are reviewed by qualified finance staff for reasonableness including confirmation of the accuracy of the source data used to produce them. | <ul style="list-style-type: none"> • Assess the scope, independence and competence of the professionals engaged in providing estimates for pensions. • Review the appropriateness of actuarial assumptions and results including comparison with other employers and the pension fund as a whole. • Establish officers' arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by Tactran. |
|--|---|

18. As set out in International Standard on Auditing (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. We have considered the risk of fraud over income recognition and the risk of fraud over expenditure (in accordance with *Practice Note 10 (Audit of Financial Statements and Regularity of Public Sector Bodies in the UK)*).

19. We have rebutted the presumption that a risk of material misstatement exists, with the exception of management override of controls, as detailed at point 1 in [Exhibit 2](#) above. Our assessment is on the basis that:

- there are generally no incentives for staff to commit fraudulent financial reporting
- the majority of Tactran's income comes from government grants and contributions from other public sector bodies which can be readily agreed to third party correspondence and confirmations
- Tactran's core costs (payroll, rent and management costs) are routine in nature and individual transactions are relatively small in scale and well controlled
- more than half of Regional Transport Strategy (RTS) expenditure is on projects delivered by the partner councils on Tactran's behalf, some of which are subject to external reviews by funding providers. The majority of the remaining RTS expenditure relates to recurring costs associated with developing, monitoring and delivering the RTS strategy
- experience in the sector, including a review of past misstatements as reported by the predecessor auditor, does not indicate a significant risk.

20. Our audit testing is directed towards testing significant and unusual transactions and towards assessing accounting estimates to address any residual risk, as part of our standard fraud procedures. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Revisions to ISA (UK) 315 on auditors' responsibility to identify and assess the risks of material misstatement

21. The revised International Standard on Auditing (UK) 315 includes a revised requirement for auditors to understand a body's use of IT, as part of our understanding of the wider control environment, and to consider the related risks.

22. As part of our 2022/23 audit planning work, we will undertake an assessment of Tactran's IT systems to obtain an understanding of the use of IT in financial reporting. This will consider the nature and characteristics of the IT applications and IT infrastructure.

23. Any risks of material misstatement identified from the assessment of IT systems and infrastructure will be communicated to management and reflected in our approach to the audit of the 2022/23 financial statements.

Wider Scope and Best Value

Introduction

24. The [Code of Audit Practice 2021](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies. Auditors are required to consider the adequacy of the audited body's arrangements for these areas unless the auditor judges it is not appropriate due to the body's size, nature, and audit risks (less complex body).

25. Based on Tactran's gross expenditure and assets, the lack of wider scope risks and low level of public scrutiny we have concluded that it is appropriate to apply the less complex body approach to the 2022/23 audit. Consequently, our wider scope audit work will focus on the appropriateness of the disclosures in the Annual Governance Statement and Tactran's arrangements for ensuring financial sustainability.

Wider scope risks

26. Our planned work on our wider scope responsibilities is risk based and proportionate. We have not identified any local wider scope audit risks for the 2022/23 audit of Tactran. Progress on the outstanding recommendations identified in prior years will be followed-up with management during the course of the 2022/23 audit.

Best Value

27. 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 Tactran demonstrates that it is meeting its Best Value responsibilities and report our findings in our Annual Audit Report.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

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

29. 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.

30. We will provide an independent auditor's report to the Partnership Board and the Accounts Commission setting out our opinions on the annual accounts. We will also provide the Partnership Board and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

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

Exhibit 3 2022/23 audit outputs

Audit Output	Target date	Partnership Board date
Annual Audit Plan	31 March 2023	3 May 2023
Independent Auditor's Report	30 November 2023	12 December 2023 (TBC)
Annual Audit Report	30 November 2023	12 December 2023 (TBC)

Source: Audit Scotland



32. The Local Authority Accounts (Scotland) Regulations 2014 require local authorities to 'aim to approve the audited accounts for signature no later than 30 September immediately following the financial year to which the accounts relate' and that the signed accounts 'must be published no later than 31 October'. Due to the legacy of the late completion of prior year audits due to Covid-19 and ongoing resourcing challenges within Audit Scotland, we are unable to complete the

Tactran audit by 30 September or in time to publish the audited accounts by 31 October. We acknowledge that this planned timetable is determined by the availability of audit resources and not by Tactran which proposes to present unaudited accounts for audit by 30 June 2023.

Timetable

33. [Exhibit 4](#) sets out the proposed timetable for the audit that has been discussed and agreed with management.

Exhibit 4 Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	29 June 2023
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	30 June 2023
Latest date for final clearance meeting with the Treasurer	10 November 2023
Agreement of audited unsigned annual accounts Issue of Annual Audit Report including ISA260 report to those charged with governance (Partnership Board)	28 November 2023
Partnership Board meeting to consider the Annual Audit Report and approve the audited annual accounts for signature	12 December 2023 (TBC)
Independent Auditor's Report signed	12 December 2023 (TBC)

Source: Audit Scotland

34. 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.

35. We intend to undertake the 2022/23 audit remotely. 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.

Audit fee

36. In determining the audit fee, we have taken account of Tactran's risk exposure and the planned management assurances in place. The agreed audit fee for 2022/23 is £13,035 (2021/22: £16,630).

37. In setting the fee for 2022/23 we have assumed that Tactran has effective governance arrangements in place and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable. The audit fee also assumes there will be no major change in respect of the scope of the audit during the year. Where the audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

38. It is the responsibility of Tactran to establish adequate internal audit arrangements. No internal audit work is planned for Tactran during 2022/23 and so we cannot place any formal reliance on internal audit to support our opinion on the 2022/23 financial statements.

Independence and objectivity

39. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice 2021](#) 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. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. The appointed auditor for Tactran is Maggie Bruce, Senior Audit Manager. We are not aware of any such relationships pertaining to the audit of Tactran.

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. 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.

43. 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.

44. 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 2021](#) (and supplementary guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the

required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

45. 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 appointed auditor.

Appendix. Your audit team

46. The audit team involved in the audit of Tactran have significant experience in public sector audit:

Maggie Bruce, Senior Audit Manager

Maggie has over 30 years of public sector audit experience and is a member of the Institute of Chartered Accountants of Scotland. She has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

Rosemarie Khan, Senior Auditor

Rosemarie is a member of the Association of Chartered Certificate Accountants. Prior to joining Audit Scotland, she worked for Audit Wales for 20 years and has audited central government, local authorities, and NHS bodies. Rosemarie will be the key point of contact for day-to-day audit work.

Jennifer Grant, Trainee Auditor

Jennifer is in the final year of her training contract and has assisted in delivering a variety of local and central government audits since joining Audit Scotland.

47. 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.

Tayside and Central 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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