

# Tay Road Bridge Joint Board

## Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Tay Road Bridge Joint Board  
March 2023

# Contents

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Introduction	3
Financial statements audit planning	5
Wider Scope and Best Value	11
Reporting arrangements, timetable, and audit fee	12
Other matters	15

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# Introduction

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## Summary of planned audit work

**1.** This document summarises the work plan for our 2022/23 external audit of Tay Road Bridge Joint Board (the Joint Board). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual accounts, and provision of an Independent Auditor's Report
- work to support our audit opinions on the other statutory information published within the 2022/23 annual accounts, including the Management Commentary, Annual Governance Statement and the audited part of the Remuneration Report
- consideration of arrangements in relation to wider scope areas.

## Audit Appointment

**2.** We are pleased to be appointed as the external auditor of Tay Road Bridge Joint Board 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 the Joint Board through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. We also attend meetings of the Joint Board and actively participate in discussions relevant to the audit. In so doing we intend to help the Joint Board promote improved standards of governance, better management and decision making and more effective use of resources.

## Respective responsibilities of the auditor and Audited Body

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the Joint Board. 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](#) (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 accounts. We also review and report on the wider scope arrangements in place at the Joint Board. In doing this, we aim to support improvement and accountability.

### The Joint Board's responsibilities

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

10. The Joint Board also has 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.

11. The audit of the annual accounts does not relieve management or the Joint Board, as those charged with governance, of their responsibilities.

### Communication of fraud or suspected fraud

12. In line with ISA 240, in presenting this plan to the Joint 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 committee have any such knowledge or concerns relating to the risk of fraud within the Joint Board, we invite them to communicate this to the appointed auditor for consideration. Similar assurances will be sought as part of the audit completion process.

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# Financial statements audit planning

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## Introduction

**13.** The annual accounts are an essential part of demonstrating the Joint Board's stewardship of resources and its performance in the use of those resources.

**14.** Our approach to the audit of the 2022/23 financial statements has been designed to support the appointed auditor's opinion as to whether the annual accounts give a true and fair view of the Joint Board's finances for the year ended 31 March 2023 and have been properly prepared in accordance with International Financial Reporting Standards and the Code of Practice on Local Authority Accounting in the UK 2022/23.

## Materiality

**15.** 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

**16.** We assess materiality at different levels as described in [Exhibit 1](#) on page [6](#) which sets out the 2022/23 materiality values for the Joint Board. Different levels of materiality have been identified for balances and income and expenditure transactions due to the disparity in values between the two. This reflects the fact that while the functions of the Joint Board are focussed on the major asset (i.e. the Tay Road Bridge), the annual spend primarily relates to revenue expenditure on the maintenance and operation of the bridge rather than capital additions or capital enhancement expenditure.

## Exhibit 1

### Materiality levels for the 2022/23 audit

Materiality	Amount
<b>Overall materiality levels based on net assets value as at 31 March 2022</b>	
<p><b>Planning materiality:</b> This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the Joint Board's operations. For the year ended 31 March 2023 we have set our overall materiality at 2% of net assets based on the audited financial statements for 2021/22.</p>	£1,200,000
<p><b>Performance materiality:</b> 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.</p>	£900,000
<p><b>Reporting threshold:</b> We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.</p>	£60,000
<b>Lower materiality levels based on gross expenditure for year ended 31 March 2022</b>	
<p><b>Planning materiality:</b> A lower materiality has been set for classes of transactions where lesser amounts could influence the decisions of the users of the accounts (i.e. comprehensive income and expenditure statement transactions). This has been set at 2% of gross expenditure based on the audited financial statements for 2021/22.</p>	£78,000
<p><b>Performance materiality:</b> 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.</p>	£58,500
<p><b>Reporting threshold:</b> We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.</p>	£4,000

Source: Audit Scotland

## Significant risks of material misstatement and other risks of material misstatement for the 2022/23 financial statements

**17.** 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.

**18.** Our risk assessment draws on our cumulative knowledge of the Joint Board and consideration of its major transaction streams, key systems of internal control and risk management processes. It is also informed by our discussions with management, meetings with internal audit, attendance at Joint Board meetings and review of other relevant information.

**19.** Based on our risk assessment process, we identify significant risks of material misstatement to the financial statements. These are the 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](#) on page 7 summarises the nature of these risks, the sources of assurance from management arrangements, and the further audit procedures we plan to perform to gain assurance over these risks.

## Exhibit 2

### Significant and non-significant risks of material misstatement for the 2022/23 financial statements

Nature of Risk	Sources of assurance	Planned audit response
<b>Significant risks of material misstatement</b>		
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></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"> <li>• Assess the design and implementation of controls over journal entry processing.</li> <li>• 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.</li> <li>• Test journals at the year-end and post-closing entries and focus on significant risk areas.</li> <li>• Consider the need to test journal entries and other adjustments during the period.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> <li>• Substantive test income and expenditure transactions around the year-end to confirm they are</li> </ul>

Nature of Risk	Sources of assurance	Planned audit response
		<p>accounted for in the correct financial year.</p> <ul style="list-style-type: none"> <li>• Test accounting accruals and prepayments focussing on significant risk areas.</li> </ul>
<b>Other non-significant risks of material misstatement</b>		
<p><b>2. Estimation in the valuation of pension assets and liabilities</b></p> <p>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).</p> <p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>• Use of clearly defined methodologies and procedures including experts, as appropriate, when making significant estimations and judgements.</li> </ul>	<ul style="list-style-type: none"> <li>• Assess the scope, independence and competence of the professionals engaged in providing estimates for pensions.</li> <li>• Review the appropriateness of actuarial assumptions and results including comparison with other councils and the pension fund as a whole.</li> <li>• Establish officers' arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by the council.</li> </ul>

Source: Audit Scotland

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

**20.** 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. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for the Joint Board as:



- Significant majority of income is received in the form of Scottish Government grant income which is deemed to carry a low risk of fraud.
- There is little incentive for management to manipulate revenue recognition and opportunities to manipulate revenue recognition are limited.

**21.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have considered each of the Joint Board's expenditure streams in turn, and based on our knowledge of the council, prior year considerations, and our risk assessment to date, we do not consider these to be susceptible to significant risk of material misstatement due to fraud.

**22.** We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures. Our audit testing will maintain an oversight of any unusual transactions or accounting entries.

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

**23.** 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.

**24.** The IT systems used to produce the Joint Board's financial statements are provided by Dundee City Council. We intend to seek assurances from the auditors of Dundee City Council regarding the nature and characteristics of the council's IT applications and IT infrastructure which support financial reporting in the Joint Board.

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

### **Audit of Management Commentary, Annual Governance Statement, and audited part of the Remuneration Report**

**26.** In addition to the appointed auditor's opinion of the financial statements, the Accounts Commission prescribes that the appointed auditor should provide opinions as to whether the Management Commentary, Annual Governance Statement, and audited part of the Remuneration Report, have been compiled in accordance with the appropriate regulations and frameworks and are consistent with the financial statements.

**27.** To inform these opinions we will consider whether the disclosures within each statement comply with the requirements of the applicable guidance and confirm that relevant information reflects the contents of the financial statements and other supporting documentation.

**28.** Based on our knowledge of the audit, and the established procedures in place to produce these statements, we have not identified any specific risks to be communicated to those charged with governance.

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# Wider Scope and Best Value

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**29.** The [Code of Audit Practice](#) 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.

**30.** In summary, the four wider scope areas cover the following:

- **Financial management** means having sound financial control processes. We will consider these arrangements and comment on financial management in our Annual Audit Report.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit and comment on the 2022/23 financial position and sustainability in our Annual Audit Report.
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the Joint Board’s vision, strategy and priorities. We also consider the effectiveness of the governance arrangements.
- **Use of resources to improve outcomes** – audited bodies must make best use of their resources to meet stated outcomes and improvement objectives. We will consider how the council demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

**31.** The Code of Audit Practice includes provisions relating to the audit of less complex bodies. Where the application of the full wider audit 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, concluding on the financial sustainability of the body and its services and the arrangements for securing Best Value. In the light of the low volume and lack of complexity of the financial transactions, we plan to apply the less complex body provisions of the Code to the 2022/23 audit of the Joint Board.

## Wider scope risks

**32.** Our planned work on our wider scope responsibilities is risk based and proportionate. We have not identified any additional local wider scope risks for the 2022/23 audit of the Joint Board.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

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

**34.** 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, prior to issue and publication of the final reports.

**35.** We will provide an independent auditor's report (audit certificate) to the Joint Board and the Accounts Commission setting out our opinions on the annual accounts. We will also provide the Joint 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.

**36.** [Exhibit 3](#) outlines the target dates for our audit outputs, and reflects our aim to issue the independent auditor's report by 4 December 2023

## Exhibit 3 2020/21 Audit outputs

Audit Output	Tay Road Bridge Joint Board meeting date
Annual Audit Plan	12 June 2023
Independent Auditor's Report	4 December 2023
Annual Audit Report	4 December 2023



Source: Audit Scotland

**37.** 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 Joint Board's audit by the 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 the audit process and not by the Joint Board which proposes to present unaudited accounts for audit by the 30 June 2023.

## Timetable

**38.** To support an efficient audit, it is critical that a timetable is agreed for the production and audit of the annual accounts. A proposed timetable for the audit that reflects our discussions with management is included at [Exhibit 4](#).

### Exhibit 4 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by the Joint Board as those charged with governance	12 June 2023
Latest submission date for unaudited annual accounts with complete working papers package to external audit	30 June 2023
Latest date for final clearance meeting	7 November 2023
Agreement of audited annual accounts for consideration by the Joint Board	14 November 2023
Issue of Proposed Annual Audit Report to those charged with governance (along with template letter of representation and proposed independent auditor's report)	14 November 2023
Joint Board meeting to consider Proposed Annual Audit Report and to approve and sign the audited annual accounts	4 December 2023
Independent auditor's report certified by appointed auditor	4 December 2023

Source: Audit Scotland

**39.** 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.

**40.** 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

**41.** In determining the audit fee, we have taken account of the risk exposure of the Joint Board and the planned management assurances in place. The agreed audit fee for 2022/23 is £14,960 (£13,290 in 2021/22), an increase of 12.5 per cent.

**42.** Fees have increased in 2022/23 and this reflects the current audit market and the rising costs in delivering high quality audit work. These include increased regulatory expectations and a widening in the scope of audit work.

**43.** In setting the fee we have assumed that the Joint Board 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. Where our audit cannot proceed as planned, a supplementary fee may be levied.

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# Other matters

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## Internal audit

**44.** It is the responsibility of the Joint Board to establish adequate internal audit arrangements. The Joint Board's internal audit function is provided by Henderson Loggie, who have been appointed for the financial years 2022/23 to 2024/25.

**45.** 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

**46.** 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.

**47.** 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.

**48.** 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. The appointed auditor for the audit of the Joint Board is Richard Smith, Senior Audit Manager. We are not aware of any such relationships pertaining to the audit of the Joint Board.

## Audit Quality

**49.** 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.

**50.** 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.

**51.** 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.

**52.** 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.

**53.** 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.



# Tay Road Bridge Joint Board

## Annual Audit Plan 2022/23

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](http://www.audit-scotland.gov.uk/accessibility)

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