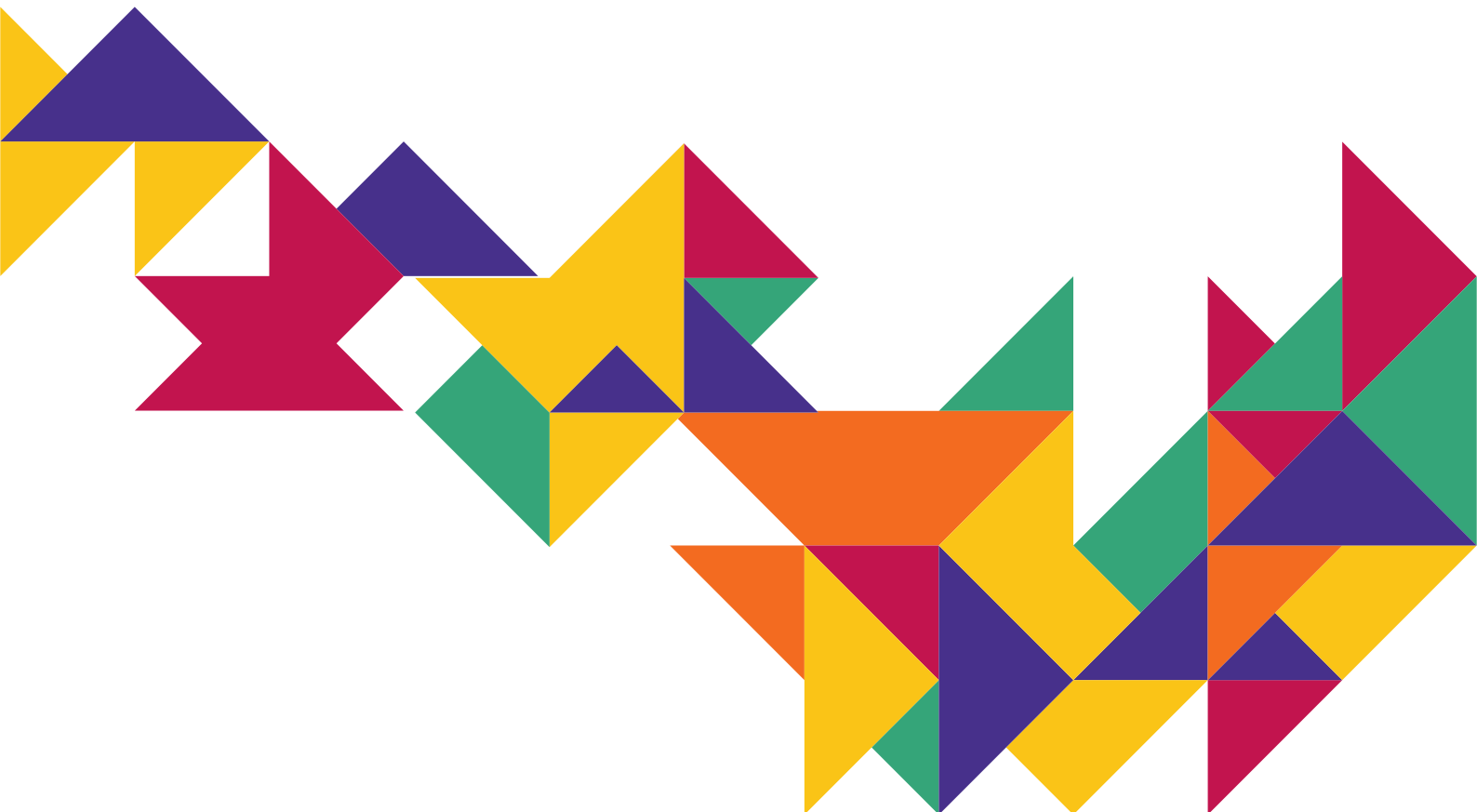


# South West of Scotland Transport Partnership

External audit plan for the financial year ending 31 March 2017 - Presented to those charged with governance

To Board 10<sup>th</sup> March 2017





Grant Thornton

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10<sup>th</sup> March 2017

Dear Members of the Board

## External audit plan for the financial year ending 31 March 2017

Please find enclosed our annual external audit plan addressed to the Members of the South West of Scotland Transport Partnership ("SWESTRANS") for the financial year ending 31 March 2017. We are delighted to have been appointed as your external auditors and look forward to working with you to ensure you get maximum value from our audit work.

Our plan sets out how as your auditors we will fully discharge our responsibilities as set out in the Audit Scotland Code of Audit Practice 2016 (the Code), as well as the requirements set out in International Standards of Auditing (ISA's) (UK and Ireland).

Under the Code, reflecting on the nature and size of SWESTRANS we have determined that the full wider scope audit is not appropriate. However, as set out in the Code, we will ensure our work allows us to make suitable conclusions in respect of the appropriateness of disclosures in the governance statement and the future financial sustainability of SWESTRANS particularly in relation to going concern.

In particular, our approach delivers:

- A robust, independent challenge of your judgements and key aspects of your financial statements, in particular in respect of the significant audit risks and other audit risks as highlighted in this plan
- An efficient and effective audit which is proportionate and risk based
- A clear and concise annual report addressed to those charged with governance and the Controller of Audit, reporting the outcome of our work during the year and reflecting our key judgements and conclusions over your arrangements as relevant to our audit role.

We look forward to working with you over the course of our appointment and discussing this plan with you.

Joanne Brown, Engagement Leader

Director, Public Sector Assurance  
For Grant Thornton UK LLP

#### Chartered Accountants

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# 1. Our approach at a glance

## A smooth transition

- We have extensive experience of transitioning into new clients and will do this at minimum disruption to you
- We will quickly look to build up good working relationships with the relevant members of the finance team at Dumfries & Galloway Council
- We will produce a high level plan with you upfront and agree key dates for our work, and deliverables

## Regular meetings throughout the process

- We will meet with you at key points in the year, discussing your emerging issues and acting as a sounding board
- Member of the team will attend Board meetings where we have papers to present
- We will hold private meetings with the Lead Officer and Board, if required.

## Feedback from you

- Debrief meeting with senior finance staff
- Action plan to address findings where relevant

## Completion

- Finalise the statutory annual accounts by 30<sup>th</sup> September
- Sign accounts (officers) and audit opinion (Grant Thornton)

## Board meeting – 22<sup>nd</sup> September 2017

- Present Annual Report to those Charged with Governance
- Discuss key audit issues; associated risks identified and action plan
- Hold pre-meeting with Board Chairman, if required

## Annual Report to those charged with Governance

- Sets out key audit and accounting issues and how these have been resolved
- Provides comments on systems and controls, and review of accounting policies
- Consideration and reporting in respect of financial sustainability

## Audit planning meeting

- Meeting with key management to identify audit risks/judgements in particular the Treasurer and Principal Accountant
- Agree client prepared schedules, accounts and audit timetables

## Audit Plan – 10<sup>th</sup> March 2017

- Confirm audit risk areas and agreed audit approach
- Set out audit scope and agreed timetable, including how we discharge our responsibilities under the Audit Scotland code of practice
- Formal communication with the Board

## Final accounts audit

- Focused on risk areas, with Engagement Lead review
- IDEA interrogation software utilised to provide efficiency and insight (data analytics)
- Audit issues and potential adjustments, discussed and cleared with you as they arise

## Annual report including annual governance statement

- Check the annual report is consistent with the accounts and meets the requirements set out in the Local Government (Scotland) Act 1973
- Check the annual governance statement is consistent with our knowledge of SWESTRANS

## Audit clearance meeting

- Discuss audit issues with management
- Agree treatment of any unadjusted differences
- Practical recommendations on systems and controls

# 1. Our approach at a glance (continued)

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In summary our audit is risk based and undertaken in accordance with International Standards of Auditing ("ISA (UK&I)") and Audit Scotland Code of Practice 2016.

Our audit will be largely substantive in nature although under our ISA requirements we will seek to understand SWESTRANS internal control environment, including policies and procedures, segregation of duties and budgeting and financial reporting arrangements.

We will liaise closely with the Dumfries & Galloway Council team and seek to place reliance on the work we perform on their systems and controls to maximise efficiency. The same audit team will be completing the work on both the Council and SWESTRANS.

## Wider Scope – Smaller Body

For smaller bodies we are allowed under the Audit Scotland Code of Practice to make a judgement on whether we deem it necessary to apply the full wider scope audit for SWESTRANS. Given the nature of the body as an organisation taking into account the limited complexity of your arrangements involving income and expenditure, we will be treat you as a smaller body under the Code.

However, we will still focus on financial sustainability considering your medium to longer term financial planning as relevant to your future strategic direction.

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## Internal Audit

As set out in ISA (UK&I) 610 'using the work of internal auditors' we are prohibited from using internal audit to provide direct assistance' to the audit, therefore we design our approach to internal audit to ensure compliance with these requirements.

We have reviewed the Internal Audit Plan prepared by Dumfries & Galloway Council for 2016/17 and will review reports finalised during the year and meet with Internal Audit to discuss their work including their understanding of the control environment and potential fraud risks. Should Internal Audit identify specific material deficiencies in the control environment during the year we will consider the impact of this on our planned audit approach and substantive testing, adjusting our work where appropriate.

We will work with internal audit in respect of our risk assessment, minimising any risk of duplication or inefficiency. However, we do not intend to take specific reliance on the work performed in the period.

## Professional standards

Our objective is robust, quality driven external audit which adds value to you. Our team works to the highest level of professional standards in delivering their work. Specifically we would highlight:

- professional scepticism will be applied throughout the audit, in particular in respect of significant or key judgements.
- we will provide independent challenge to management and insights based on our significant public sector experience, including Local Government.
- we will use IDEA, our data analytical software to effectively and efficiently test your balances and transactions during the year including journals.



## 2. Materiality

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We are required to audit the financial statements and to give an opinion as to:

- whether they give a true and fair view of the financial position of SWESTRANS and its expenditure and income for the period 1 April 2016 to 31 March 2017
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
- The part of the remuneration report which is subject to audit is free from misstatement.
- Whether the Annual Governance Statement has been prepared in accordance with Delivering Good Governance in Local Government

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### Determining materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

### Overall materiality

As is usual in public sector entities, we have determined materiality for the financial statements as a proportion of gross revenue expenditure of SWESTRANS. Using 2015/16 actual expenditure we have calculated our preliminary planning materiality as £49,190 (1% of gross expenditure).

It is normal practice for us to reconsider our materiality levels when final accounts are presented for audit. We will report any changes in our materiality threshold to you within our Annual Report to those charged with Governance.

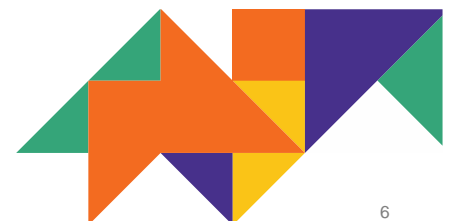
### Performance materiality

Performance materiality is set at £31,973 and is calculated based on 65% of materiality, and represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality.

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### Trivial

Under ISA 540, auditors set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £1,000. We will report to you any adjustments identified through our audit work if below these thresholds where we consider them to be material by nature.

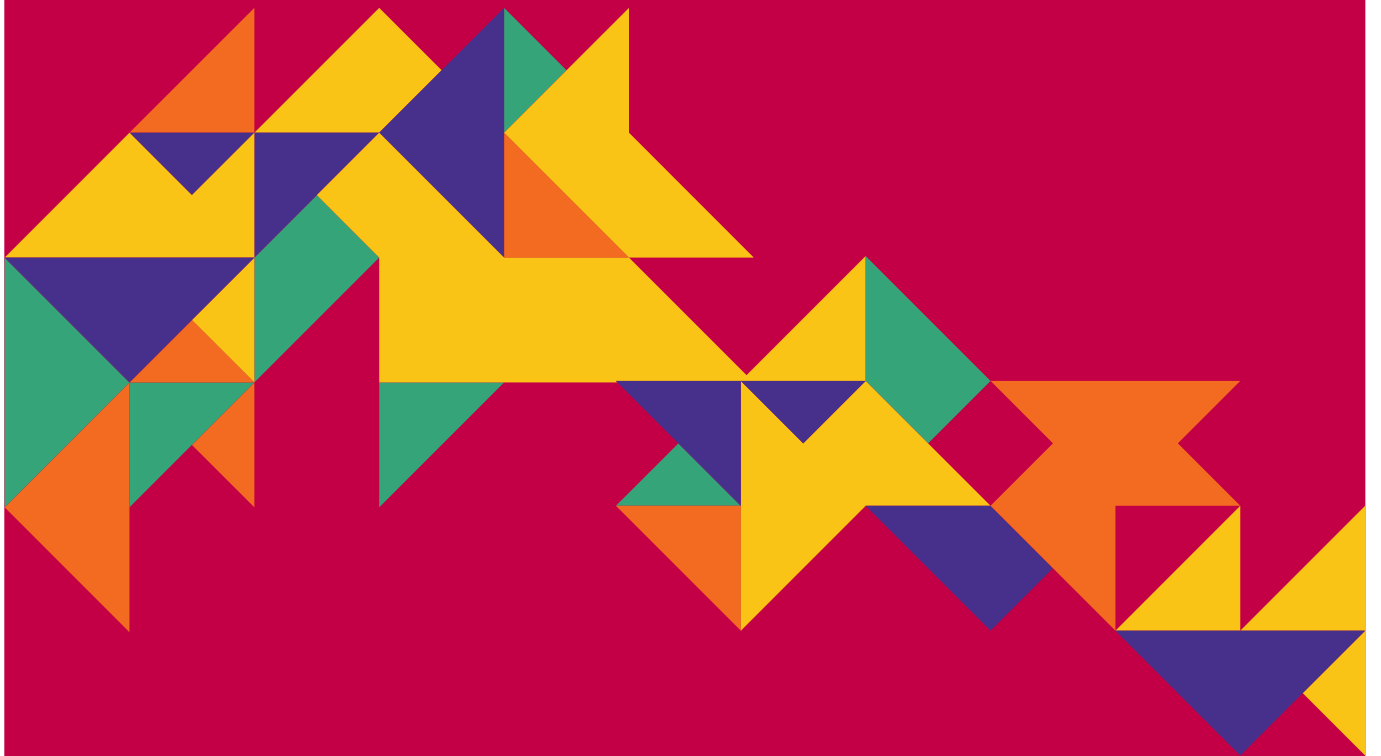


# 3. Audit risks

Significant Risk	Description of risk	Work planned
<p><b>1 Significant audit risk</b> Management override of controls</p>	<p>Under ISA (UK&amp;I) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities (fraud risk)</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>complete walkthroughs of the controls and procedures in place around journal entries;</li> <li>review the key accounting estimates, judgements and decisions made by management;</li> <li>test journal entries with a focus on unusual posting sources, times or amounts identified using our IDEA data analysis software; and</li> <li>review unusual and/or significant transactions.</li> </ul>
<p><b>2 Significant audit risk</b> The revenue cycle includes fraudulent transactions</p>	<p>Under ISA 240 (UK&amp;I) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>2015/16 revenue was composed of £3.739m from the Council, £0.259m of Scottish Government grants and £0.850m of Capital Grants and contributions. We have pinpointed this risk to the capital grant contributions. Having considered the risk factors set out in ISA (UK&amp;I) 240 and the nature of the revenue streams at the Partnership, we determined the risk of fraud arising from revenue recognition in relation to Council income and Scottish Government grants can be rebutted, because:</p> <ul style="list-style-type: none"> <li>there is little incentive to manipulate revenue recognition; and</li> <li>All revenues are received from the Scottish Government or Dumfries &amp; Galloway Council which are paid monthly by direct debit and align to the payment profile. Therefore, there is limited opportunity to manipulate reported revenues.</li> </ul>
<p><b>3 Other audit risk</b> Completeness of operating expenditure</p>	<p>Operating expenses are understated or not recorded in the right period. This risk also relates to Practice Note 10 (revised) in respect of public sector entities which outlines that auditors should also consider the risk that misstatement may occur by the manipulation of expenditure recognition (Fraud risk).</p>	<p>We will</p> <ul style="list-style-type: none"> <li>Complete walkthrough of the controls and procedures around operating expenditure at Dumfries &amp; Galloway Council as relevant to SWESTRANS</li> <li>Reconcile creditors ledger to the general ledger and financial statements</li> <li>Perform cut-off testing on pre-year end and post year end transactions to gain comfort around the completeness and accuracy of recognised expenditure</li> <li>Gain comfort around the regularity of expenditure and the application of public funds in accordance with Local Government (Scotland) Act 1973.</li> </ul>

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# Our team and deliverables

## The audit cycle



### Our team

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Date	Activity	Audit Scotland Deliverables
October/ November 2016	Audit Planning & Meetings with Management  Handover meeting with predecessor auditor  Review of predecessor audit file to gain comfort over opening balances	
March 2017	Audit Plan presented to the Board	Submit Audit Plan (deadline for Board 10 March 2017, Audit Scotland Local Government Deadline 31 March 2017)
June 2017	Year end fieldwork commences (timing to be finalised)	Contribute to Audit Scotland follow up of Role of Boards (Deadline 30 June 2017)
July 2017	Audit findings meeting with Treasurer and principal accountant	
September 2017	Report audit findings to those charged with governance (the Board) – 22 <sup>nd</sup> September  Sign financial statements opinion	Certify annual accounts, submit annual accounts and annual audit report

# Independence and fees

## Audit Fee

Service	Fees £
External Auditor Remuneration	8,170
Pooled Costs	710
Contribution to Audit Scotland	490
<b>Expected Fee</b>	<b>9,370</b>

The audit fee is calculated in accordance with guidance issued by Audit Scotland. Audit Scotland sets an expected fee for each body that assumes the organisation has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate accounts, does not have significant non-standard or complex transactions and contracts and meets the agreed timetable for audit. The auditor remuneration element of the fee may be varied up to 10% above the expected fee where local issues require additional work to be undertaken.

We have agreed that the fee for 2016/17 will be maintained at expected fee as shown above.

Typically our fee assumptions include:

- supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- the scope of the audit, and SWESTRANS activities will not change significantly from planned
- SWESTRANS and Dumfries & Galloway Council will make available management and accounting staff to help us locate information and to provide explanations.
- We will only receive (and audit) no more than 3 sets of accounts (1<sup>st</sup> draft; amended draft and final).

## Fees for other services

Service	Fees £
At planning stage we confirm there are no non-audit fees	Nil

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Annual Report to those charged with governance at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team. We can confirm no independence concerns have been identified.



# Fraud arrangements

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The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at SWESTRANS.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relations to management override of controls.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error. We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. In addition, we will ask the question of the Board at the planning stage and routinely during the audit.

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The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is SWESTRANS responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we work with SWESTRANS to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide an appropriate framework of internal control.



# Respective responsibilities

As set out in the Code of Audit Practice (pages 10 to 16) there are a number of key responsibilities you as an organisation are responsible for, and others, as appointed auditors we are responsible for. These are summarised below:

Area	SWESTRANS Responsibilities
<b>Corporate governance</b>	<ul style="list-style-type: none"> <li>• Establishing arrangements for proper conduct of its affairs</li> <li>• Legality of activities and transactions</li> <li>• Monitoring adequacy and effectiveness of arrangements (inc role of those charged with governance)</li> </ul>
<b>Financial statements</b>	<ul style="list-style-type: none"> <li>• Preparing financial statements which give a true and fair view of their financial position</li> <li>• Maintaining accounting records and working papers</li> <li>• Putting in place systems of Internal Control</li> <li>• Maintaining proper accounting records</li> <li>• Preparing and publishing an annual governance statement, management commentary and remuneration report</li> <li>• Effective systems of internal control as well as financial, operational and compliance controls – supporting achievement of objectives and secure value for money</li> </ul>
<b>Financial position</b>	<ul style="list-style-type: none"> <li>• Proper arrangements to ensure financial position is soundly based and responsibility to ensure arrangements secure best value</li> </ul>
<b>Fraud and error</b>	<ul style="list-style-type: none"> <li>• Establishing appropriate arrangements for prevention and detection of fraud, error, irregularities, bribery and corruption and affairs are properly managed</li> </ul>

## Our responsibilities

- Undertake statutory duties and comply with professional engagement and ethical standards
- Provide an opinion on financial statements and where appropriate regularity of transactions
- Review and report on, as appropriate, other information eg annual governance statements, management commentary, remuneration reports
- Notify the Controller of Audit when circumstances indicate a statutory report may be required

## How do we do this in practice

- By reviewing and providing judgements and conclusions on SWESTRANS arrangements
- Suitability of corporate governance arrangements in year
- Financial position and arrangements for ensuring financial sustainability in the medium to longer term
- Review of other information in line with our knowledge and understanding of SWESTRANS
- Ongoing dialogue and engagement with Audit Scotland during the year

Weaknesses and risks identified by us as your auditors are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by us of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

# Communication of audit matters with those charged with governance (summary of ISA requirements)

Our communication plan	Audit Plan	Annual Audit Report
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document outlines our audit strategy and plan to deliver the audit, while the Annual Audit Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to SWESTRANS.



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