



Scott-Moncrieff  
business advisers and accountants

# Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee

External Audit Plan  
2016/17

March 2017

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# Introduction

# Introduction

1. This document summarises the work plan for our 2016/17 external audit of Strathclyde Partnership for Transport ("SPT") and Strathclyde Concessionary Travel Scheme Joint Committee ("SCTSJC").
2. The core elements of our work include:
  - an audit of the 2016/17 financial statements of both SPT and SCTSJC and related matters;
  - an interim audit, taking into consideration the work of internal audit, on accounting systems;
  - a review of arrangements for governance and transparency, financial management, financial sustainability and value for money; and
  - any other work requested by Audit Scotland.

## Audit appointment

3. The Accounts Commission is an independent body appointed by Scottish Ministers responsible for securing the audit of local authorities and other local government bodies. The Commission's work is governed mainly by the Local Government (Scotland) Act 1973.
4. Audit Scotland is an independent statutory body that provides the Accounts Commission with the services required to carry out their statutory functions, including monitoring the performance of auditors through a quality control process.
5. The Accounts Commission has appointed Scott-Moncrieff as external auditor of the SPT and SCTSJC for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2016/17 and summarises:
  - the responsibilities of Scott-Moncrieff as the external auditor;
  - our audit strategy;
  - our planned audit work and how we will approach it;
  - our proposed audit outputs and timetable; and
  - background to Scott-Moncrieff and the audit team.

## Adding value through the audit

6. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to SPT through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help SPT promote improved standards of governance, better management and decision making and more effective use of resources.
7. Any comments you may have on the service we provide would be greatly appreciated at any time. Full contact details for your audit team can be found in Appendix 1.
8. While this plan is addressed to SPT and SCTSJC, it will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

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# Responsibilities of Scott-Moncrieff

# Responsibilities of Scott-Moncrieff

## Code of Audit Practice

- 9. The Code of Audit Practice (the Code) outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.
- 10. A new Code of Audit Practice was published in 2016 and applies to external audits for financial years starting on or after 1 April 2016. This Code replaces the previous one issued in 2011.

## Auditor responsibilities

- 11. The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the annual accounts, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.
- 12. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.

**Exhibit 1: Audit dimensions of wider scope public audit**

Audit area	Scope
<b>Financial sustainability</b>	Financial sustainability looks forward to the medium (two to five years) and the longer term (over five years) to consider whether the body is planning effectively to allow it to continue to fulfil its functions in an affordable and sustainable manner.
<b>Financial management</b>	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
<b>Governance and transparency</b>	Governance and transparency covers the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.
<b>Value for money</b>	Value for money is concerned with using resources effectively and continually improving services.

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# Audit Strategy

# Audit strategy

## Risk-based audit approach

13. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to SPT and SCTSJC. This ensures that our audit focuses

on the areas of highest risk. Our audit planning is based on:



14. Planning is a continuous process and our audit plans are therefore updated during the course of our audit to take account of developments as they arise.

## Communications with those charged with governance

15. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed with SPT that these communications will be through the Audit and Standards Committee.

## Professional standards and guidance

16. We perform our audit of the annual accounts in accordance with International Standards on Auditing (UK and Ireland) (ISAs), the International Standard on Quality Control 1 (UK and Ireland), Ethical Standards, and applicable Practice Notes and other guidance issued by the Auditing Practices Board (APB).

## Partnership working

17. We will coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

## Audit Scotland

18. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We will share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

## Internal audit

19. We are committed to avoiding duplication of audit effort and ensuring an efficient use of SPT's total audit resource. SPT has an in-house internal audit team. We will consider the findings of the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource to SPT is used efficiently and effectively.



# Financial statements

# Financial statements

## Introduction

20. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of both SPT's and SCTSJC's financial statements.

## Approach to audit of financial statements

21. Our opinion on the annual accounts will be based on:

### Risk-based audit planning

22. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the annual accounts will be based.

### An audit of key systems and internal controls

23. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the financial statements.
24. The systems we review and the nature of the work we perform will be based on the initial risk assessment. We will examine and test compliance with best practice and SPT's own policies and procedures.
25. We will take cognisance of any relevant internal audit reviews of systems and controls.
26. We will update the risk assessment following our evaluation of systems and controls and this will ensure that we continue to focus attention on the areas of highest risk.

### A final audit of the annual accounts

27. During our final audit we will test and review the material amounts and disclosures in the financial statements. The extent of testing will be based on our risk assessment.
28. Our final audit will seek to provide reasonable assurance that the financial statements are free from material misstatement and comply with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code).

## Independent auditor's report

29. Our opinion on whether the financial statements give a true and fair view of the financial position and the income and expenditure will be set out in our independent auditor's report which will be included in the financial statements.

## Materiality

30. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We will review our assessment of materiality throughout our audit.

### SPT materiality

31. Our initial assessment of materiality for SPT's financial statements is £1.3million, being approximately 2% of SPT's 2016/17 budget (£66.757million). SPT sets a balanced budget at the start of the year; achieving a balanced outturn at the end of the year is deemed to be one of the principal considerations for the users of the financial statements when assessing financial performance.

### SCTSJC materiality

32. Our initial assessment of materiality for STCSJC's financial statements is £80,000, being 1.8% of the STCSJC's 2016/17 gross expenditure. Achieving the budgeted position is a key target for the STCSJC and one of the principal considerations for the users of the financial statements when assessing financial performance.

### Performance materiality

33. We set a performance (testing) materiality for each area of work which is based on a risk assessment for the area. We will perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas

deemed to be of significant risk of material misstatement.

	Area risk assessment		
	High (45%)	Medium (55%)	Low (70%)
SPT	£585,000	£715,000	£910,000
SCTSJC	£36,000	£44,000	£56,000

34. We will report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements;
  - Uncorrected misstatements with a value in excess of 2% of the overall materiality figure (i.e. over £26,000 (SPT); £1,600 (SCTSJC); and

- Other misstatements below the 2% threshold that we believe warrant reporting on qualitative grounds.

## Key audit risks in the annual accounts

35. Auditing standards require that we inform the Audit and Standards Committee of our assessment of the risk of material misstatement in the financial statements. We have set out our initial assessment below, including how the scope of our audit responds to those risks (Exhibits 2 and 3). We will provide an update to the Audit and Standards Committee if our assessment changes significantly during the audit.

## Exhibit 2 – Key audit risks in SPT’s financial statements

### 1. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA 240 - *The auditor’s responsibilities relating to fraud in an audit of financial statements*.



36. In response to this risk we will review SPT’s journals and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly.

### 2. Revenue Recognition

Under ISA 240 - *The auditor’s responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that SPT could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.



37. Our work on income will include an evaluation of each type of revenue transaction and review the controls in place over revenue accounting. We will consider the SPT’s key revenue transactions and streams and carry out testing to confirm that the SPT’s revenue recognition policy is appropriate and has been applied consistently throughout the year.

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## Exhibit 2 – Key audit risks in SPT’s financial statements

### 3. Property, plant and equipment

SPT has a significant capital investment programme. The Capital Programme 2016/17 (March 2016) planned for capital expenditure of £90.320 million (Category 1 and 2 programmes combined).

There is a risk of material misstatement to the financial statements relating to the recognition of capital expenditure, impairments, subsequent expenditure and disposals.



38. Our audit work will review delivery of the 2016/17 capital budget against outturn. We will also review management's impairments and agree the valuation of assets to the independent valuer's report. We will also undertake testing on significant additions, disposals and depreciation.

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## Exhibit 3 – Key audit risks in SCTSJC’s financial statements

### 1. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.



39. In response to this risk we will review SCTSJC's journals and obtain evidence to ensure that any significant transactions outside the normal course of business (unusual journal postings sources, times or amounts) were valid and accounted for correctly.

### 2. Revenue Recognition

Under ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that SCTSJC could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.



40. SCTSJC is funded by contributions received from the local authorities within the area served by the Scheme and from a draw on reserves. The funding is set as part of the budget process. These income streams are agreed in advance of the year and any changes require approval. At this stage of our audit cycle, we do not believe the risk of fraud in revenue recognition is material to the financial statements and have therefore rebutted this risk. We will however continue to review this position throughout the audit.

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# Wider scope audit

# Wider scope audit

## Introduction

- 41. The Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. As part of our annual audit we will consider and report against these four dimensions; financial sustainability, financial management, governance and transparency and value for money. We have considered SPT's self-evaluation arrangements as they relate to these four dimensions.
- 42. At this stage of our audit planning process, we have identified two significant risks for SPT, to the wider scope of our audit in relation to financial sustainability and governance and transparency. We have not, at this stage, identified any significant risks in relation to the other two dimensions; financial management, or value for money (Exhibit 4). Audit planning however is a continuous process and we will report any identified significant risks, as they relate to the four dimensions, in our annual audit report.
- 43. The Code does however recognise that the full application of its requirements may be impractical or inappropriate due to the nature or size of the organisation. As such our planned work should be risk based and proportionate.
- 44. Where the application of the full wider scope is judged by us not to be appropriate then our annual audit work on the wider scope is restricted to:
  - Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and
  - Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.
- 45. During the audit planning process we have considered the SCTSJC's self-evaluation arrangements as they relate to these four dimensions. From review of this information, we have concluded that our audit work on the wider scope, for SCTSJC's, will be restricted to the two areas noted above; appropriateness of the disclosures in the governance statement and financial sustainability (Exhibit 5).

### Exhibit 4 - Wider scope audit SPT

**Financial sustainability:** Financial sustainability looks forward to the medium and longer term to consider whether SPT is planning effectively to continue to fulfill its functions in an affordable and sustainable manner.

SPT's responsibilities	Our audit approach
<p>It is SPT's responsibility to put in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with any statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• How the organisation plans to deal with uncertainty in the medium and long term; and</li> </ul>	<p>During our 2016/17 audit we will consider SPT's financial standing. This will involve a review of the arrangements in place for short, medium and long term financial planning, budgetary control and financial reporting. It is important that such arrangements are adequate in order to properly control SPT's operations and use of resources.</p>
	<p><b>Key audit risk</b></p> <p>SPT has produced a RTS Delivery Plan 2014-17 and a supporting Business Plan 2016/17. The RTS Delivery Plan sets out strategic priorities for the Partnership, but revenue funding is generally only confirmed for the</p>

**Exhibit 4 - Wider scope audit SPT**

<ul style="list-style-type: none"> <li>The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>	<p>forthcoming financial year. This challenges SPT's ability to agree detailed long-term plans and objectives. There is therefore a risk that there is a disconnect between medium and long-term objectives and the associated financial plans.</p> <p>During our audit we will consider whether SPT has adequate arrangements in place for managing its financial position and its use of resources. Our conclusion will be based on a review of SPT's financial performance, underlying financial position, financial plans, financial reporting and achievement of savings targets.</p>
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**Financial management:** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

SPT's responsibilities	Our audit approach
<p>SPT is responsible for ensuring that its financial affairs are conducted in a proper manner. Management are responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.</p> <p>SPT is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>It is SPT's responsibility to establish arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>	<p>During our 2016/17 audit we will review, conclude and report on the following:</p> <ul style="list-style-type: none"> <li>Whether SPT has arrangements in place to ensure systems of internal control are operating effectively;</li> <li>Whether SPT can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely performance;</li> <li>How SPT has assured itself that its financial capacity and skills are appropriate;</li> <li>Whether SPT has established appropriate and effective arrangements for the prevention and detection of fraud and corruption; and</li> <li>SPT's participation and progress in the National Fraud Initiative.</li> </ul>

**Governance and transparency:** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

SPT's responsibilities	Our audit approach
<p>SPT is responsible for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. SPT should involve those charged with governance in monitoring these arrangements.</p> <p>SPT is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>	<p>We will review the effectiveness of the SPT's governance framework and the extent to which the Partnership and committee roles, membership and terms of reference comply with current guidance: <i>Delivering good governance in local government framework (2016)</i>.</p> <p>We will consider whether the information provided to the Partnership and committees is sufficient for members to assess the impact of decisions on resources and performance.</p> <p>Our work will include consideration of how risk management has been addressed within SPT. We will also consider SPT's internal audit arrangements to determine their role in examining the control systems established by management.</p> <p><b>Key audit risk</b></p> <p>In May 2017 local government elections will take place. It is the Partnership's responsibility to manage any impact this may have on the governance. SPT should ensure appropriate arrangements are in place (such as induction training) to ensure new Partnership members are prepared to undertake their new responsibilities, such as authorisation of should be reflected in the Annual Governance Statement.</p> <p>There is a risk that the appropriate disclosures are not made in the Governance Statement. During our 2016/17 audit we will consider the appropriateness of disclosures made in the Governance Statement.</p>

**Value for money:** Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.

SPT's responsibilities	Our audit approach
<p>Audited bodies have a specific responsibility to ensure that arrangements have been made to secure best value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p>	<p>We will work with SPT to identify and review evidence which demonstrates the achievement of value for money in the use of its resources.</p> <p>We will seek evidence from SPT that outcomes are improving and there is sufficient focus on improvement and the pace of it.</p>

Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. We will work with Audit Scotland during the year to understand the outputs from this work and identify any particular reports that SPT may have a direct interest in.

## Exhibit 5 - Wider scope audit SCTSJC

### Financial sustainability

SCTSJC is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:

- Such financial monitoring and reporting arrangements as may be specified;
- Compliance with any statutory financial requirements and achievement of financial targets;
- Balances and reserves, including strategies about levels and their future use;
- How the organisation plans to deal with uncertainty in the medium and long term; and
- The impact of planned future policies and foreseeable developments on the financial position.

### Our audit approach

During our 2016/17 audit we will consider the SCTSJC's financial standing. This will involve a review of the arrangements in place for short, medium and long term financial planning, budgetary control and financial reporting. It is important that such arrangements are adequate in order to properly control the SCTSJC's operations and use of resources.

### Governance statement

The Partnership is responsible for ensuring appropriate disclosures are made in the Governance Statement. These should cover the period to when the financial statements are authorised for issue and should consider:

- Any impact from the local government elections in May 2017;
- Any other governance issues arising during the year;
- The governance framework within which the Partnership operates and its effectiveness; and
- Any other disclosures deemed necessary.

### Our audit approach

There is a risk that the appropriate disclosures are not made in the Governance Statement.

During our 2016/17 audit we will consider the appropriateness of disclosures made in the Governance Statement.

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# Audit outputs, timetable and fees

# Audit outputs, timetable and fees

Audit output	Format	Description	Target month
External audit plan	Report	This report sets out the scope of our audit for 2016/17.	March 2017
Interim audit report	Report	This report will summarise our interim work on accounting systems.	March 2017
Independent Auditor's Report	Report	This report will contain our opinions on the truth and fairness of the financial statements.	September 2017
Annual Report to SPT and SCTSJS and the Controller of Audit	Report	At the conclusion of each year's audit we will issue an annual report setting out the nature and extent of our audit work for the year and summarising our opinions, conclusions and the significant issues arising from the work. This report will pull together all of our work under the Code of Audit Practice.	September 2017

## Audit outputs

46. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.
47. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

## Audit fee

48. Audit Scotland has completed a review of funding and fee setting arrangements and as a result revised its fee strategy. It now sets an expected fee for each audit carried out under appointment that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee will be reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.
49. As auditors we negotiate a fee with the audited body during the planning process. The fee may be varied above the expected fee level to reflect

the circumstances and local risks within the body.

50. For 2016/17 we propose setting the audit fees at the expected fee level. The expected fee for SPT and SCTSJC for the 2016/17 audits are as follows:

2016/17	SPT	SCTSJC
Auditor remuneration	£46,650	£4,290
Pooled costs	£4,060	£370
Performance audit and Best Value	£14,830	£0
Audit support costs	£2,790	£260
<b>Total expected fee</b>	<b>£69,330</b>	<b>£4,920</b>

51. We will take account of the risk exposure of SPT and SCTSJC and the management assurances in place. We assume receipt of the draft accounts and working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we

reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

52. The audit fees in 2015/16 were £64,780 and £5,000 for SPT and SCTSJJC respectively. SPT's total expected fee for 2016/17 has increased by 7.0% from 2015/16. This is primarily due to the increase in the Performance audit and Best Value element. SCTSJJC's total expected audit fee for 2016/17 is relatively consistent with 2015/16 audit fee.

### Audit timetable

53. The dates for our interim and final audits have been discussed with the Director of Finance & HR and Chief Accountant. A summary timetable, including audit outputs, is set out below:



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## Appendices

# Appendix 1: Your audit management team

Scott-Moncrieff is one of the largest independent accountancy firms in Scotland. We have 18 partners and over 200 staff operating from Edinburgh, Glasgow and Inverness. We are also part of the global Moore Stephens network.

We have been external auditors within the public sector for at least fifty years. We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE colleges. We also provide services to charities, schools, as well as private and public limited companies.

Edinburgh	Glasgow	Inverness
Exchange Place 3 Seiple Street Edinburgh EH3 8BL	25 Bothwell Street Glasgow G2 6NL	Scott-Moncrieff 10 Ardross Street Inverness IV3 5NS
(0131) 473 3500	(0141) 567 4500	(01463) 701 940

## Your audit management team



**Gary Devlin**

**Partner**

[gary.devlin@scott-moncrieff.com](mailto:gary.devlin@scott-moncrieff.com)

Gary is Head of the Firm's Public Sector Practice and has over 20 years' experience in undertaking audit work across a wide range of public sector organisations.

Gary will have overall responsibility for the delivery of the audit.



**Karen Jones**

**Director**

[karen.jones@scott-moncrieff.com](mailto:karen.jones@scott-moncrieff.com)

Karen has over 15 years' experience in auditing the public sector. She has extensive experience in auditing in auditing local authorities. She also manages a number of external audit appointments to arms-length external organisation of local authorities.

Karen will manage the onsite audit team and work alongside Gary to deliver the audit engagement.



**Georgina Philp**

**Assistant Manager**

[georgina.philp@scott-moncrieff.com](mailto:georgina.philp@scott-moncrieff.com)

Georgina has over five years' public sector experience. She has delivered external audit services to a range of public sector bodies, including local government.

Georgina will be responsible for the delivery of the onsite work.

## Confirmation of independence

ISA 260 requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we will comply with APB Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff and the Partnership, its Partnership members and senior management that may reasonably be thought to bear on our objectivity and independence.

# Appendix 2: Statement of understanding

## Introduction

The purpose of this statement of understanding is to clarify the terms of our appointment and the key responsibilities of SPT and SCTSJC and Scott-Moncrieff.

## Annual accounts

We will require the annual accounts and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant SPT staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit. We will issue a financial statements strategy which sets out roles, responsibilities and expectations in terms of audit deliverables. This document helps to ensure we can work together effectively to deliver an efficient and effective audit.

## Scope of audit

As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for SPT's responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from the Partnership during the course of the audit on matters having a material effect on the annual accounts. This will take place by means of a letter of representation, which will require to be signed by the Assistant Chief Executive (Business Support).

## Internal audit

It is the responsibility of SPT to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective internal audit function exists.

We will liaise with internal audit to ensure an efficient audit process.

## Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

## Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants of Scotland.

## Fees

We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved. The indicative financial statements strategy referred to above is a key means for us to clarify our expectations in terms of quality, quantity and extent of working papers and supporting documentation.

## Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting Gary Devlin. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants of Scotland.

We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

## Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work.

Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target

dates for implementation and details of the responsible officer.

### **Agreement of terms**

We shall be grateful if SPT would consider and note this statement of understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.



**Scott-Moncrieff**  
business advisers and accountants

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