



South West of Scotland Transport Partnership (SWestrans)

External Audit Plan for the financial year ending 31 March 2019

Board meeting 8 March 2019

Final Audit Plan

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Engagement Leader

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Our audit at a glance



Planning materiality is set at 2% of SWestrans' 2018/19 gross expenditure budget (£86,000). We have calculated overall materiality in line with gross expenditure as this is recognised as a common and appropriate benchmark upon which to base materiality in the public sector. The materiality threshold and method of calculation is unchanged from the prior year (2017/18: 2%).



Performance materiality is set at 75% and trivial is 5% of materiality. This reflects no audit adjustments in prior year and our understanding of SWestrans in year 3 of our audit cycle.



Significant audit risks are: management override of controls and risk of fraud in expenditure as set out in FRC practice Note 10. We have rebutted the presumed risk of fraud arising from revenue recognition due to the income received by SWestrans coming from the Scottish Government via grant funding.

An audit
underpinned by
quality and adding
value to you



Our audit is undertaken in accordance with the Audit Scotland Code of Audit Practice. SWestrans activities have not changed significantly compared with prior year, therefore, we do not consider a full wider scope audit to be appropriate. However, we will consider SWestrans financial sustainability and governance arrangements as part of our audit work.

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Overarching principles of our audit

Our audit is risk based and undertaken in accordance with the International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016 ('the Code').

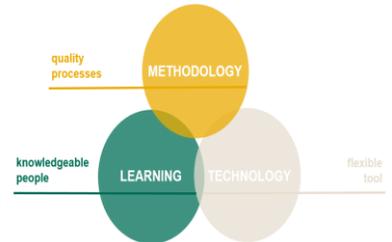
Our overall objective is a effective, quality-focused external audit which adds value through wider insights and challenge. Our audit foundations are:

- ✓ professional scepticism
- ✓ a focus on audit risks and key areas of officers judgement
- ✓ Delivering a quality audit through our experienced public sector audit team, use of data analytics to focus our audit and understanding of the organisation
- ✓ clear and upfront communications, with regular communication during the year
- ✓ reporting with focused actions which will support you in improving your controls/operations

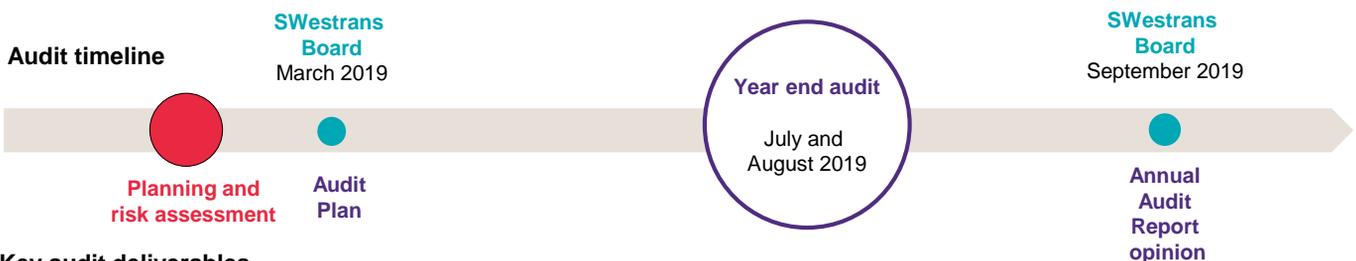
Adding value

Our aim is to add value to SWestrans through our external audit work. This will be delivered through delivering a high quality audit. Specifically for SWestrans we will also undertake the following arrangements:

- **Robust and effective audit methodology:** Our ISA compliant audit methodology is tailored to **focus audit resource on significant risk areas** and key estimates and judgements.
- **Investing in our people:** Our resourcing model is designed to ensure you have a **skilled, experienced and knowledgeable audit team**.
- **Investing in technology:** We continue to invest in data analysis and audit software to deliver more **efficient ISA compliant audit processes**.



We will share relevant Audit Scotland and Grant Thornton publications with the Board, identifying particular areas for consideration. We will pro-actively work with administering body (Dumfries and Galloway Council) during the year to discuss any new or emerging matters.



Key audit deliverables

2018/19 Deliverables as set out in the Audit Scotland planning guidance (October 2019)

- Confirmation of agreed fee by end of March 2019.
- Submission of progress reports to Audit Scotland on a quarterly basis.
- Current issues returns to Audit Scotland (21 January 2019, 22 March 2019 and 18 Oct 2019).
- Submission of fraud cases to Audit Scotland on a quarterly basis.
- Submission of annual audit report and audited accounts (deadline 30 September 2019).

Planned Audit Scotland publications which may be relevant to SWestrans

- Local government in Scotland: Challenges and performance 2019 (To be published spring 2019).
- Scotland's City Region and Growth Deals (To be published autumn 2019).

External Audit deliverables for 2018/19 – SWestrans Board

- External Audit Plan (this document).
- Annual Report to those Charged with Governance and the Controller of Audit (September 2019).
- Audit opinion (September 2019).
- Management letter of representation (September 2019).

Audit approach and materiality



We undertake your audit in accordance with International Standards on Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). On an annual basis we are required to give an opinion as to whether the Financial Statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code
- have been properly prepared in accordance with International Financial Reporting standards as adopted by the European Union, as interpreted and adapted by the 2018/19 Code
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.
- The information contained within Management Commentary and Annual Governance Statement is consistent with the financial statements and prepared in accordance with applicable guidance.
- The audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) regulations 2014.

Basis for materiality

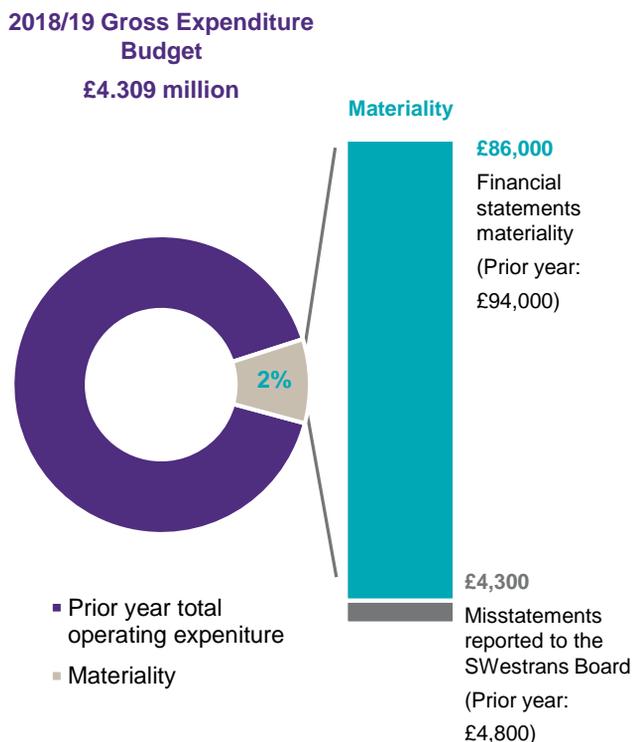
We determine financial statement materiality based on a proportion of the total 2018/19 gross expenditure budget. We have determined materiality to be **£86,000** (prior year £94,000), which equates to approximately **2%** of your total 2018/19 gross expenditure budget. This is based on our judgement of our consideration of material to the user of the account based on understanding of SWestrans. We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Performance materiality

Performance materiality 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. Based on our audit experience in 2017/18 including identified audit adjustments, we have set performance materiality at 75% and this remains unchanged from prior year (2017/18: 75%). Performance materiality determines those accounts which testing will be undertaken on and the level of sample testing performed where applicable.

Reporting to those charged with governance

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Board any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. We have determined this threshold to be **£4,300**.



A risk based audit methodology

This is third year as the external auditors of SWestrans appointed under the Audit Scotland framework. In 2017/18, SWestrans recorded a surplus on the provision of services of £15,000. SWestrans income is primarily through government and service grant funding. The expenditure budget for 2018/19 of £4,308,789 was agreed by the Board on 9 March 2018.

SWestrans was established under the Transport (Scotland) Act 2005 and Dumfries and Galloway Council's public transport functions were transferred to SWestrans under a Transfer of Functions Order on 7 November 2006. The organisations strategic aim is to develop a transportation system for the region.

SWestrans continues to work with its various partners to support the delivery of its strategic priorities outlined within the Regional Transport Strategy. The organisation is not allowed to retain general fund balances at the year end and is therefore unable to report a surplus or deficit. If the organisation was in deficit position then it can requisition the shortfall from Dumfries and Galloway Council . However, SWestrans aims to achieve a breakeven position annually and did so in the year ended 31 March 2018.

Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Overview of our significant audit risks identified at planning and our proposed approach

Risk area	Description of risk	Planned response
Risk of fraud in revenue recognition	<p>As set out in ISA 240, there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>SWestrans is grant funded. The grant funding is well forecasted and agreed directly to funding letters and therefore there is an inherently lower risk of fraud.</p> <p>We have rebutted the presumed risk of fraud arising from revenue recognition due to the income received by SWestrans coming from the Scottish Government via grant funding.</p> <p>We will therefore consider the revenue balance as part of our year end audit but not at a significant risk level</p>	
Fraud in expenditure recognition as set out in Practice Note 10.	<p>Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As set out in Practice note 10 (revised) which applies to public sector entities. As payroll expenditure is well forecast and agreeable to underlying payroll systems there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on non-pay expenditure. We consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of non-pay expenditure.</p>	<ul style="list-style-type: none"> Perform cut off procedures over year end transactions. We will test in detail post year end transactions and recording. We will analytically review expenditure incurred around the year end to determine if there is any indication of manipulation or misrepresentation. Walkthrough of the key expenditure controls in place.
Management override of controls	<p>As set out in ISA 240, across all entities there is a presumed risk of fraud being perpetrated by management through its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. override of controls is present in all entities.</p>	<ul style="list-style-type: none"> A focus on understanding how/where management override of controls may occur. Review of the controls over journal entries using our data analyser tool to focus on higher risk journals. Understanding key areas of judgement and accounting estimates within the financial statements and the basis for these judgements and the application of accounting policies. Reviewing unusual and/or significant transactions that are out with the normal course of business for the entity to understand the rationale for these transactions.

A risk based audit methodology

Going concern considerations

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern” (ISA (UK) 570).

We will review management’s assessment of the going concern assumption and evaluate the disclosures in the financial statements, confirming these are appropriate through our substantive testing.

Working with Internal Audit

We will aim to not duplicate the work of your Internal Auditors. We will consider the internal audit plan for 2018/19 and identify any particular areas relevant to our audit responsibilities and any area of risk which may impact on our planned testing approach. We will continue to consider the work of internal audit throughout the year and maintain an ongoing, open, dialogue with internal audit.

Internal control environment

Throughout our audit planning and fieldwork we will continue to develop our understanding of the overall control environment (design) as related to the financial statements. In particular we will:

- Consider procedures and controls around related parties, journal entries and other key entity level controls.
- Perform walkthrough procedures on key controls around identified risk areas including payroll expenditure, other expenditure, journal entries and material areas of management estimate and judgement
- Consideration of the design of the controls in operation at Dumfries and Galloway Council as administrative authority for SWestrans

Wider scope approach - Smaller Body arrangements

For smaller bodies the Audit Scotland Code of Practice permits auditors to not apply the full wider scope audit. In our judgement, taking into account the nature of SWestrans operating activity and income and expenditure streams, we feel it is appropriate to continue to treat you as a smaller body under the Code. However, in accordance with Audit Scotland planning guidance, we will update our understanding of your arrangements for ensuring financial sustainability as well as your governance arrangements in place to support disclosures contained within the annual governance statement included within your financial statements.

Audit Scotland Planning guidance – areas for auditor consideration

Audit Scotland Audit Planning guidance outlines certain areas for consideration. We will consider the following areas, where relevant to the Authority, and comment in our annual report as appropriate.

- EU Withdrawal;
- Changing landscape for public financial management;
- Dependency on key suppliers; and
- Openness and transparency.

Appendices

Key audit deliverables and our team

Fees and independence

Fraud arrangements

Respective responsibilities

Communication of audit matters with those charged with governance

Fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	8,440
Pooled Costs	820
Contribution to Audit Scotland costs	530
Contribution to Performance Audit and Best Value	0
2018-19 Fee	9,790

Fees for other services

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

The audit fee is calculated in accordance with guidance issued by Audit Scotland. In accordance with the Audit Scotland guidance we can increase the fee by up to 20% from the base fee set by Audit Scotland, depending on risk factors identified by us as your external auditors. We cannot reduce the fee from the baseline set out by Audit Scotland. The above proposed fee, set at the base fee, has been agreed with management. The fee is based on the following assumptions:

- 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 will make available officers and accounting staff to help us locate information and to provide explanations. We reserve the right to charge an additional fee for any additional work.
- We will only receive (and audit) 3 sets of accounts (1st draft; amended draft and final)

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, despite Grant Thornton being the auditors of the administering body (Dumfries and Galloway Council), however we do not consider this to impact or impede our audit independence.

Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work (joanne.e.brown@uk.gt.com). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to Elaine Boyd, Assistant Director, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

Fraud arrangements

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 override of controls.
- Leading a discussion with those officers charged of governance (for SWestrans this is assumed to be the Board) on their view of fraud. Typically we do this when presenting our audit plan and in the form of officers and those charged with governance questionnaires.
- 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 officers regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

The primary responsibility for the prevention and detection of fraud rests with officers 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 a strong framework of internal control.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on a quarterly basis.

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the planning guidance) to inform the National Crime Agency if she knows or suspects that any person has engaged in money laundering or terrorist financing.

Should we be informed of any instances of money laundering at SWestrans we will report these to the Auditor General for Scotland.

Respective responsibilities

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

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
- Review the organisations financial sustainability arrangements and the governance statement

How do we do this in practice



- Consideration of adequate disclosures in the Annual Governance Statement
- 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 officers from its responsibility to address the issues raised and to maintain an adequate system of control.

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

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
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	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of SWestrans accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

International Standards on Auditing (UK) (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 above.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while our Annual Report to those Charged with Governance 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 Officers its Board.



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