

Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee

External Audit Plan

2018/19

February 2019





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1. Introduction



Introduction

1. This document summarises the work plan for our 2018/19 external audit of Strathclyde Partnership for Transport (“SPT”) and Strathclyde Concessionary Travel Scheme Joint Committee (“SCTS”).
2. The core elements of our work include:
 - an audit of the 2018/19 annual accounts of both SPT and SCTS;
 - a review of SPT’s arrangements for governance and transparency, financial management, financial sustainability and value for money;
 - monitoring SPT’s participation in the National Fraud Initiative (NFI); and
 - any other work requested by Audit Scotland.

process is independent and our objectivity has not been compromised in any way.

Adding value through the audit

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

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 SPT and SCTS for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2018/19 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.

Feedback

9. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: www.surveymonkey.co.uk/r/S2SPZBX.
10. While this plan is addressed to SPT and SCTS, it will be published on Audit Scotland’s website www.audit-scotland.gov.uk.

Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We confirm that we will comply with Financial Reporting Council’s (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit



2. Respective responsibilities of the auditor, SPT and SCTS



Respective responsibilities of the auditor, SPT and SCTS

Auditor responsibilities

Code of Audit Practice

- 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.

Our responsibilities

- Auditor responsibilities are derived from statute, the Code, International Standards on Auditing (UK) (ISAs (UK)), professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities (paragraph 14). These are to:

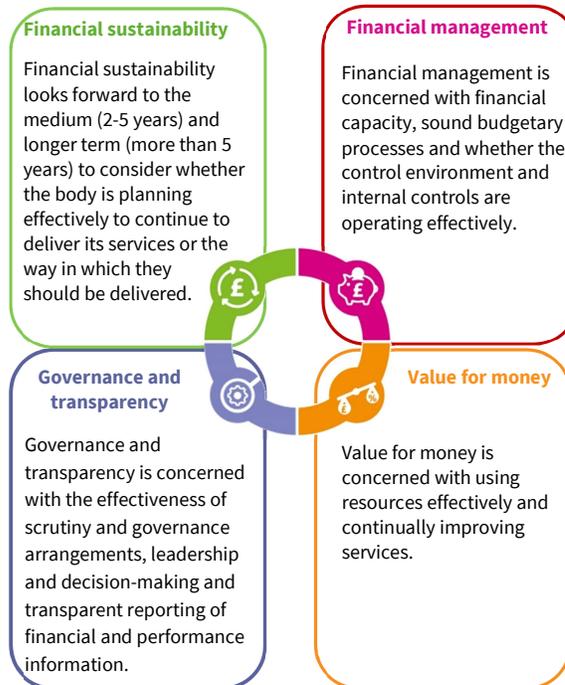
- undertake statutory duties, and comply with professional engagement and ethical standards
- provide an opinion on audited bodies' financial statements
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports
- notify the Controller of Audit when circumstances indicate that a statutory report may be required
- demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':
 - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets
 - suitability and effectiveness of corporate governance arrangements
 - financial position and arrangements for securing financial sustainability

- Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors 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.

Wider scope audit work

- 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

Exhibit 1: Audit dimensions of wider scope public audit



private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

- The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.
- 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.
- Our assessment takes into account the size, nature and risks of the organisation. Taking these factors into consideration, we have concluded that application of



the full wider scope is appropriate at SPT. We will apply the 'restricted' wider scope to SCTS.

Best Value

18. Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.
19. Our work in respect of SPT's best value arrangements will be integrated into our audit approach, including our work on the wider scope audit dimensions as set out in section 5 of this plan.

Strategic audit priorities for local government audits

20. The Accounts Commission has set the following five strategic Audit Priorities that it expects auditors to consider in all work across local government:
 - Having clear priorities with a focus on outcomes, supported by effective long term planning.
 - Demonstrating the effective appraisal of options for changing how services are delivered in line with their priorities.
 - Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future.
 - Empowering local communities and involving them in the design and delivery of local services and planning for their local area.
 - Reporting the organisation's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.
21. Our consideration of these priorities will be integrated into our 2018/19 audit work. The extent to which we will report on these will be dependent on the findings of our work as it relates to the four dimensions referred to above and is considered in section 5 of this plan.

SPT and SCTS responsibilities

22. The Partnership and Joint Committee have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives. The Partnership and Joint Committee responsibilities are summarised in Exhibit 2.



Exhibit 2 – SPT and SCTS responsibilities

Area	Partnership and Joint Committee responsibilities
<p>Financial statements: Annual accounts containing financial statements and other related reports should be prepared.</p>	<p>The Partnership and Joint Committee have responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures • maintaining proper accounting records • preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements
<p>Financial sustainability: Financial sustainability looks forward to the medium and longer term to consider whether the organisation is planning effectively to continue to fulfil its functions in an affordable and sustainable manner.</p>	<p>The Partnership and Joint Committee are responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • 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.



Area	Partnership and Joint Committee responsibilities
<p>Financial management: Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>It is the Partnership and Joint Committee's responsibility for ensuring that 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>The Partnership and Joint Committee are 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 the Partnership and Joint Committee's responsibility for establishing 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>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.</p>	<p>The Partnership and Joint Committee are responsible for establishing arrangements to ensure the proper conduct of their affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p> <p>The Partnership and Joint Committee are also responsible for establishing effective and appropriate internal audit and risk management functions.</p>
<p>Value for money: Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.</p>	<p>The Partnership and Joint Committee have a specific responsibility to ensure that arrangements have been made to secure best value. They are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p>



3. Audit strategy



Audit strategy

Risk-based audit approach

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

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

Discussions with senior officers at SPT	Our understanding of the sector and its key priorities and risks	Attendance at the Audit and Standards Committee
Guidance from Audit Scotland	Discussions with Audit Scotland and other auditors	Discussions with internal audit and reviews of their plans and reports
Review of corporate strategies and plans	Review of the corporate risk register	The outcomes of prior year audits

24. 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

25. 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

26. We perform our audit of the financial statements in accordance with International Standards on Auditing (UK) (ISAs (UK)), the International Standard on Quality Control 1 (UK), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

Partnership working

27. 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

28. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with them 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.

29. Audit Scotland undertakes national performance audits on issues affecting the public sector. We will review SPT's arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We plan to assess the extent to which SPT uses the national performance reports as a means to help improve performance at the local level.

30. During the year we may also be required to provide information to Audit Scotland to support the national performance audits.



Internal audit

31. We are committed to avoiding duplication of audit effort and ensuring an efficient use of SPT's total audit resource. 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.



4. Annual accounts – Strathclyde Partnership for Transport



Annual accounts – Strathclyde Partnership for Transport

Introduction

32. Audited bodies' annual accounts 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 SPT's annual accounts.

Approach to audit of the annual accounts

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

Risk-based audit planning

34. 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

35. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the annual accounts.
36. 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.
37. We will take cognisance of any relevant internal audit reviews of systems and controls.
38. 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

39. During our final audit we will test and review the material amounts and disclosures in the annual accounts. The extent of testing will be based on our risk assessment.
40. Our final audit will seek to provide reasonable assurance that the annual accounts are free from material misstatement and comply with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code).

Independent auditor's report

41. 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 annual accounts.
42. We also provide an opinion on the audited part of the remuneration report, annual governance statement and management commentary.

Materiality

43. 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.
44. Our initial assessment of materiality for SPT's annual accounts is £1million. Our assessment of materiality equates to approximately 1.5% of SPT's 2017/18 gross expenditure.
45. As noted above, our initial assessment of materiality is set with reference to gross expenditure. We consider this to be the principal consideration for the users of the accounts when assessing the performance of SPT. We will review and update our assessment of materiality following receipt of the unaudited annual accounts.
46. Performance materiality is the amount set by the auditor at less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed materiality for the financial statements as a whole.
47. We set a performance (testing) materiality for each area of work which is based on a risk assessment for the area. We 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 at significant risk of material misstatement.



	Area risk assessment		
	High	Medium	Low
Performance materiality	450	550	700

48. 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; and

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

Key audit risks in the financial statements

49. Auditing standards require that we inform the Audit and Standards Committee of our assessment of the risk of material misstatement in the annual accounts. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the Audit and Standards Committee if our assessment changes significantly during the audit.

Exhibit 3 – Key audit risks in the financial statements

1. Management override

In any organisation, there exists a risk that management has 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 financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

50. In response to this risk we will review SPT's accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business are valid and accounted for correctly. We will adopt data analytics techniques to review and test aspects of this key audit risk. We will review the key accounting estimates, judgements and decisions made by management. This will include, for example, depreciation and amortisation rates and asset valuations.

2. Revenue recognition

Under ISA (UK) 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 revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

51. We have identified that for funding received as requisition from the constituent local authorities and Scottish Government grant funding, the risk of revenue recognition can be rebutted due to a lack of incentive and opportunity to manipulate transactions of this nature. We have concluded, however, the risk of fraud in relation to revenue recognition is present in all non-government or requisition revenue streams. We will evaluate each material revenue stream, including the controls over revenue accounting. We will conduct substantive testing on all material revenue streams to confirm revenue has been recognised appropriately and in line with accounting policies.



3. Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 “*The Audit of Public Sector Financial Statements*” which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

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52. In response to this risk we will evaluate the significant expenditure streams at SPT (excluding payroll which we do not consider to be a significant audit risk area) and review the controls in place over accounting for expenditure. We will consider SPT’s key areas of expenditure and obtain evidence that the expenditure was recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.

4. Asset valuation and additions

SPT has a significant capital investment programme. The Capital Programme 2018/19 (February 2018) planned for capital expenditure of £74.525million (Category 1 programmes).

SPT’s assets are revalued regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Land and buildings were revalued by SPT’s external valuer as at 31 March 2017 and are revalued in accordance with the external valuer’s 5-year programme. In 2017/18, two subway stations were revalued following the completion of modernisation works. Investment properties are valued annually at fair value, in line with the Code.

There is a risk of material misstatement to the annual accounts relating to the recognition of capital expenditure and asset valuations.

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53. We will review additions to ensure they are accounted for in line with accounting policies and are recognised at an appropriate value in line with accounting standards. In addition we will review expenditure on repairs and maintenance to ensure they are categorised correctly.
 54. We will consider the competence, capability and objectiveness of the external valuer in line with ISA (UK) 500 *Audit Evidence*. We will review the valuation report and consider the assumptions used by the external valuer against external sources of evidence. In addition to this we will consider the scope of the external valuers work and the information provided to the external valuer for completeness.



5. Pension assumptions

An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under IAS 19 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate.

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55. We will review the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate. We will review the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. We will agree the disclosures in the financial statements to information provided by the actuary.



5. Wider scope audit – Strathclyde Partnership for Transport



Wider scope audit – Strathclyde Partnership for Transport

Introduction

56. As described in section 2, the Code frames a significant part of our audit responsibilities in terms of four wider scope audit dimensions. As part of our annual audit we consider and report against these four dimensions:

- financial sustainability
- financial management
- governance and transparency; and
- value for money.

57. Our planned audit work against the four dimensions is risk based and proportionate. Our initial assessment builds upon our work in prior years to develop an

understanding of SPT's key priorities and risks. In 2018/19, Audit Scotland has also identified the following wider scope risks, which we will consider during our audit as they relate to SPT:

- EU withdrawal
- Changing landscape of public financial management
- Dependency on key suppliers
- Openness and transparency.

58. At this stage of our audit planning, we have identified one significant risk to the wider scope of our audit in relation to financial sustainability (Exhibit 4).

Exhibit 4 – Wider Scope Significant Risk

1. Financial sustainability

Each year, the Partnership is presented with a rolling two-year revenue budget. In addition, management consider differing budget scenarios for a further four year period.

SPT also prepares a three year rolling capital programme and budget which seeks to balance the transport project delivery aspirations and the funding available to it.

59. 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.

60. We have not, at this stage, identified any significant risks in relation to financial management, governance and transparency and the value for money dimensions. 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. We set out below our audit work in respect of each dimension.



Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the organisation's planning processes support the future delivery of services.

Consideration

As noted in Exhibit 4:

Each year, the Partnership is presented with a rolling two-year revenue budget. In addition, management consider differing budget scenarios for a further four year period.

SPT also prepares a three year rolling capital programme and budget which seeks to balance the transport project delivery aspirations and the funding available to it.

The subway modernisation project comprises a significant proportion of the capital plan (approximately £52.935million). Ministers previously committed to fund up to £246million of the total project cost with SPT directly contributing the remaining £42million. The Partnership have been advised that the profile for funding the subway modernisation project has been agreed covering the period to 2020/21.

There was significant slippage in the 2017/18 subway modernisation plan, due to delays in achieving key milestones in the manufacturing and supply agreement contract. The 2018/19 budget of £52.9million includes an anticipated level of slippage from 2017/18.

The Transport (Scotland) Bill was introduced to Parliament on 8 June 2018. The most significant potential impact for the Partnership is that regional transport partnerships would be given the authority to hold reserves. This would provide the Partnership with greater financial flexibility and help facilitate longer term financial planning.

EU withdrawal: SPT has considered the impact across workforce, funding, regulation, supply chain and digital. From its initial assessment of the workforce, funding streams and digital, no significant implications have been identified. Implications from changes and introduction of regulations are currently unknown and difficult to predict. SPT expect that any implications would be applicable across the sector and have not identified any risks specific to it. In respect of its supply chain, SPT has already revised contracts to include a suitable clause minimising the implications as far as reasonably possible. However, many contracts were put in place prior to the decision to leave the European market. SPT continue to monitor and report on the potential impact EU withdrawal will have on the organisation.

Our audit approach

During our 2018/19 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.

We will also review and report on:

- Any progress/development on The Transport (Scotland) Bill and the impact on SPT; and
- SPT's preparations for the potential impact of Brexit.



Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Consideration

In February 2018 the Partnership approved a net revenue budget for 2018/19 of £36.938million; funded by local authority requisitions of £35.901million and a contribution of £1.037million from the Scottish Government. This represents an overall reduction of 2% in support from the constituent local authorities in comparison with 2017/18. As part of approving the 2018/19 budget, the Partnership also agreed to an increase in fares, fees and charges.

Financial position against revenue and capital budgets is formally reported to the Strategy & Programmes Committee on a regular basis. In February 2019, SPT forecast an underspend of £341,000 against its revenue budget with a proposed contribution of £2million to the Subway Fund. For the same period (to period 10), SPT's capital spend totalled £39.091million, compared to a planned spend position of £43.911million. Proposed amendments have been made to the capital programme representing a net expenditure reduction of £3.791million in addition to £1.037million approved amendments (total £5.098million).

Dependency on key suppliers: In light of the collapse of Carillion, there is a focus in our 2018/19 audit on the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions. The risk exists on two levels:

- Individual public sector bodies are dependent on key suppliers; and
- The Scottish public sector as a whole is subject to significant systemic risk.

SPT has two key suppliers for the delivery of the Rolling Stock Contract: Stadler and Ansaldo STS. As part of our 2018/19 audit we will consider to what extent SPT is exposed to the risk of key supplier failure.

As at 31 March 2018, SPT reported on its balance sheet, £104million in short term investments and £64million in cash and cash equivalents; representing an increase of £81million in comparison to the previous year. The increases in these balances primarily related to the receipt of £53million of Scottish Government specific capital grant for Subway Modernisation for 2018/19 in March 2018 and a further addition of £16million to "Receipts in Advance" in

Our audit approach

During our 2018/19 audit we will review, conclude and report on the following:

- The effectiveness of the budgetary control system in communicating accurate and timely performance;
- The extent to which SPT is exposed to the risk of key supplier failure;
- Whether SPT's Treasury Management Strategy, practices and reporting is in accordance with CIPFA's *Treasury Management in the Public Services Code of Practice*, taking cognisance of a recent internal audit review on treasury management;
- Whether SPT continues to have arrangements in place to ensure systems of internal control are operating effectively;
- Whether SPT has established appropriate and effective arrangements for the prevention and detection of fraud and corruption; and
- SPT's participation and progress in the National Fraud Initiative.



Consideration

Our audit approach

respect of the Subway Fund.

It is anticipated that SPT will receive 2019/20 funding from the Scottish Government in March 2019; resulting in material short term investments and cash balances as at the balance sheet date.

There is a risk that these balances are not invested in line with SPT's Treasury Management Strategy.

The National Fraud Initiative (NFI) is a counter fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error.

The most recent NFI exercise commenced in 2018 and as part of our 2018/19 audit we will monitor SPT's participation in NFI.



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.

Consideration

Our audit approach

The Partnership consists of twenty elected members representing the twelve constituent local authorities in the West of Scotland and between seven and nine appointed members.

In April 2018, the Assistant Chief Executive (Operations) retired. As a result, the management team has been restructured.

Partnership and Joint Committee meetings are open to the public and all papers are published on the website.

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: Delivering good governance in local government: framework (2016).

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.



Value for money

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

Consideration

SPT has developed a performance management framework. Financial performance information is monitored via revenue and capital monitoring reports presented to the Strategy and Programmes Committee. Operational performance relating to transport services is reported to the Operational Committee. Minutes of both these committees are reported to meetings of the Partnership.

'A Catalyst for Change' the statutory Regional Transport Strategy (RTS) for the west of Scotland 2008-21 was approved by Scottish Ministers in 2008. A RTS Delivery Plan links the RTS to SPT's business planning processes through the strategic priorities and sets out the services, projects and initiatives that will enable the delivery of the RTS.

A new RTS Delivery Plan covering the three year period 2018-2021 was approved by the Partnership in June 2018. The previous RTS Delivery Plan, covering 2014-2017, was extended for one year to allow for the review of the new Delivery Plan to be completed.

Our audit approach

We will review evidence which demonstrates the achievement of value for money in the use of its resources.

We will seek evidence from SPT that outcomes are improving and there is sufficient focus on improvement and the pace of it.

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.



6. Annual accounts – Strathclyde Concessionary Travel Scheme Joint Committee





Annual accounts – Strathclyde Concessionary Travel Scheme Joint Committee

Approach to audit of the annual accounts

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

A risk-based audit approach

62. 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.
63. During our audit we will test and review the material amounts and disclosures in the financial statements. The extent of testing will be based on the risk assessment.
64. Our final audit will seek to provide reasonable assurance that the annual accounts are free from material misstatement and comply with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code).

Independent auditor's report

65. 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 annual accounts.
66. We also provide an opinion on the annual governance statement and management commentary.¹

Materiality

67. 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.
68. Our initial assessment of materiality for SCTS' annual accounts is £80,000. Our assessment of materiality equates to approximately 1.8% of SCTS' 2017/18 gross

expenditure. Our assessment of materiality is set with reference to gross expenditure. We consider this to be the principal consideration for the users of the accounts when assessing the performance of SCTS. We will review and update our assessment of materiality following receipt of the unaudited annual accounts.

69. Performance materiality is the amount set by the auditor at less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed materiality for the financial statements as a whole.
70. We set a performance (testing) materiality for each area of work which is based on a risk assessment for the area. We 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 at significant risk of material misstatement.

	Area risk assessment		
	High	Medium	Low
Performance materiality	36	44	56

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

Key audit risks in the financial statements

72. Auditing standards require that we inform the Audit and Standards Committee of our assessment of the risk of material misstatement in the annual accounts. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the Audit and Standards Committee if our assessment changes significantly during the audit.

¹ SCTS has no employees and no allowances or expenses are paid to committee members. A remuneration report is therefore not been included within the annual accounts.



Exhibit 3 – Key audit risks in the annual accounts

1. Management override

In any organisation, there exists a risk that management has 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 financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

73. In response to this risk we will review SCTS' accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business are valid and accounted for correctly. We will adopt data analytics techniques to review and test aspects of this significant risk. We will review the key accounting estimates, judgements and decisions made by management.

2. Revenue recognition

Under ISA (UK) 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 revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

74. SCTS 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.

3. Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 "*The Audit of Public Sector Financial Statements*" which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

75. In response to this risk we will evaluate the significant expenditure streams at SCTS and review the controls in place over accounting for expenditure. We will consider SCTS' key areas of expenditure and obtain evidence that the expenditure was recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.



Wider scope

76. The Code of Audit Practice (the Code) recognises that planned audit work should be risk based and proportionate to the nature and size of an audited body. The Code recognises that it is not likely to be appropriate or proportionate to apply the full wider scope audit to some small audited bodies.
- 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.
77. We consider the audit of the SCTS should be carried out under the small body provisions of the Code. We have reached this conclusion through our assessment of:
- The relative size of SCTS;
 - The relative simplicity of SCTS' functions; and
 - SCTS' risk profile, as informed through discussions with management.
78. Application of the small body provisions of the Code results in a targeted and tailored wider scope audit for SCTS. Our annual audit work on the wider scope will therefore be restricted to:
79. Audit planning is a continuous process and our application of the small body provision will be subject to ongoing review to ensure it remains appropriate. Should we identify any particular issue or risk during our audit that we consider requires additional work, or the full wider scope to be applied, we will update our audit plan.
80. At this stage of our audit planning process, we have identified one significant risk to the wider scope of our audit. Audit planning is a continuous process and we will report any identified significant risks, as they relate to the wider scope, in our annual audit report. The tables below summarises our wider scope audit work.

1. Financial sustainability

In 2018, the Joint Committee approved its 2018/19 budget. A budget of £4.233million has been approved for 2018/19, to be funded by local authority requisitions (£4.089million) and reserves (£0.144million). This does represent a reduction in local authority requisitions in comparison with 2017/18 (2% reduction).

SCTS continues to experience financial pressures from the impact of funding and from increased operator costs. In response, SCTS increased its concessionary fares in 2017/18; the first increase since 2011/12, despite increases in standard operator fares and subsequent cost to SCTS. SCTS has approved further increases in concessionary fares for 2018/19. The impact of this will be monitored by the Joint Committee throughout the year. In preparing the budgets, we note that SPT, on behalf of the Joint Committee, has prepared indicative budgets up to 2022/23.

81. During our 2018/19 audit we will consider the SCTS' 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 SCTS' operations and use of resources.



7. Audit outputs, timetables and fees



Audit outputs, timetable and fees

This section of our plan provides details of our audit outputs, timetable and proposed audit fees for the audit of SPT and SCTS.

Audit output	Format	Description	Target month
External audit plan	Report	This report sets out the scope of our audit for 2018/19.	February 2019
Independent Auditor's Report	Report	This report will contain our opinion on the financial statements, the audited part of the remuneration report, annual governance statement and management commentary.	September 2019
Annual Report to SPT and SCTS and the Controller of Audit	Report	At the conclusion of each year's audit we issue an annual report setting out the nature and extent of our audit work for the year and summarise our opinions, conclusions and the significant issues arising from our work. This report pulls together all of our work under the Code of Audit Practice.	September 2019

Audit outputs

82. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.
83. 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

84. Audit Scotland 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 is reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.
85. 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.
86. The expected fee set by Audit Scotland for the 2018/19 audit of SPT is £70,100. We propose setting the 2018/19 audit fee at £70,850. The increase of £750 represents an audit fee for the audit and certification of financial information in respect of railway services for the period 1 April 2017 to 31 March 2018.

87. For SCTS we propose setting the audit fee at the expected fee level.

88. The audit fees for the current and prior year are set out in the tables below:

SPT	2018/19	2017/18
Auditor remuneration	£48,970	£49,033
Pooled costs	£4,680	£4,190
Performance audit and best value	£14,170	£14,340
Audit support costs	£3,030	£2,990
Total expected fee	£70,850	£70,463

SCTS	2018/19	2017/18
Auditor remuneration	£4,430	£4,330
Pooled costs	£430	£380
Audit support costs	£280	£270
Total expected fee	£5,140	£4,980

89. We will take account of the risk exposure of SPT and SCTS and the management assurances in place. We assume receipt of the draft 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.

Audit timetable

90. A summary timetable, including audit outputs, is set out as follows:

DEC 18	●	Planning meeting to inform the 2018/19 audit
JAN 19	●	Interim planning visit including a review of accounting systems and wider scope audit dimensions.
FEB 19	●	Presentation of External Audit Plan to the Audit and Standards Committee
MAY 19	●	Accounts presented for audit and final audit visit begins
SEPT 19	●	Annual audit report presented to Audit and Standards Committee and submitted to the Controller of Audit



8. Appendices





Appendix 1: Your audit management team

Scott-Moncrieff is one of the largest independent accountancy firms in Scotland. We have 16 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 Semple Street Edinburgh EH3 8BL	25 Bothwell Street Glasgow G2 6NL	10 Ardross Street Inverness IV3 5NS
(0131) 473 3500	(0141) 567 4500	(01463) 701 940

Your audit management team



Gary Devlin

Audit Partner

Gary.devlin@scott-moncrieff.com

Gary 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

Karen is one of our directors responsible for the audit of our Audit Scotland external audit appointments. She has considerable experience in planning and delivering audits, producing management reports and liaising with senior officers.



Appendix 2: Confirmation of independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" 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 FRC's Revised Ethical Standard (June 2016). 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, SPT and SCTS, its Partnership members and senior management that may reasonably be thought to bear on our objectivity and independence.



Appendix 3: 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, SCTS and Scott-Moncrieff.

Annual report and 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 and SCTS' 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 SPT and SCTS during the course of the audit on matters having a material effect on the financial statements. This will take place by means of a letter of representation, which will require to be signed by the Assistant Chief Executive.

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 the Audit and Standards Committee 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.

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Scott-Moncrieff Chartered Accountants is registered to carry on audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants of Scotland.