

Tay Road Bridge Joint Board

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for the Tay Road Bridge Joint Board

February 2019

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

Contents

Risks and planned work	4
Audit scope and timing	7

Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit.
2. The wider scope of public audit contributes to assessments and conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.
3. Supplementary Guidance allows appointed auditors to use judgement to conclude that the full application of the wider scope is not appropriate based on the risks, nature and size of an audited body (a small audited body clause). In our judgement the small audited body clause applies to the Tay Road Bridge Joint Board (the board).

Adding value

4. We aim to add value to the board through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the boardTay Road Bridge Joint Board promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

5. Based on our discussions with staff, attendance at meetings and a review of supporting information, we have identified the following main audit risk areas for the board. We have categorised these risks into financial risks and wider dimension risks. Specific audit testing required on these key audit risks is detailed in [Exhibit 1](#).

Exhibit 1 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 <i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i> requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> • Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.

 Audit Risk	Source of assurance	Planned audit work
<p>2 Risk of fraud over expenditure</p> <p>The Code of Audit Practice requires consideration of the risk of fraud over expenditure. The board incurs significant expenditure which requires audit coverage.</p>	<ul style="list-style-type: none"> Budget monitoring by management. Governance arrangements including Standing Orders, Standing Financial Instructions and Fraud Guidelines. Internal controls in financial systems to mitigate risks of error or manipulation. 	<ul style="list-style-type: none"> Assessment of key financial controls over expenditure. Detailed testing of transactions focusing on the greater areas of risk.
<p>3 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and pensions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> Actuarial valuation to provide pensions figures for the financial statements. Officer review of actuary information to ensure data and assumptions used are reasonable. Valuation and impairment review of non-current assets by a professional valuer. 	<ul style="list-style-type: none"> Completion of 'review of the work of an expert' for the actuary and valuer. Focused testing of non-current assets and pension figures.
<p>Wider dimension issues and risks</p>		
<p>4 Financial sustainability – capital planning</p> <p>Our 2017/18 Annual Audit Report highlighted a significant capital funding gap relating mainly to 2020/21 where £4.5 million income had yet to be identified. The 2019/20 to 2021/22 capital plan was considered by the Board in December 2018 which highlighted a funding gap of £11.1 million for the period 2020-22.</p> <p>There is a risk that insufficient funds may be available to fund key capital projects.</p>	<ul style="list-style-type: none"> Officers anticipate that this funding will be forthcoming from Transport Scotland when it is required, but the Scottish Government's Spending Review only provides a commitment for one year of grant funding. The funding is to be included in budget estimates when it is confirmed. 	<ul style="list-style-type: none"> On-going monitoring of capital budget, plans and monitoring reports and inclusion in annual audit report as appropriate.

Source: Audit Scotland

Reporting arrangements

6. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

7. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officer(s) to confirm factual accuracy.

8. We will provide an independent auditor's report to the Board and Accounts Commission setting out our opinions on the annual accounts. We will provide the Board and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2 2018/19 Audit outputs

Audit Output	Target date	Board Date
Annual Audit Plan	25 February 2019	4 March 2019
Proposed Annual Audit Report including ISA 260 requirements *	9 September 2019	16 September 2019
Signed Independent Auditor's Report	16 September 2019	16 September 2019

* The final Annual Audit Report cannot be submitted until after the independent auditor's report is signed.

Source: Audit Scotland

Audit fee

9. The proposed audit fee for the 2018/19 audit of the board is £12,360 (2017/18: £12,010). In determining the audit fee we have taken account of the risk exposure of the board, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package by 28 June 2019.

10. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Board and Treasurer

11. Audited bodies 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.

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

Appointed auditor

13. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

14. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual accounts

15. The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the board and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the board will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

16. We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the state of affairs of the board as at 31 March 2019 and of its income and expenditure for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 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.

Other information in the annual accounts

17. We also review and report on other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

18. We also read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

Materiality

19. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.



characteristics



responsibilities



principal activities



risks



governance arrangements

20. We calculate materiality at different levels as described below. The calculated materiality values for the board are set out in [Exhibit 3](#).

Exhibit 3 Materiality values

Materiality	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 0.5% of net assets for the year ended 31 March 2018, based on the latest audited accounts.	£366,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	£274,000
Lower level performance materiality – This is a separate trigger point for errors identified in the comprehensive income and expenditure statement.	£58,000
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£18,000

Source: Audit Scotland

Timetable

21. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4 Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual accounts by those charged with governance	17 June 2019
Latest submission date of unaudited annual with complete working papers package	28 June 2019
Latest date for final clearance meeting with Treasurer	23 August 2019
Agreement of audited unsigned annual accounts	30 August 2019
Issue of proposed Annual Audit Report including ISA 260 report to those charged with governance	9 September 2019
Independent auditor's report signed	16 September 2019
Latest date for signing of WGA return	30 September 2019

Internal audit

22. Internal audit is provided by Henderson Loggie. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS).

23. Overall, we have concluded that the internal audit service generally operates in accordance with PSIAS and has sound documentation standards and reporting practices in place.

Using the work of internal audit

24. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently and effectively.

25. From our initial review of internal audit plans we do not plan to place formal reliance on internal audit work for our financial statements work. For the purpose of our wider dimension audit responsibilities we plan to consider internal audit's work on:

- compliance with legislation – review of policies and procedures
- physical security and asset management
- corporate governance
- follow-up reviews.

26. We will review the findings of all internal audit reports and consider the impact of any findings on our audit approach

Audit dimensions

27. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.

28. As noted at paragraph 3, the Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. In the light of the volume and lack of complexity of the financial transactions, we plan to apply the small body provisions of the Code to the 2018/19 audit of the board.

Financial sustainability

29. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

Governance and transparency

30. 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. We will review, conclude and report on:

- whether the board can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

Independence and objectivity

31. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

32. The engagement lead for the board is Bruce Crosbie, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the board.

Quality control

33. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

34. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

35. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Tay Road Bridge Joint Board

Annual Audit Plan 2018/19

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk