



Tayside and Central Scotland Transport Partnership

Audit strategy

Year ending 31 March 2019

For Partnership Board consideration on 19 March 2019

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Tayside and Central Scotland Transport Partnership ("Tactran" or "the Partnership") and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scoping and purpose section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Michael Wilkie, who is the engagement leader for our services to Tactran, telephone 0141 300 5890 email: michael.wilkie@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Hugh Harvie, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6682 or email to hugh.harvie@kpmg.co.uk We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Fiona Kordiak, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Headlines

Materiality

Materiality for planning purposes has been based on 2017-18 actual gross expenditure and set at £15,200 (2% of gross expenditure).

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and the threshold for this has been set at £750.

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Audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- management override of controls fraud risk (assumed risk per International Standards of Auditing (“ISA”) 240 *The auditor’s responsibilities relating to fraud in an audit of financial statements*); and
- retirement benefits obligations.

Page six and seven

We note areas with less likelihood of giving rise to a material error, but which are nevertheless worthy of audit understanding. For our financial statements audit, we have identified the completeness and accuracy of expenditure as an other focus area.

Page eight

£ Financial statements audit

Our financial statements audit work follows a three stage audit process which is identified below. **Appendix three** provides more detail on the activities that this includes. This report concentrates on the financial statements audit planning stage of the audit.



There are no significant changes to the Code of Practice on Local Authority Accounting in 2018-19 (“the 2018-19 Code”), which provides stability in terms of the accounting standards with which Tactran needs to comply.

Wider scope

The Code was published in May 2016 and is applicable to all audits from financial year 2016-17 onwards. This requires us to consider four key areas, known as wider dimensions:

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

Through our wider scope work we have identified a focus area relating to governance covering future strategy (see page eight)

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Introduction

2018-19 is the third year of our external audit appointment to Tactran, having been appointed by the Accounts Commission as auditor of the Partnership under the Local Government (Scotland) Act 1973 (“the Act”). The period of appointment is 2016-17 to 2020-21, inclusive.

This document summarises our responsibilities as external auditor for the year ending 31 March 2019 and our intended approach to issues impacting on Tactran’s activities in the year.

Our planned audit work in 2018-19 will include:

- an audit of the financial statements and provision of an opinion on whether the financial statements:
 - give a true and fair view in accordance with the applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom (“the 2018-19 Code”) of the state of the affairs of the Partnership as at 31 March 2019 and of the income and expenditure of the Partnership for the year then ended; and
 - have been prepared in accordance with IFRS as adopted by the European Union, as interpreted and adapted by the 2018-19 Code, the requirements of the Local Government (Scotland) act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003.
- a review and assessment of Tactran’s governance arrangements, including a review of the governance statement; and
- contributing to the audit and wider scope through performance of risk based work.

Auditors and audited bodies’ responsibilities are set out in Audit Scotland’s Code of Audit Practice. This Code states the responsibilities in relation to:

- the financial statements and related reports;
- corporate governance;

- prevention and detection of fraud and irregularities;
- standards of conduct for prevention and detection of fraud and error;
- financial position; and
- Best Value.

These responsibilities are outlined in **Appendix six**.

Our team is:

- Michael Wilkie – engagement leader
- Chris Windeatt – engagement manager
- Flavia Czika – engagement in-charge

Our work will be completed from February 2019 to September 2019 and our key deliverables are this audit strategy and an annual audit report.

Financial and business update

As at 31 October 2018, Tactran is projected to breakeven for the year to 31 March 2019, including budgeted use of deferred income of £134,000. At its meeting in December 2018, the Partnership Board approved a balanced 2019-20 core budget, with increased expenditure of £15,000 compared with the prior year budget. The Regional Transport Strategy (“RTS”) budget is yet to be approved.

Tactran’s total projected expenditure will exceed budget by £215,000, funded by additional grants received in the RTS budget, supporting additional projects such as Active Travel, Stirling South Park and Ride study, and the Bridge of Earn transport appraisal.

Acknowledgements

We would like to take this opportunity to thank officers and members for their continuing help and co-operation throughout our audit work.

Financial statements audit planning



Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

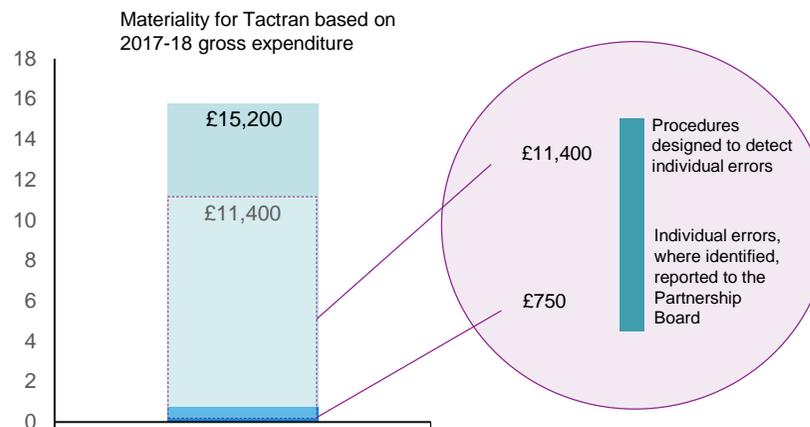
Materiality for planning purposes has been set at £15,200 (2017-18: £15,000), which equates to 2% of 2017-18 gross expenditure. Materiality will be reconsidered once draft financial statements for 2018-19 are received in June 2019.

We design our procedures to detect errors in specific accounts at a lower level of precision, which in 2018-19 is set at £11,400 (2017-18: £11,250)

Reporting to the Partnership Board

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 Partnership Board any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260 *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. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.



In the context of Tactran, we propose that an individual difference could normally be considered to be 'clearly trivial' if it is less than £750 (2017-18: £750).

If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Partnership Board to assist it in fulfilling its governance responsibilities.

Financial statements audit planning (continued)



Our planning work takes place during February 2019. This involves; risk assessment; determining our materiality level; and issuing this audit plan to communicate our audit strategy.

Risk assessment

We use our knowledge of Tactran, discussions with management and review of Partnership Board papers to identify areas of risk and audit focus categorised into financial risks and wider dimension risks as set out in the Code.

| Risk | Why | Audit approach |
|---|--|---|
| Financial statement risks | | |
| Fraud risk from management override of controls | Professional standards (ISA 240) require us to communicate the presumed fraud risk from management override of controls as a significant risk; as management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. | <ul style="list-style-type: none"> — Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to the audit of Tactran. — Strong oversight of finances by management provides additional review of potential material errors caused by management override of controls. — In line with our methodology, we will carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the organisation's normal course of business, or are otherwise unusual. |
| Fraud risk from income revenue recognition and expenditure | Professional standards (ISA 240 and Practice Note 10 ("PN10") <i>Audit of financial statements of public sector bodies in the United Kingdom</i> require us to make a rebuttable presumption that the fraud risk from revenue recognition and expenditure are significant risks. | <ul style="list-style-type: none"> — Tactran receives funding requisitions from Perth and Kinross Council, Stirling Council, Dundee City Council and Angus Council, with grant in aid provided by the Scottish Government. These are agreed in advance of the year. There is no estimation or judgement in recognising these income streams and we do not regard the risk of fraud to be significant. We do not consider the other sources of income to be significant. — There is no estimation or judgement in recognising expenditure to these bodies, and we do not regard the risk of fraud to be significant. We consider that there is not a risk of improper recognition of expenditure in respect of payroll, rent, insurance and management costs. These costs are routine in nature and not at risk of manipulation. As other operating expenditure is unlikely to be material, we also rebut the assumed risk in respect of this account. |

Financial statements audit planning (continued)



| Risk | Why | Audit approach |
|---|--|--|
| Financial statements risks (continued) | | |
| <p>Retirement benefit obligations</p> | <p>Tactran accounts for its participation in the Tayside Pension Fund and in accordance with IAS 19 <i>Retirement benefits</i>, using information obtained in a valuation report prepared by actuarial consultants.</p> <p>Actuaries use membership data and a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive the anticipated future liabilities back to the year end date and assumptions on future salary increases.</p> <p>IAS 19 requires the discount rate to be set by reference to yields on high quality (i.e. AA) corporate bonds of equivalent term to the liabilities. The calculation of the pension liability is inherently judgemental.</p> | <p>Our audit approach includes:</p> <p>Control design:</p> <ul style="list-style-type: none"> — Testing the design of controls over the provision of membership information to the actuary who uses it, together with management's review of assumptions, to calculate the pension obligation. <p>Benchmarking assumptions:</p> <ul style="list-style-type: none"> — Challenging, with the support of our own actuarial specialists, the key assumptions applied, being: the discount rate; inflation rate; and mortality/life expectancy against externally derived data. — Challenging the rate of increase in pensionable salaries assumption, by comparing it to other evidence such as business plans and our understanding of Government and staff expectations. <p>Assessing transparency:</p> <ul style="list-style-type: none"> — Considering the adequacy of the disclosures in respect of the sensitivity of the deficit to these assumptions. — Testing the assets recorded and disclosed, using our actuarial team. — Assessing if the disclosures within the financial statements are in accordance with the 2018-19 Code's requirements. |

Financial statements audit planning (continued)



| Risk | Why | Audit approach |
|--|---|---|
| Other focus areas | | |
| Completeness and accuracy of expenditure | The Partnership receives expenditure forecasts from Perth and Kinross Council, Stirling Council, Dundee City Council and Angus Council as part of the annual budgeting process. There is a risk that actual expenditure and resulting funding requisition income is not correctly captured. | Our approach in respect of this includes: <ul style="list-style-type: none"> — Vouching a sample of expenditure items to supporting documentation to ensure accuracy and existence of expenditure; and — Reviewing a sample of the largest expenditure items post year end to ensure these were recorded in the correct period. |
| Governance and transparency - future strategy and purpose | There is an ongoing review of the purpose and responsibilities of Regional Transport Partnerships and other transport agencies/bodies associated with the National Transport Strategy Review ("Review"), and also the potential for changes to current regional governance arrangements through the two emerging City Deals. The Review is not expected to publish findings until June 2019, so any conclusion may impact Tactran over the medium term. | Our approach in respect of this area will be to: <ul style="list-style-type: none"> — update our findings from 2017-18 with management in respect to the potential impact of the National Transport Strategy Review and the two City Deals covering Tayside and Stirling on the strategy and purpose of the Partnership. |

Wider Scope focus areas



We are required to assess and provide conclusions in the Annual Audit Report in respect of four wider scope dimensions: financial sustainability; financial management; governance and transparency; and value for money. We set out below an overview of our approach to wider scope and Best Value requirements of our annual audit. We provide on pages 17 to 21 our risk assessment in respect of these areas. We will provide narrative on these and other areas in the Annual Audit Report where relevant.

| Wider scope area | Why | Audit approach |
|------------------------------------|--|---|
| Wider Scope focus areas | | |
| Financial management | Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. | <ul style="list-style-type: none"> — We will obtain an understanding of Tactran's financial position and year end outturn position through review of Partnership Board reports and other management information. We will assess management's progress with implementation of efficiency savings. Commentary and analysis on these areas will be provided within the annual audit report. — We will perform substantive procedures, including substantive analytical procedures, over income and expenditure comparing the final position to budget. |
| 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. | <ul style="list-style-type: none"> — We will continue to develop our understanding of Tactran's governance and scrutiny arrangements and proposed developments to the governance framework and we will conclude on the appropriateness of these in our annual audit report. |
| Value for money | Value for money is concerned with how effectively resources are used to provide services. | <ul style="list-style-type: none"> — We will consider the allocation of resources and arrangements to provide value for money in achieving the aims of the Regional Transport Strategy. |

Wider Scope focus areas (continued)



| Wider scope area | Why | Audit approach |
|--|--|---|
| Wider Scope focus areas (continued) | | |
| <p>Financial sustainability</p> | <p>Financial sustainability looks forward to the medium and longer term to consider whether Tactran is planning effectively to continue to deliver its strategy.</p> <p>Audit Scotland planning guidance requires us to consider the following matter which is a potential risk to all Public Sector bodies:</p> <ul style="list-style-type: none"> – EU Withdrawal; – Changing Landscape for Public Financial Management; – Dependency on Key suppliers; and – Openness and transparency. | <ul style="list-style-type: none"> – Tactran receives Scottish Government grant in aid and funding requisitions from Perth and Kinross Council, Dundee City Council, Stirling Council and Angus Council. It faces ongoing financial pressures as a result of constraints on wider local authority and public sector finances, which have the potential to reduce Council requisitions and Scottish Government Grant-in-Aid funding year on year. The increase in expenditure is met by usage of deferred income as planned in prior years. We will consider financial monitoring reports presented to those charged with governance. – We will remain alert to the impact of EU withdrawal on Tactran’s operations and the environment within which it operates. We will consider the appropriateness of management’s risk assessment and planning for both matters. – We will consider the impact of the changing landscape for public financial management within our overall consideration of Tactran’s financial plans. – We will review whether significant suppliers have identified risks and mitigating business continuity arrangements in the risk register, and whether significant suppliers are subject to ongoing financial performance and failure risk assessment. We will review how Tactran has responded to any issues with key suppliers that have arisen and reported them. – We will remain alert to the need for openness and transparency, specifically considering the public availability of partnership committee papers and the appropriateness of business conducted in private. – We will consider Tactran’s financial planning and conclude on the appropriateness of this in our annual audit report. |

Other matters

Accounting framework update

The 2018-19 Code is revised each year, incorporating selected changes to the underlying IFRSs, and relevant key accounting changes include:

- revenue from Contracts with Service Recipients following the adoption of IFRS 15 *Revenue from Contracts with Customers*.
- amendments to Presentation of Financial Statements to reflect the disclosure requirements under International Accounting Standard (“IAS”) 7 *Statement of Cash Flows* (Disclosure Initiative);
- clarification to the segmental reporting arrangements under the 2018-19 Code;
- amendments to the Code to introduce the incurred loss model for the impairment of non-contractual debts including relevant disclosure requirements as a consequence of the expected credit loss model for impairment being introduced by the adoption of IFRS 9 *Financial Instruments*;
- amendments to Debtors and Creditors sections to remove the requirement to disclose the analysis of debtors across public sector bodies; and
- a new Financial Instruments section to reflect the Code’s adoption of IFRS 9.

Expected from 2020-21, IFRS 16 *Leases* supersedes IAS 17 *Leases*. IFRS 16 introduces a single lessee accounting model. The Partnership Board will be more likely to account for operating leases in a similar way to the current IAS 17 treatment for finance leases. Leases which are currently accounted for as operating leases will become financial leases and will be recognised within the Partnership Board’s Balance Sheet.

These changes are significant and the Partnership Board should consider preparation for the change in accounting treatment in advance, particularly where the 2018-19 balances will form the comparatives in future accounts. We will consider the Partnership Board’s arrangements for complying with the forthcoming changes.



Appendices

Mandated communications with the Partnership Board

| Matters to be communicated | Link to Partnership Board papers |
|---|--|
| Independence and our quality procedures ISA 260. | — See page 13 |
| The general approach and overall scope of the audit, including levels of materiality, fraud and engagement letter ISA 260. | — Main body of this paper |
| <ul style="list-style-type: none"> — Disagreement with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or the auditor's report, and their resolution (AU 380). | <ul style="list-style-type: none"> — In the event of such matters of significance we would expect to communicate with the Partnership Board throughout the year. — Formal reporting will be included in our audit highlights memorandum for the September 2019 Partnership Board meeting, which focuses on the financial statements. |
| <ul style="list-style-type: none"> — Significant difficulties we encountered during the audit. — Significant matters discussed, or subject to correspondence, with management (ISA 260). | |
| <ul style="list-style-type: none"> — Our views about the qualitative aspects of the entity's accounting and financial reporting. — The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements (ISA 260 and ISA 540). | |
| <ul style="list-style-type: none"> — Audit adjustments, whether or not recorded by the entity, that have, or could have, a material effect on its financial statements. We will request you to correct uncorrected misstatements (including disclosure misstatements) (ISA 450). | |
| <ul style="list-style-type: none"> — The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements (ISA 570). | |
| <ul style="list-style-type: none"> — Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570). | |
| <ul style="list-style-type: none"> — Expected modifications to the auditor's report (ISA 705). | |
| <ul style="list-style-type: none"> — Related party transactions that are not appropriately disclosed (ISA 550) | |

Auditor Independence

Assessment of our objectivity and independence as auditor of Tayside and Central Scotland Transport Partnership

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability

- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged to Tactran for professional services provided by us during the reporting period.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit and Performance Systems Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

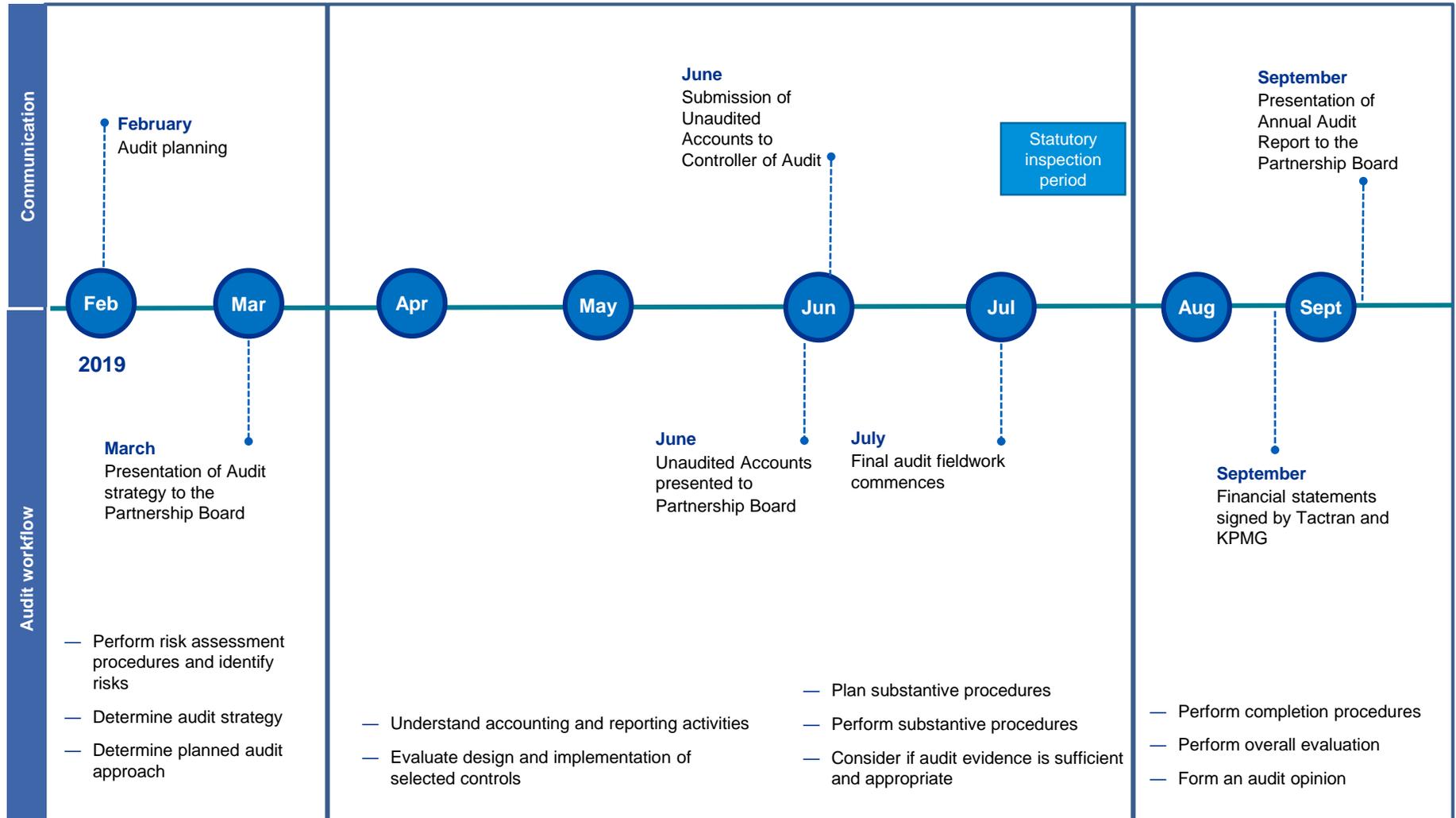
This report is intended solely for the information of the Tayside and Central Scotland Transport Partnership Board and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Timeline and reporting: timeline



Appendix four

Timeline and reporting: audit outputs

| Output | Description | Report date |
|---------------------------------------|---|---|
| Audit strategy | — Our strategy for the external audit of Tactran, including significant risk and audit focus areas. | — By 19 March 2019 |
| Independent auditor's report | — Our opinion on Tactran's financial statements. | — By 25 September 2019 |
| Annual audit report | — We summarise our findings from our work during the year. | — By 25 September 2019 |
| Audit reports on other returns | — We will report on the following returns: — Fraud returns; | — To submit by: November 2018, February, May and August 2019 |

Appendix five

Fees

Audit Scotland has completed a review of funding and fee setting arrangements for 2018-19. An expected fee is calculated by Audit Scotland to each entity within its remit, which comprises four elements:

- Auditor remuneration
- Pooled costs
- Contribution to Audit Scotland's Performance Audit and Best Value team
- Contribution to Audit Scotland costs

The expected fee for each body assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for the audit.

We are in discussions with management regarding the auditor remuneration for 2018-19, which is proposed at Audit Scotland's mid-point. Should we be required to undertake significant additional audit work in respect of any of the areas of audit focus or other matters arise, we will discuss with management the impact of this on our proposed fee.

| | 2018-19 £ (incl VAT) |
|--------------------------------------|-------------------------|
| Auditor remuneration | 8,440 |
| Pooled costs | 820 |
| Contribution to Audit Scotland costs | 530 |
| Total audit fee | 9,790 |

Audit Scotland code of audit practice – responsibilities of auditors and management

Responsibilities of management

Financial statements

Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:

- 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;
- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate framework;
- maintaining proper accounting records; and
- 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. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.

Further, it is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.

Audited bodies 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 their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

Prevention and detection of fraud and irregularities

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

Audit Scotland code of audit practice – responsibilities of auditors and management

| Responsibilities of management |
|--|
| Corporate governance arrangements |
| Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance in monitoring these arrangements. |
| Financial position |
| Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to: <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 they plan to deal with uncertainty in the medium and longer term; and— the impact of planned future policies and foreseeable developments on their financial position. |
| Best Value, use of resources and performance |
| The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value. |

Audit Scotland code of audit practice – responsibilities of auditors and management

Responsibilities of auditors

Appointed auditor responsibilities

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

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns;
- notify the Auditor General when circumstances indicate that a statutory report may be required;
- participate in arrangements to cooperate and coordinate with other scrutiny bodies (local government sector only);
- 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; and
 - 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.

Audit Scotland code of audit practice – responsibilities of auditors and management

| Responsibilities of auditors |
|---|
| General principles |
| This Code is designed such that adherence to it will result in an audit that exhibits these principles. |
| Independent |
| When undertaking audit work all auditors should be, and should be seen to be, independent. This means auditors should be objective, impartial and comply fully with the Financial Reporting Council's (FRC) ethical standards and any relevant professional or statutory guidance. Auditors will report in public and make recommendations on what they find without being influenced by fear or favour. |
| Proportionate and risk based |
| Audit work should be proportionate and risk based. Auditors need to exercise professional scepticism and demonstrate that they understand the environment in which public policy and services operate. Work undertaken should be tailored to the circumstances of the audit and the audit risks identified. Audit findings and judgements made must be supported by appropriate levels of evidence and explanations. Auditors will draw on public bodies' self-assessment and self-evaluation evidence when assessing and identifying audit risk. |
| Quality focused |
| Auditors should ensure that audits are conducted in a manner that will demonstrate that the relevant ethical and professional standards are complied with and that there are appropriate quality-control arrangements in place as required by statute and professional standards. |

Appendix six

Audit Scotland code of audit practice – responsibilities of auditors and management

| Responsibilities of auditors |
|---|
| Coordinated and integrated |
| It is important that auditors coordinate their work with internal audit, Audit Scotland, other external auditors and relevant scrutiny bodies to recognise the increasing integration of service delivery and partnership working within the public sector. This would help secure value for money by removing unnecessary duplication and also provide a clear programme of scrutiny activity for audited bodies. |
| Public focused |
| The work undertaken by external audit is carried out for the public, including their elected representatives, and in its interest. The use of public money means that public audit must be planned and undertaken from a wider perspective than in the private sector and include aspects of public stewardship and best value. It will also recognise that public bodies may operate and deliver services through partnerships, arm's-length external organisations or other forms of joint working with other public, private or third sector bodies. |
| Transparent |
| Auditors, when planning and reporting their work, should be clear about what, why and how they audit. To support transparency the main audit outputs should be of relevance to the public and focus on the significant issues arising from the audit. |
| Adds value |
| It is important that auditors recognise the implications of their audit work, including their wider scope responsibilities, and that they clearly demonstrate that they add value or have an impact in the work that they do. This means that public audit should provide clear judgements and conclusions on how well the audited body has discharged its responsibilities and how well they have demonstrated the effectiveness of their arrangements. Auditors should make appropriate and proportionate recommendations for improvement where significant risks are identified. |



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