

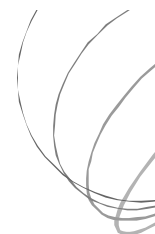
South East of Scotland Transport Partnership

Annual Audit Plan 2007/08



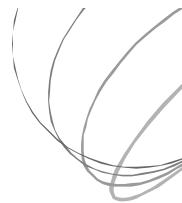
6 March 2008





Contents

Summary Plan	1	Quality control	7
Summary of planned audit activity	1	Fees and resources	7
Introduction	1	Independence and objectivity	8
The South East of Scotland Transport Partnership	1	Appendix A	9
Our audit	2	Summary assurance plan	9
Our responsibilities	3	Appendix B	11
Our approach	3	Financial statements audit timetable	11
Responsibility for the preparation of accounts	4	Appendix C	12
Format of the accounts	5	Audit team	12
Audit issues and risks	5	Appendix D	13
Materiality	5	Reliance on internal audit	13
Reporting arrangements	6	Appendix E	14
		Independence and Objectivity	14



Summary Plan

Summary of planned audit activity

Based on our analysis of the risks facing the South East of Scotland Transport Partnership, our planned work in 2007/08 includes:

- an audit of the financial statements and provision of an opinion on whether:
 - they present fairly the financial position of the South East of Scotland Transport Partnership as at 31 March 2008 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2007 SORP
- a review and assessment of the South East of Scotland Transport Partnership's governance and performance arrangements in a number of key areas including: a review of the adequacy of internal audit and arrangements for the preparation and publication of the Statement on Internal Financial Control.
- provision of an opinion on the Whole of Government Accounts return.

Introduction

The South East of Scotland Transport Partnership

1. The partnership is one of seven Regional Transport Partnerships in Scotland set up under the Transport (Scotland) Act 2005 to provide a regional perspective on transport in Scotland. The partnership vision provides for the development of a regional transport system that *"enables businesses to function effectively, allows all groups in society to share in the region's success through high quality access to services and opportunities, respects the environment, and contributes to better health."*

2. The partnership vision is reflected in the objectives of its Regional Transport Strategy, which are:

Economy – to ensure transport facilities encourage economic growth, regional prosperity and vitality in a sustainable manner:

- widening labour markets
- improving connectivity
- supporting other strategies, and



- tackling congestion.

Accessibility – to improve accessibility for those who have limited transport choice or no access to a car, particularly those who live in rural areas:

- targeting improvements in access to employment, health and other services/opportunities, and
- addressing barriers to the use of public transport.

Environment – to ensure that development is achieved in an environmentally sustainable manner:

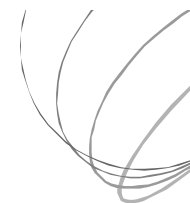
- reducing greenhouse gas emissions and other pollutants, and
- enabling sustainable travel/ reduce car dependency.

Safety and Health – to promote a healthier and more active SEStran area population:

- reducing transport related injuries and deaths
- improving the health of the population, and
- tackling local air quality and transport related noise.

Our audit

3. Our audit is focused on the identification and assessment of the key challenges and risks to the South East of Scotland Transport Partnership in achieving its business objectives. We also assess the risk of material misstatement or irregularity in the partnership's financial statements. This report summarises the key challenges and risks facing the partnership and sets out the audit work that we propose to undertake in 2007/08. Our plan reflects:
 - the risks and priorities facing the South East of Scotland Transport Partnership
 - current national risks relevant to local circumstances
 - the impact of changing international auditing and accounting standards
 - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
 - issues brought forward from previous audit reports.



Our responsibilities

4. Our responsibilities, as independent auditor, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance.
5. Audit in the public sector goes beyond simply providing assurance on the financial statements and the organisation's internal control environment. We are also required to provide a view on performance, regularity and the organisation's use of resources. In doing this, we aim to support improvement and accountability.
6. In carrying out our audit, we seek to gain assurance that the South East of Scotland Transport Partnership:
 - has good corporate governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability
 - has systems of recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests
 - prepares financial statements which present fairly the financial position at 31 March 2008 and income and expenditure for the year then ended, in accordance with the Local Government (Scotland) Act 1973 and other applicable laws and regulations, including the 2007 'Code of practice on local authority accounting in the United Kingdom – A statement of recommended practice' (the SORP)
 - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
 - complies with established policies, procedures, laws and regulations
 - has made proper arrangements for securing best value in its use of resources.

Our approach

7. Our audit approach is based on an understanding of the characteristics, responsibilities and principal activities, risks and governance arrangements of the South East of Scotland Transport Partnership, and identification of the key audit risks and challenges in the local government sector generally. This approach includes:
 - understanding the business of the South East of Scotland Transport Partnership and the risk exposure which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements



- identifying major transaction streams, balances and areas of estimation, understanding how the South East of Scotland Transport Partnership will include these in the financial statements and developing procedures to audit these
 - assessing the risk of material misstatement in the financial statements, in conjunction with our evaluation of inherent risk, the control environment and control risk as part of our risk assessment
 - determining the nature, timing and extent of our testing programme to provide us with sufficient appropriate audit evidence as to whether the financial statements are free of material misstatement.
8. Through this approach we have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2007/08 includes:
- comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for provision of accounts and working papers being agreed
 - delivery of unaudited accounts to agreed timescales with a comprehensive working papers package
 - completion of the internal audit programme for 2007/08.
9. Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and, as part of our planning process we carry out an early assessment of the internal audit function. Internal audit is provided by the City of Edinburgh Council Internal Audit Unit to the South East of Scotland Transport Partnership. Based on our review of internal audit we plan to place formal reliance on the areas of work set out in Appendix D.
10. At the completion of the audit we will provide the Treasurer with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Responsibility for the preparation of accounts

11. It is the responsibility of the South East of Scotland Transport Partnership and the Treasurer as Proper Officer, to prepare the financial statements in accordance with the SORP. This means:



- acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
- maintaining proper accounting records
- preparing financial statements timeously which present fairly the financial position of the South East of Scotland Transport Partnership as at 31 March 2008 and its expenditure and income for the year then ended
- preparing an explanatory foreword.

Format of the accounts

12. The financial statements should be prepared in accordance with the SORP which constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003.
13. The South East of Scotland Transport Partnership prepares a consolidation pack annually for the Scottish Government under parallel mechanisms set up to reflect the requirements of the Government Resources and Accounts Act 2000 for the preparation of a fully audited set of accounts covering virtually all of the public sector.. The Act requires the partnership to prepare its accounts using common accounting principles and standard formats for summarisation.

Audit issues and risks

14. Based on our discussions with staff, consideration of your own risk management arrangements and a review of supporting information, we identified the main risk areas for your organisation:
 - clarification of strategic role
 - changes to accounting treatment and disclosure requirements
15. Within these identified risk areas there is a range of more specific risks and these are summarised at Appendix A. In most cases, actions to manage these risks are either planned or already underway within the organisation. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake is also set out in Appendix A. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

Materiality

16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.



17. International Standard on Auditing 320 states that, *“information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.”*
18. When considering, in the context of a possible qualification, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement, experience and internal guidelines from peers as broad guidance in regard to considering whether the results of tests of detail are material.
19. An item may be judged material for reasons other than its monetary or quantitative value. An inaccuracy, which would not normally be regarded as material by amount, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, an item contrary to law, or areas affected by central government control). Again we use professional judgement, experience and internal guidelines from peers to determine when such matters would fall to be covered in an explanatory paragraph, rather than as a qualification to the audit opinion.

Reporting arrangements

20. Under the Local Government (Scotland) Act 1973, there is a requirement for unaudited financial statements to be presented to the partnership and the Controller of Audit within 3 months of the financial year end i.e. 30 June. The non-statutory target for audit completion is 30 September. To achieve this target, it is critical that a timetable for the audit of the accounts is agreed with us. An agreed timetable is included at Appendix B of this plan, which takes account of submission requirements, planned partnership meeting dates.
21. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the Partnership Director and relevant senior manager to confirm factual accuracy. Responses to draft reports are expected within four weeks of submission.
22. A copy of all final agreed reports will be sent to the Partnership Director, the Treasurer, the Chief Internal Auditor, and Audit Scotland’s Public Reporting Group.
23. We will provide an independent auditor’s report to the South East of Scotland Transport Partnership and the Accounts Commission for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements, including an opinion on those financial statements. An annual report to members and the Controller of Audit will also be produced to summarise all significant matters arising from the audit and overall conclusions about the South East of Scotland Transport Partnership’s management of key risks.



24. All annual reports produced by Audit Scotland are published on our website: (www.audit-scotland.gov.uk).
25. The full range of outputs to be delivered by the audit team are summarised below:

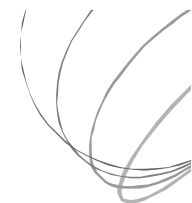
Planned outputs	Target delivery date
Governance	
Annual Audit Plan	31 January 2008
Corporate Governance and Internal Control	30 June 2008
Financial statements	
Financial statements management letter	30 April 2008
Report to Audit Committee in terms of ISA 260 (Communication of audit matters to those charged with governance)	30 September 2008
Independent auditor's report on the financial statements	30 September 2008
Annual report to the Members and the Controller of Audit	31 October 2007

Quality control

26. We are committed to ensuring that our audit reflects best practice and demonstrates best value to the South East of Scotland Transport Partnership and the Accounts Commission. We operate a strong quality control framework that seeks to ensure that your organisation receives a high quality service. The framework is embedded in our organisational structures and processes and includes an engagement lead for every client; in your case this is Alasdair Craik who is responsible for ensuring that our work is carried out on time and to a high quality standard.
27. As part of our commitment to quality and continuous improvement, we may periodically seek your views. We would be grateful for any feedback on our services.

Fees and resources

28. Our agreed fee for the 2007/08 audit of the South East of Scotland Transport Partnership is £10,000 comprising a local audit fee of £8,300 and a fixed charge of £1,700. Our fee covers:
- all of the work and outputs described in this plan
 - a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
 - attendance at key board meetings
 - access to advice and information on relevant audit issues
 - access to workshops/seminars on topical issues



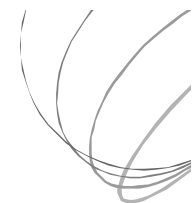
- travel and subsistence costs.
29. In determining the agreed fee we have taken account of the risk exposure of the South East of Scotland Transport Partnership, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of the draft accounts and working papers by 30 June 2008. If the draft accounts and papers are late, or agreed management assurances are unavailable, or planned internal audit reliance is not achieved, we reserve the right to charge an additional fee for further audit work.
 30. An additional fee will be required in relation to any work or other significant exercises not within our planned audit activity. An additional fee will also be charged for work on any grant claims or returns not included in the planned outputs noted previously.
 31. Lynn Bradley, Director, Audit Services (Local Government) is the appointed auditor for all local authorities audited by Audit Scotland. In practice, this operates by delegating management and certification responsibilities to Assistant Directors/Senior Audit Managers. For the South East of Scotland Transport Partnership the Senior Audit Manager is Alasdair Craik.
 32. The local audit team will be led by Glen Bissett who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience/skills of our team are provided at Appendix C. The core audit team will call on other specialist and support staff, as necessary.

Independence and objectivity

33. 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 within the audit team.
34. We comply with ethical standards issued by the Auditing Practices Board and with Audit Scotland's requirements in respect of independence and objectivity, as summarised at Appendix E.



6 March 2008



Appendix A

Summary assurance plan

In this section we identify a range of operational risks facing the South East of Scotland Transport Partnership, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of the Partnership and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Risk	Source of assurance	Planned audit action
Clarification of strategic role		
<p>Funding Changes introduced by the Scottish Budget Spending Review 2007 will have a significant impact on the partnership. Ring fenced funding previously provided direct to the partnership will now go direct to local authorities who will have greater flexibility in allocating resources. Faced with competing demands for those resources there is a risk that funding may not be provided to the level required to support the aims of the partnership.</p>	<ul style="list-style-type: none"> ▪ The Partnership Board has publicly stated its commitment to the strategic role of the partnership and its intention to secure continued funding through the partnership authorities. 	<ul style="list-style-type: none"> ▪ Review and monitor progress of discussions with partner authorities ▪ Monitor progress of capital plan
<p>Partnership working The partnership aims to ensure that all residents of the SESTRAN area can share in its economic success by widening access to opportunities in health, employment, education, leisure and culture. With control of resources passing to local authorities there is a risk that the partnership's Regional Transport Strategy may fail if the Board does not ensure that partner authorities continue to demonstrate commitment to the objectives of the partnership.</p>	<ul style="list-style-type: none"> ▪ The Partnership Board has publicly stated its commitment to the strategic role of the partnership and its intention to secure continued funding through the partnership authorities. 	<ul style="list-style-type: none"> ▪ Review and monitor progress of discussions with partner authorities ▪ Monitor progress of capital plan



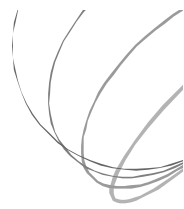
Risk	Source of assurance	Planned audit action
Changes to accounting treatment and disclosure requirements		
Financial statements The financial closure planning process does not properly incorporate the revised requirements of the 2007 SORP.	<ul style="list-style-type: none">▪ Experienced and qualified staff have been recruited to key posts	<ul style="list-style-type: none">▪ Financial statements planning meeting▪ Agreed timetable of early work



Appendix B

Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	January to June 2008
Provision of closedown procedures to audit	March 2008
Meetings with officers to clarify expectations of detailed working papers and financial system reports	April 2008
Planned committee approval of unaudited financial statements	27 June 2008
Latest submission of unaudited financial statements with working papers package	30 June 2008
Progress meetings with lead officers on emerging issues	As required
Objection period	July 2008
Receipt of management representation letter from Treasurer	August 2008
Latest date for submission of matters arising on financial statements audit	Mid August
Latest date for clearance meeting with officers	31 August 2008
Agreement of unsigned financial statements for the partnership's Performance and Audit Committee agenda, and issue of report to the Treasurer on the audit of financial statements (ISA 260)	30 September 2008
Performance and Audit Committee/Partnership Board date	3 October 2008
Independent Auditor's Report signed	30 September 2008
Latest date for submission of unaudited whole of government accounts return to external audit	tbc
Latest date for signing of WGA return	31 October 2008
Annual report and certified accounts presented to Partnership Board	17 October 2008



Appendix C

Audit team

A summarised curriculum vitae for each core team member is set out below:

Lynn Bradley BSc CPFA CA

Director

Lynn took up post as Director of Audit in January 2005. Originally trained as an auditor with National Audit Office, Lynn has worked in various senior posts in the public and private sectors in Scotland and England. She spent several years working with local authorities on housing and regeneration projects. Before joining Audit Scotland, she was the Section 95 officer in a Scottish Council. Lynn was the co-author of CIPFA guidance on audit committee principles. She is currently a CIPFA council member and the past chair of CIPFA in Scotland.

Alasdair Craik FCCA

Senior Audit Manager

Alasdair has over 20 years experience in public sector audit. He joined Audit Scotland from the Accounts Commission in 2001 and has considerable experience in the local government sector.

Glen Bissett

Senior Auditor

Glen has worked in public sector audit since 1979 training with KPMG before moving to NAO in Edinburgh and Audit Scotland subsequently. Glen has extensive experience of the central government sector and now works with clients in Local Government and Health.



Appendix D

Reliance on internal audit

Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Our review of the internal audit service concluded that the internal audit service provided by the City of Edinburgh Council's Internal Audit Unit operates in accordance with the CIPFA code of practice for internal audit in local government. We therefore plan to place reliance on the work of internal audit in the following areas:

- annual compliance with code of corporate governance
- financial control statements
- annual Directors' statements
- certification of grants
- risk management.



Appendix E

Independence and Objectivity

Auditors appointed by the Auditor General for Scotland are required to comply with the Code of Audit Practice and standing guidance for auditors, which defines the terms of appointment. When auditing the financial statements auditors are also required to comply with the auditing and ethical standards issued by the Auditing Practices Board (APB). The main requirements of the Code of Audit Practice, standing guidance for auditors and the standards are summarised below.

International Standards on Auditing (UK and Ireland) 260 (Communication of audit matters to those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of the fee that the auditor has charged the client
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Performance and Audit Committee. The auditor reserves the right to communicate directly with members on matters which are considered to be of sufficient importance.

Audit Scotland's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. Appointed auditors and their staff should avoid entering in to any official, professional or personal relationships which may impair their independence, or might lead to a reasonable perception that their independence could be impaired.

The standing guidance for auditors includes a number of specific requirements. The key requirements relevant to this audit appointment are as follows:

- during the currency of an appointment, auditors should not perform non-audit work for an audited body, consultancy or otherwise, without the prior approval of Audit Scotland
- the appointed auditor and key staff should, in all but exceptional circumstances, be changed at least once every five years in line with Audit Scotland's rotation policy
- the appointed auditor and audit team are required to carry out their duties in a politically neutral way, and should not engage in high profile public party political activity



- the appointed auditor and audit team must abide by Audit Scotland's policy on gifts and hospitality, as set out in the Audit Scotland Staff Code of Conduct.