



# Tayside and Central Scotland Transport Partnership

Audit strategy

Year ending 31 March 2021

For Partnership Board consideration on 16 March 2021

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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.

## **Restrictions on distribution**

This report is intended solely for the information of those charged with governance of the Board and the report is provided on the basis that it should not be distributed to other parties; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

## **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](mailto: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](mailto: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 Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

# Introduction

2020-21 is the fifth 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. Audit Scotland notified KPMG during 2020 that the appointment was to be extended to 2021-22, inclusive.

This document summarises our responsibilities as external auditor for the year ending 31 March 2021 and our intended approach to issues impacting on Tactran’s activities in the year.

## Our planned audit work in 2020-21 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 2020-21 Code”) of the state of the affairs of the Partnership as at 31 March 2021 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 2020-21 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 of 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.

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

## Our team is:

- Michael Wilkie – engagement leader
- Chris Windeatt – engagement manager
- Alex Berwick – engagement in-charge

Michael is responsible for the audit opinion, and has many years’ experience within the public sector. Our work will be completed from December 2020 to September 2021 and our key deliverables are this audit strategy and an annual audit report.

## Financial and business update

As at 31 October 2020, an underspend of £22,910 against a breakeven budget is projected for Tactran for the year to 31 March 2021, including planned use of deferred income. At its meeting in December 2020, the Partnership Board approved a balanced 2021-22 core budget. The Regional Transport Strategy (“RTS”) budget is expected to be approved before 31 March 2021.

The underspend is due to reduced hours for senior officers, and a deferral to 2021-22 in respect of reallocation costs for the Partnership Director in the core budget

## Acknowledgements

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

# Headlines



## Materiality

Materiality for planning purposes has been based on an average of the previous two years actual gross expenditure and set at £25,000 (1.4% of average gross expenditure from the 2020-21 outturn and 2019-20 actual).

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 £1,250.

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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.

### Pages six and seven

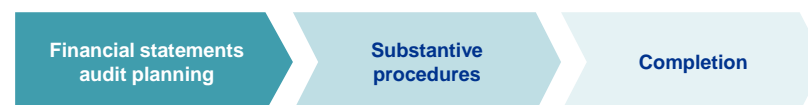
We note areas with less likelihood of giving rise to a material error, but which are nevertheless worthy of audit understanding. For our financial statements audit, we have identified the completeness and accuracy of expenditure as an other focus area.

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## £ Financial statements audit

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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 2020-21 ("the 2020-21 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. Planned audit work should be risk based and proportionate to the nature and size of an audited body. Where the application of the full wider scope is judged by auditors not to be appropriate, Supplementary Guidance for appointed auditors offers a small body clause which allows narrower scope work to be carried out. Having considered the size and functions of Tactran, in our judgment the small body clause applies.

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# 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 £25,000 (2019-20: £20,000), which equates to 1.4% (2019-20: 1.3%) of an average gross expenditure for the last two years. Materiality will be reconsidered once draft financial statements for 2020-21 are received in June 2021.

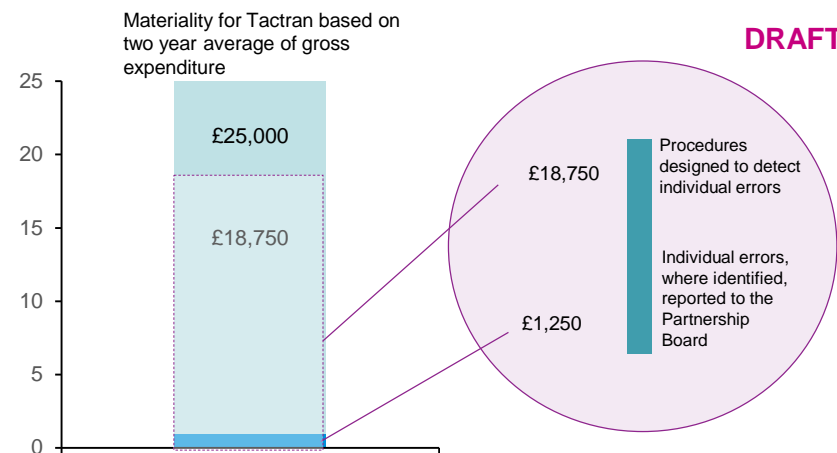
We design our procedures to detect errors in specific accounts at a lower level of precision, which in 2020-21 is set at £18,750 (2018-19: £15,000).

## 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 £1,250 (2019-20: £1,000).



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.

## Control environment

The impact of the control environment on our audit is reflected in our planned audit procedures. Our planned audit procedures reflect findings raised in the previous year and management's response to those findings. We will assess the impact of the COVID-19 pandemic on key controls, which may result in subsequent changes in our audit approach.

## Timing of our audit and communications

We will maintain communication led by the engagement lead and senior manager throughout the audit. We set out our communications in [Appendix three](#).

# Financial statements audit planning (continued)



Our planning work took place during December 2020. This involved; risk assessment; determining our materiality level; and issuing this audit plan to communicate our audit strategy.

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## 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	The risk	Planned approach
<b>Financial statement risks</b>		
<b>Fraud risk from management override of controls</b>	<p>A presumed risk we are required to consider covers fraud risk from management override of controls. Management is typically in a position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk.</p> <p>This is a presumed risk per ISA 240.</p>	<ul style="list-style-type: none"> <li>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.</li> <li>Strong oversight of finances by management provides additional review of potential material errors caused by management override of controls.</li> <li>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.</li> </ul>
<b>Fraud risk from income revenue recognition and expenditure</b>	<p>Under ISA 240 there is a presumed fraud risk that income may be misstated due to improper recognition of income. This requirement is modified by PN10, issued by the FRC, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p>	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>

# Financial statements audit planning (continued)



## Risk assessment (continued)

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Risk	The risk	Planned approach
<b>Financial statements risks (continued)</b>		
<p><b>Retirement benefit obligations</b></p>	<p>Tactran is an admitted body of Tayside Pension Fund with net pension liability (£205,700 as at 31 March 2020, including assets of £2.7 million) representing a material element of the Partnership's Balance Sheet. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in Tactran's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of Tactran's valuation, such as the discount, inflation, and mortality rates etc. The assumptions should also reflect the profile of Tactran's employees, and be based on appropriate data. The basis of the assumptions should be derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of Tactran's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.</p>	<p>Our planned audit approach includes:</p> <p><b>Control design:</b></p> <ul style="list-style-type: none"> <li>— Testing the design and operating effectiveness 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.</li> </ul> <p><b>Benchmarking assumptions:</b></p> <ul style="list-style-type: none"> <li>— 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.</li> <li>— 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.</li> </ul> <p><b>Assessing transparency:</b></p> <ul style="list-style-type: none"> <li>— Considering the adequacy of the disclosures in respect of the sensitivity of the deficit to these assumptions. .</li> <li>— Assessing if the disclosures within the financial statements are in accordance with the 2020-21 Code's requirements.</li> </ul>

# Financial statements audit planning (continued)



Risk assessment (continued)

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Risk	The risk	Planned approach
<b>Financial statements risks (continued)</b>		
<p><b>Retirement benefit obligations (continued)</b></p>	<p><b>Guaranteed minimum pensions (“GMP”) equalisation</b></p> <p>Following a UK high court judgement on 26 October 2018, the government published the outcome of its Indexation and equalisation of GMP in public service pension schemes consultation, concluding that the requirements for public service pension schemes to fully price protect the GMP element of individuals’ public service pension would be extended to those individuals reaching state pension age (“SPA”) before 6 April 2021</p> <p><b>McCloud judgement</b></p> <p>Formal consultation on how the McCloud judgement will be implemented concluded in October 2020. We will continue to consider the government’s actuarial advice regarding the accounting for this judgement.</p> <p><b>Goodwin case</b></p> <p>In the prior year, CIPFA issued guidance during the year relating to the Goodwin case, which relates to a male survivor of a female scheme member and is alleging direct sexual orientation discrimination. We will continue to consider any changes of advice regarding this case.</p>	<p>— We will consider with management any updates regarding these matters, and how these will impact the audit.</p>



# Financial statements audit planning (continued)



## Risk assessment (continued)

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Risk	The risk	Planned approach
<b>Other risks</b>		
<b>Completeness and accuracy of expenditure</b>	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"> <li>— Vouching a sample of expenditure items to supporting documentation to ensure accuracy and existence of expenditure; and</li> <li>— Reviewing a sample of the largest expenditure items post year end to ensure these were recorded in the correct period.</li> </ul>

# Wider Scope focus areas



As stated on page three, in our opinion the full application of the wider scope is not appropriate for Tactran. The partnership has a budget of approximately £1.9m and a major role for Tactran is working in partnership across the public sector to develop and deliver the Regional Transport Strategy. On the whole, the strategy involves capital projects which are delivered in Tayside, Stirling and Perth and Kinross and monitored by Tactran. Due to its co-ordination role, the transactions in the accounts are routine and consequently, we have concluded that the small body clause is appropriate. However, as a minimum, the Code requires annual audit work on financial sustainability and the appropriateness of the disclosures in the governance statement. As a result, our wider dimension work will be restricted to financial sustainability and governance and transparency arrangements as set out below.

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Wider scope area	Why	Audit approach
<b>Wider Scope focus areas</b>		
<b>Governance and transparency</b>	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>We will review, conclude and report on whether:</p> <ul style="list-style-type: none"> <li>– Tactran can demonstrate that the governance arrangements in place are appropriate and operating effectively</li> <li>– there is effective scrutiny, challenge and transparency on decision-making, finance and performance reports</li> <li>– there is quality and timely financial and performance reporting</li> <li>– there are robust arrangements in place to support the annual governance statement</li> <li>– the internal control environment and governance arrangements in place as a result of the Covid-19 pandemic are appropriate.</li> </ul>
<b>Financial sustainability</b>	Financial sustainability looks forward to the medium and longer term to consider whether Tactran is planning effectively to continue to deliver its strategy.	<p>We will carry out work and conclude on:</p> <ul style="list-style-type: none"> <li>– the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term</li> <li>– the appropriateness and effectiveness of arrangements in place to address any identified funding gaps</li> <li>– the reasonableness of management’s assumptions in respect of future funding as a result of Brexit and the Covid-19 pandemic.</li> </ul>

# Other matters

## Accounting framework update

From 2022-23, IFRS 16 Leases will supersede IAS 17 Leases. IFRS 16 introduced a single lessee accounting model. Tactran will be more likely to account for operating leases in a similar way to the current IAS 17 treatment for finance leases.

These changes are significant, and where the 2021-22 balances will form the comparatives in future accounts, we will consider Tactran's arrangements for complying with the forthcoming arrangements.

## Revision to the Going Concern Standard

In September 2019 the FRC published a revised UK auditing standard for Going Concern ISA UK 570. This responds to recent enforcement cases and well-publicised corporate failures where the most recent auditor's report had not included a material uncertainty on going concern. The revised standard is applicable for periods commencing on or after 15 December 2019, including short periods.

Giving the funding, nature and legislation in respect of Tactran, we do not anticipate significant changes to the approach of management regarding going concern.

## Covid-19: Audit implications

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We report our assessment of the impact of Covid-19 on our planned audit scope, timing, materiality, audit procedures, and fees.

- The **planned scope and timing** of our audit has not changed significantly from the prior year to respond to any assessed risks of material misstatement.
- Given the rapidly changing environment, the **scope and timing** of our audit may need to be modified further to respond to new events or changing conditions. If we make significant changes, then we will communicate these to you.
- **Materiality** for the financial statements as a whole has been maintained from the prior year due to increased demand and expenditure required to maintain service delivery.
- Due to the rapidly evolving situation, determining whether **subsequent events** should be reflected (adjusting) vs. disclosed (non-adjusting) in the financial statements may require significant judgement, and more subsequent events may be identified.
- Our **audit procedures** will be adjusted to respond to any increased risks of material misstatement, and we highlight the risk of potential delays to the completion of our audit to enable us to obtain sufficient appropriate evidence to support our audit opinion.
- We do not anticipate any changes to our procedures or risk assessment in respect of the Board's ability to continue as a **going concern**.
- Based on the efficient working relationship between KPMG and the finance team in 2019-20, we do not anticipate adjusting our **audit fee** beyond that proposed on appendix five.



# Appendices

## Mandated communications with the Partnership Board

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Matters to be communicated	Link to Partnership Board papers
Independence and our quality procedures ISA 260.	— See page 14
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"> <li>— 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).</li> </ul>	<ul style="list-style-type: none"> <li>— In the event of such matters of significance we would expect to communicate with the Partnership Board throughout the year.</li> <li>— Formal reporting will be included in our audit highlights memorandum for the September 2020 Partnership Board meeting, which focuses on the financial statements.</li> </ul>
<ul style="list-style-type: none"> <li>— Significant difficulties we encountered during the audit.</li> <li>— Significant matters discussed, or subject to correspondence, with management (ISA 260).</li> </ul>	
<ul style="list-style-type: none"> <li>— Our views about the qualitative aspects of the entity's accounting and financial reporting.</li> <li>— 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).</li> </ul>	
<ul style="list-style-type: none"> <li>— 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).</li> </ul>	
<ul style="list-style-type: none"> <li>— 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).</li> </ul>	
<ul style="list-style-type: none"> <li>— 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).</li> </ul>	
<ul style="list-style-type: none"> <li>— Expected modifications to the auditor's report (ISA 705).</li> </ul>	
<ul style="list-style-type: none"> <li>— Related party transactions that are not appropriately disclosed (ISA 550)</li> </ul>	

# Auditor Independence

## Assessment of our objectivity and independence as auditor of Tayside and Central Scotland Transport Partnership (the 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.

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

### 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 Partnership Board.

### 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 director and audit staff is not impaired.

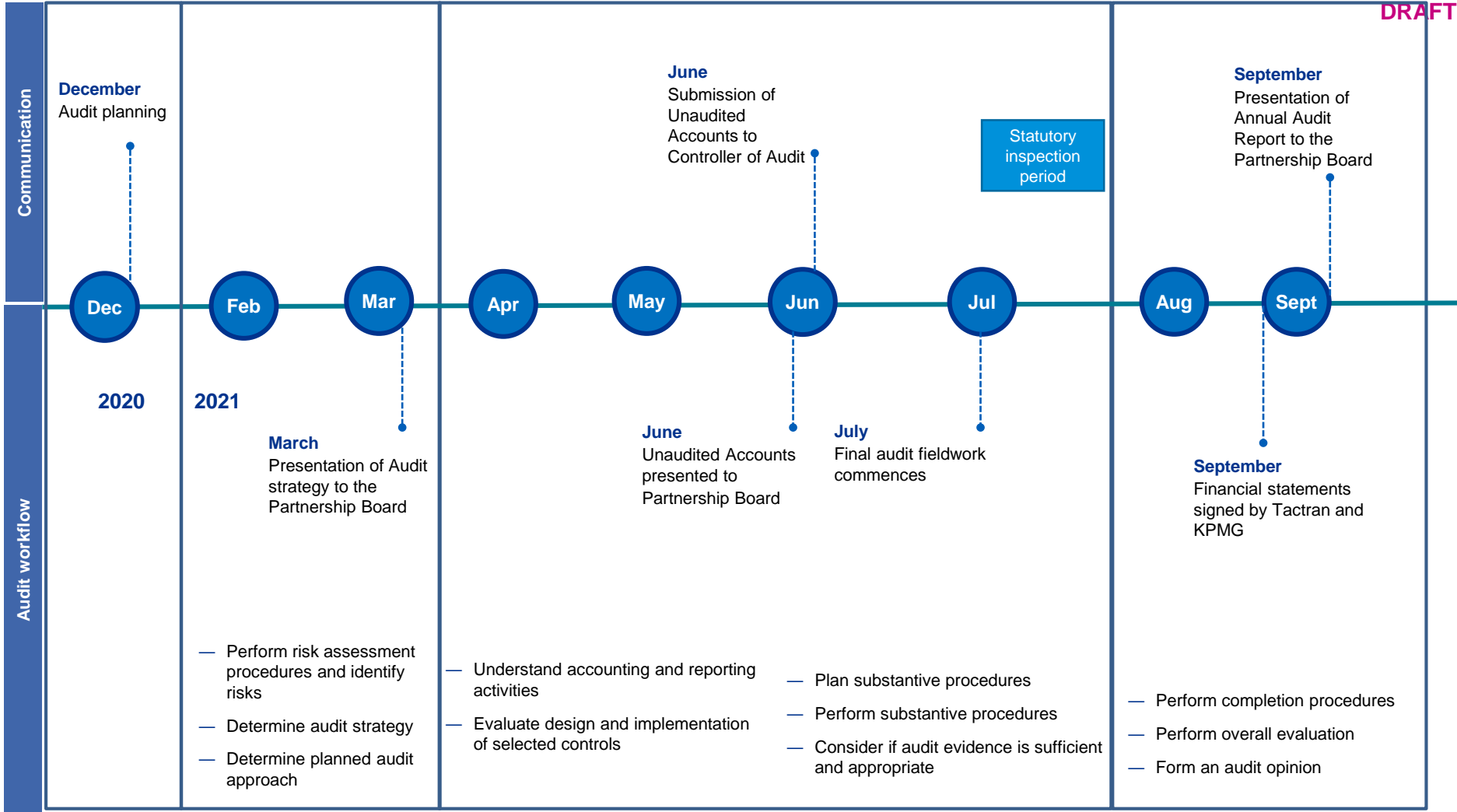
This report is intended solely for the information of the Partnership Board and should not be used for any other purposes.

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



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## Appendix four

# Timeline and reporting: audit outputs

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Output	Description	Report date
<b>Audit strategy</b>	— Our strategy for the external audit of Tactran, including significant risk and audit focus areas.	— By 31 March 2021
<b>Independent auditor's report</b>	— Our opinion on Tactran's financial statements.	— By 31 October 2021*
<b>Annual audit report</b>	— We summarise our findings from our work during the year.	— By 31 October 2021*
<b>Audit reports on other returns</b>	— We will report on the following returns: — Fraud returns;	— To submit by: 30 November 2020, 28 February 2021, 31 May 2021 and 31 August 2021

\* This date is provisional in Audit Scotland's planning guidance for 2020-21 and is subject to change. We note that this would be a final deadline, and based on the audit of the 2019-20 annual accounts that the traditional 30 September deadline to be the aim of both management and KPMG.



## Appendix five

# Fees

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Audit Scotland has completed a review of funding and fee setting arrangements for 2020-21. An expected fee is calculated by Audit Scotland to each entity within its remit, which comprises three elements:

- Auditor remuneration
- Pooled costs
- 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 2020-21 element of the proposed fee. 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.

Our proposed fee has increased year on year as summarised below. Our remuneration reflects the total level of audit work required to provide an opinion on Tactran's annual accounts, which has significantly increased since 2016-17.

	2020-21 £ (incl VAT)	2019-20 £ (incl VAT)
Auditor remuneration	15,000	10,350
Pooled costs	850	850
Contribution to Audit Scotland costs	490	520
<b>Total audit fee</b>	<b>16,340</b>	<b>11,720</b>

# Audit Scotland code of audit practice – responsibilities of auditors and management (continued)

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## 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.

Audited bodies are responsible for providing the auditor with access to all information relevant to the preparation of financial statements, additional information requested and unrestricted access to persons within the entity.

### 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 (continued)

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Responsibilities of management
<p><b>Corporate governance arrangements</b></p> <p>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 (including Audit Committees or equivalent) in monitoring these arrangements.</p>
<p><b>Financial position</b></p> <p>Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>— such financial monitoring and reporting arrangements as may be specified;</li> <li>— compliance with any statutory financial requirements and achievement of financial targets;</li> <li>— balances and reserves, including strategies about levels and their future use;</li> <li>— how they plan to deal with uncertainty in the medium and longer term; and</li> <li>— the impact of planned future policies and foreseeable developments on their financial position.</li> </ul>
<p><b>Best Value, use of resources and performance</b></p> <p>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.</p>

# Audit Scotland code of audit practice – responsibilities of auditors and management (continued)

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## 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.

This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.

# Audit Scotland code of audit practice – responsibilities of auditors and management (continued)

DRAFT

Responsibilities of auditors
<p><b>General principles</b></p> <p>This Code is designed such that adherence to it will result in an audit that exhibits these principles.</p>
<p><b>Independent</b></p> <p>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.</p> <p>Our independence letter discloses matters relating to our independence and objectivity including any relationships that may bear on the firms independence and the integrity and objectivity of the audit engagement partner and audit staff.</p> <p>We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Director and audit staff is not impaired.</p>
<p><b>Proportionate and risk based</b></p> <p>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.</p>
<p><b>Quality focused</b></p> <p>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.</p>

# Audit Scotland code of audit practice – responsibilities of auditors and management (continued)

DRAFT

Responsibilities of auditors	
<b>Coordinated and integrated</b>	
	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.
<b>Public focused</b>	
	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.
<b>Transparent</b>	
	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.
<b>Adds value</b>	
	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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