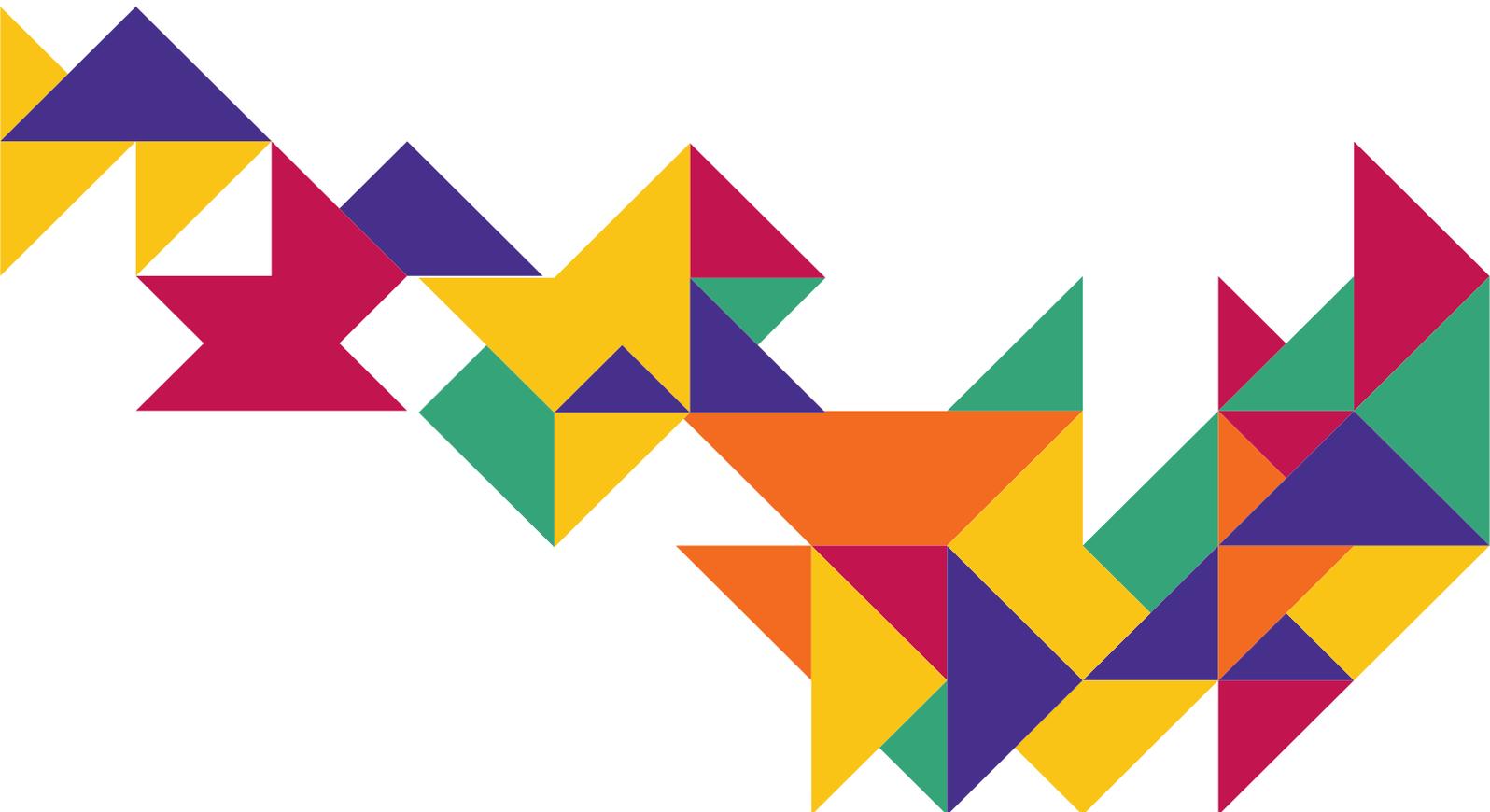


Scottish Environment Protection Agency (SEPA)

External audit plan for the financial year ending 31 March 2017

Audit Committee* 13 December 2016



* In the Committee's role as "those charged with governance"



Grant Thornton

An instinct for growth™

Scottish Environment Protection Agency
Members of the Audit Committee
Strathallan House
Castle Business Park
STIRLING
FK9 4TS

Grant Thornton UK LLP
Level 8
110 Queen Street
Glasgow
G1 3BX

T +44 (0)141 223 0000
F +44 (0)141 223 0001
DX GW232 Glasgow
grantthornton.co.uk

13 December 2016

Dear Members of the Audit Committee

External Audit Plan for the financial year ending 31 March 2017

Please find enclosed our annual external audit plan addressed to those charged with governance for the financial year ending 31 March 2017. We are delighted to have been appointed as your external auditors and look forward to working with you to ensure you get maximum value from our audit work. We will be pragmatic and actively engage with you throughout the year in an open and transparent manner, ensuring you benefit from our wider insights and observations.

Our plan sets out how as your auditors we will fully discharge our responsibilities as set out in the Audit Scotland Code of Audit Practice 2016, as well as under International Standards of Auditing (ISA's) (UK and Ireland).

Our approach delivers:

- A robust challenge of your judgements and key aspects of your financial statements in particular in respect of significant and other audit risks as highlighted in this plan.
- A focus on wider scope arrangements across the four audit dimensions as related to risks: financial management; financial sustainability; governance and transparency and value for money.
- An understanding of your business and strategic challenges, pro-actively engaging throughout the year with you and your team.
- A clear and concise annual report to those charged with governance and the Auditor General for Scotland, reporting the outcome of our work during the year; and reflecting our key judgements and conclusions over your arrangements as relevant to our audit role.

I look forward to working with you over the course of our appointment and discussing this plan with you on 13 December.

Joanne Brown Engagement Leader

Director

For Grant Thornton UK LLP

Chartered Accountants

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see www.grant-thornton.co.uk for further details.

Table of Contents



Section	Page
1. Our approach at a glance	4
2. Materiality	6
3. Wider scope audit	7
4. Audit risks	9
5. A quality audit	10

Appendices

Our commitments to you aligned to the principles set out in the Code of Audit Practice	12
Team and key audit deliverables	13
Fees, non-audit services and independence	14
Fraud arrangements	15
Respective responsibilities	16
Communication of audit matters with those charged with governance	17

Our approach at a glance

A smooth transition

- We have extensive experience of transitioning into new clients and will do this at minimum disruption to you
- We will quickly look to build up good working relationships with your team
- We will produce a high level communication plan with you upfront and agree key dates for our work, and deliverables

Regular meetings throughout the process

- Joanne Brown will meet with you on a regular basis, discuss your emerging issues, act as a sounding board
- Senior member of team will attend all Audit Committee meetings
- We will hold regular private meetings with the Audit Committee

Feedback from you

- Debrief meeting with senior finance staff
- Client service review undertaken and feedback and shared with all of our team
- Action plan to address findings

Completion

- Once signed by the Board we will submit the accounts to Audit Scotland (likely to be early August)
- Sign accounts and audit opinion and obtained signed letter of representation

20 June 2017 Audit Committee meeting

- Present Annual Report to those Charged with Governance
- Discuss key audit issues; associated risks identified and action plan
- Hold pre-meeting with Audit Committee Chair if required

Annual Report to those charged with Governance

- Sets out key audit and accounting issues and how these have been resolved
- Provides comments on systems and controls, and review of accounting policies; conclusions and judgements in respect of your arrangements across the wider scope remit
- Key judgements and conclusions from our wider scope work, including improvement opportunities

Audit clearance meeting

- Discuss audit issues with management
- Agree treatment of any unadjusted differences
- Practical recommendations on systems and controls

Audit planning meeting

- Meeting with key management to identify audit risks/judgements in particular the Chief Officer Finance and Head of Finance.
- Consider key aspects of your organisation, strategic goals and business issues for example the focus on innovation and income growth
- Agree client prepared schedules and account and audit timetables
- risk areas for wider scope responsibilities

Audit Plan

- Confirm audit risk areas and agreed audit approach
- Set out audit scope and agreed timetable, including how we discharge our responsibilities under the Audit Scotland code of practice
- Formal communication with the Audit Committee (13th December)

Interim work

- Review of systems and controls in particular around expenditure and fixed asset processes
- Assess overall control environment
- Early work on key areas of audit risk
- Liaise with Internal Audit, review outputs and assess impact on our work

21 March 2017 Audit Committee

- Present Progress update
- Confirm audit risks and approach for financial statements, and wider scope audit and reporting

Final accounts audit

- Focused on risk areas, with on-site Engagement Lead review
- IDEA interrogation software utilised to provide efficiency and insight (data analytics)
- Audit issues and potential adjustments, discussed and cleared with you as they arise
- Work carried out by a team with relevant experience and knowledge of the Scottish Central Government

Annual report including annual governance statement

- Check the annual report is consistent with the accounts and meets the requirements set out in the direction from Scottish Ministers
- Check the annual governance statement; performance report and accountability is consistent with our knowledge of SEPA and the financial statements

Wider Scope Audit

- Conclude and discuss key findings with management across the four impact areas
- Reflecting on work undertaken during the year including interviews and relevant documentation review

Our approach at a glance (continued)

Our audit is risk based and undertaken in accordance with International Standards on Auditing ("ISA UK&I") and the Audit Scotland Code of Practice 2016.

We will seek to understand SEPA's business strategy, key organisational arrangements and developments, within the context of the wider Scottish Public Sector including Central Government.

In particular we will consider wider financial sustainability in light of a significant asset base and a high proportion of costs being related to staff costs. We note the continued focus on the income generation in particular your development of an innovation function. We will also consider the wider contribution of SEPA to the Scottish regulation environment, in particular the promotion of environmental sustainability.

Our audit will be largely substantive in nature although under our ISA requirements we will seek to understand your internal control environment, including policies and procedures, segregation of duties and budgeting and financial reporting arrangements.

Internal Audit

As set out in ISA (UK&I) 610 'using the work of internal auditors' we are prohibited from using internal audit to provide direct assistance' to the audit, therefore we design our approach to internal audit to ensure compliance with these requirements.

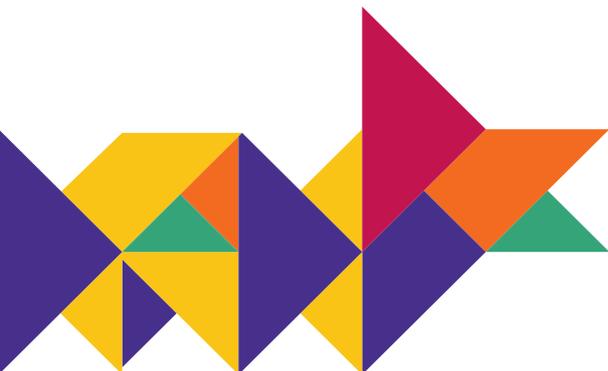
We will review the internal audit plan for 2016/17 and will also review reports finalised during the year and meet with them to discuss their work including their understanding of the control environment and potential fraud risks. Should internal audit identify specific material deficiencies in the control environment during the year we will consider the impact of this on our planned audit approach and substantive testing.

We will work with internal audit in respect of our risk assessment, minimising any risk of duplication or inefficiency. However, we do not intend to take specific reliance on any work performed in the period.

Professional standards

Our objective is robust, quality driven external audit which adds value to you. Our team works to the highest level of professional standards in delivering their work. Specifically we would highlight:

- professional scepticism will be applied throughout the audit, in particular in respect of significant or key judgements.
- we will provide challenge, insights and share practices with management using our significant Public Sector experience, including wider Central Government experience (Scotland and UK)
- We will seek to really understand your culture and ethics as well as SEPA's Strategic priorities, risks and challenges and how you operated on a day to day basis- This will mean our approach is suitably tailored to you
- we will involve necessary specialist to support us in our audit work for example our valuation experts; pensions experts and our national accounting technical team.
- we will use IDEA, our data analytical software to effectively and efficiently test your balances and transactions during the year including for example, journals.



Materiality

We are required to audit the financial statements and to give an opinion as to:

- whether they give a true and fair view of the financial position of the SEPA and its expenditure and income for the period 1 April 2016 to 31 March 2017
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements including our regularity opinion
- The part of the remuneration report which is subject to audit is free from misstatement.
- Whether the information which comprises the performance report, accountability report and governance statement is consistent with the financial statements
- The regularity of expenditure and income

Determining materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

Overall materiality

As is usual in public sector entities, we have determined materiality for the financial statements as a proportion of gross revenue expenditure of SEPA. Using budgeted annual expenditure we have calculated our preliminary planning materiality as £0.848million (1% of gross expenditure). We have used this figure to reflect it is year one of our audit.

It is normal practice for us to reconsider our materiality levels when final accounts are available for audit. We will report any changes in our materiality threshold to you within our Annual Report to those charged with Governance.

Performance materiality

Performance materiality is set at £0.552million and is calculated based on 65% of materiality, and represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality.

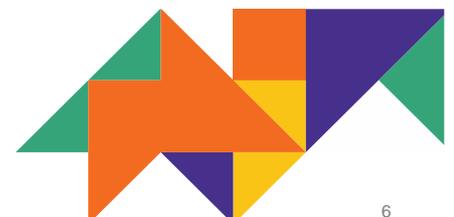
Trivial

Under ISA 540, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £8,480 based on 1% of materiality. We will report to you any adjustments identified through our audit work if below these thresholds and where we consider them to be material by nature.

Regularity Opinion

SEPA is responsible for ensuring that public money is used only for its approved purpose.

As required we provide an opinion on the regularity of the income and expenditure of SEPA. We will therefore consider whether there are adequate controls in place over expenditure and substantively test transactions to ensure they are in line with the approved purpose of SEPA.



Code of Practice - Wider scope audit

The Code of Audit Practice recognises the increasingly high expectations the public has about the role of audit in the stewardship of public funds.

Wider scope audit is defined as going beyond the financial statements to include work that contributes to audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management and arrangements and financial sustainability (Audit Scotland Code of Practice, page 20)

Our planned work in this area, like our financial statement audit work, is risk based and proportionate to the nature and size of SEPA. We have identified certain areas of particular risk as related to the wider scope considerations and these are set out within our audit risk section of the plan. We will also consider the SEPA's own self evaluation of arrangements as they relate to the four dimensions.



Dimensions	Key questions/areas for our consideration
Financial sustainability	<ul style="list-style-type: none"> • Review of SEPA's budgeting arrangements; financial reporting and longer term financial plans including scenario planning and key assumptions • Income scenario planning including charging scheme plans • Transformation/and or efficiency programmes in place and progress to date.
Financial management	<ul style="list-style-type: none"> • Review of performance against budget, accuracy of the budgeting process and assessment of key variances. • Financial leadership including capacity and capability
Governance and transparency	<ul style="list-style-type: none"> • Effectiveness of governance arrangements and risk management procedures. • Consider role of internal audit within the wider risk management framework. • Consider arrangements in place around fraud, regularity and whistleblowing.
Value for money	<ul style="list-style-type: none"> • What outcomes do SEPA measure and report against, what is the performance management framework in place • Public performance reporting • Partnership working arrangements and stakeholder engagement • How do you assess that as an organisation you are delivering value for money

Significant and other audit risks identified at planning

Identified audit risk	Description of risk	Work planned
<p>1 Significant audit risk: Management override of controls</p>	<p>Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Complete walkthrough of the controls and procedures in place around journal entries • Review the key accounting estimates, judgements and decisions made by management. • Test journal entries with a focus on unusual posting sources, times or amounts identified using our IDEA data analysis software • Review unusual and/or significant transactions.
<p>2 Significant Audit risk: The revenue cycle includes fraudulent transactions</p>	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>We do not believe it is appropriate to rebut the revenue recognition risk in relation to income streams with the exception of grant-in-aid from the Scottish Government.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Complete walkthrough of the controls and procedures around in place around sales invoicing and sales ledger • Agree revenue to supporting documentation and cash receipts in the year / post period end to gain comfort over validity of these transactions • Perform cut-off testing to gain comfort around the completeness and accuracy of recognised income • Consider the recoverability of any outstanding balances at year end
<p>3 Significant audit risk: Asset valuations</p>	<p>SEPA have a diverse range of assets including property; specialised gauging stations; a ship and other environmental assets. There exists a risk that these may not be valued correctly (accuracy) and/or any subsequent impairments are not completely or accurately recorded.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Complete an assessment of the credentials and independence of the valuers' across all your asset base • Obtain and review the valuers' reports • Assess the basis for asset valuation for example fair value • Recalculate and agree valuation movements for a sample of assets • Confirm asset ownership (existence)
<p>4 Other audit risk: Completeness of operating expenditure</p>	<p>Operating expenses are understated or not recorded in the right period. This risk also relates to Practice Note 10 (revised) in respect of public sector entities which outlines that auditors should also consider the risk that misstatement may occur by the manipulation of expenditure recognition (Fraud risk).</p>	<p>We will:</p> <ul style="list-style-type: none"> • Complete walkthrough of the controls and procedures in place around purchase ordering, procurement and general payment and recording of expenditure. • Reconcile creditors ledger to the general ledger and financial statements • Perform cut-off testing on pre-year end and post year end transactions to gain comfort around the completeness and accuracy of recognised expenditure • Gain comfort around the regularity of expenditure and the application of public funds in accordance with Scottish Government guidelines

Significant and other audit risks identified at planning

Identified audit risk	Description of risk	Work planned
<p>1 Wider Scope – Financial sustainability</p>	<p>SEPA will receive a one year budget on the 15th of December for 2017/18. Like all public sector organisations SEPA needs to continually review and look to reduce its cost base as well as grow income.</p> <p>Based on the anticipated Scottish Government financial settlement SEPA will need to find further efficiencies and continue to evolve as an organisation recognising a significant proportion of SEPA's expenditure is staff costs.</p>	<ul style="list-style-type: none"> • Review of the budget planning assumptions and various financial planning scenarios management are considering; • Review of income generation plans, including managements plans around innovation, and the role SEPA can play. • Review of SEPA's efficiency saving programme; achievements to date and future plans – including a consideration of how transformational the plans are.

A quality audit

Ensuring we deliver on our commitments to you is important to us.

Our regular liaison meetings are an opportunity to discuss our performance and confirm your expectations about audit outputs and audit approach including team interactions with you for example are being met.

We will look to use the performance metrics set out below so you can assess our performance, and we will report our progress back to you.

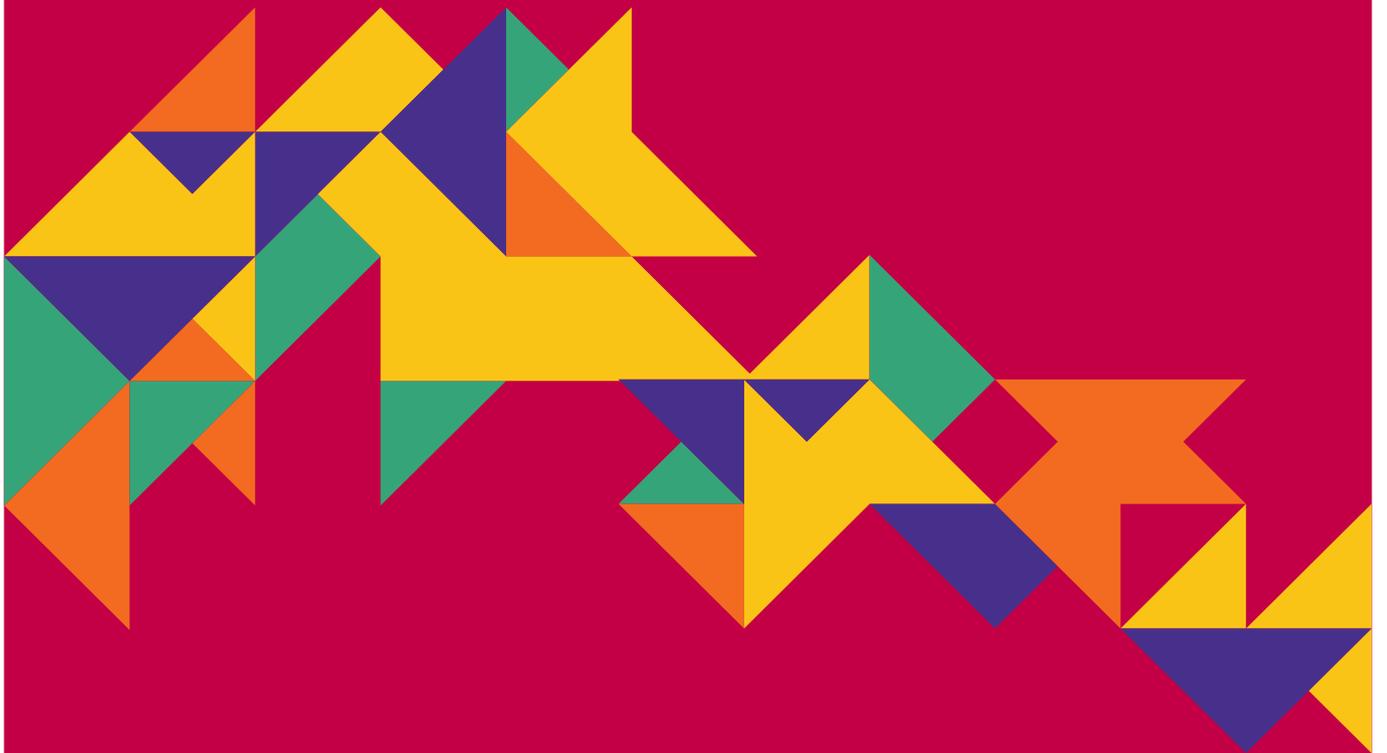
We will also undertake regular client service reviews so that you can tell us how we are performing, as well as recognising that Audit Scotland will also ask you for feedback on us. We take your feedback seriously and will seek to continually improve our service reflecting on your ongoing feedback.

The table outlines the service levels that you can expect as a minimum. We will always strive to do more, and deliver above and beyond these.

Area	Proposed service level and indicator
Response time	<ul style="list-style-type: none"> We will respond to all minor queries or requests for assistance within two working days We will provide an initial response to all major queries or requests for assistance within two working days, with full responses within five working days We will acknowledge any complaint by return and will resolve it in discussion with you within two working days. We will escalate any complaint at your request
Achievement of planned inputs and milestone	<ul style="list-style-type: none"> We will not vary the total approved audit fee, except by prior approval by the Chief Officer Finance and the Audit Committee We will achieve all key milestone dates and audit inputs, as agreed with you at the start of the year. All papers for Audit Committee will have been reviewed by management and submitted in advance of the paper deadlines (100% target)
Liaison	<ul style="list-style-type: none"> We will agree a schedule of liaison meetings with you at the start of each year, along with the proposed dates for our on-site work Joanne Brown will attend all liaison meetings with other core and support team members as required We will confirm agendas for every liaison meeting a week in advance to allow the most appropriate colleagues participate We will attend all Audit Committee meetings with the engagement lead attending as a minimum two per annum
Reporting	<ul style="list-style-type: none"> Our reports will be clear and concise and include sufficient, appropriate based on evidence/our work, conclusions and judgements in respect of our wider scope responsibilities
Audit protocol	<ul style="list-style-type: none"> We will comply with all auditing and ethical standards and will maintain the integrity, objectivity and independence of the team at all times (100%)
Client feedback	<ul style="list-style-type: none"> We will informally seek your feedback throughout the year. On an annual basis we will undertake a client satisfaction survey with an aim of a score of 8 or above (out of 10)

Appendices

Contents	Page
Our commitments to you aligned to the principles set out in the Code of Practice	12
Team and key audit deliverables	13
Independence and fees	14
Fraud arrangements	15
Respective responsibilities	16
Communication of audit matters with those charged with governance	17



Our commitments to you aligned to the principles set out in the Code of Audit Practice

Independent

full compliance with independence and ethical standards

Co-ordinated & integrated

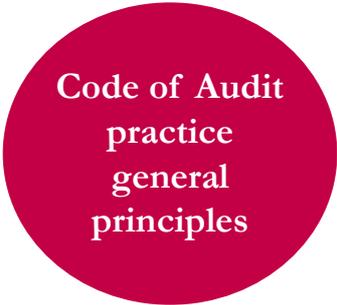
- co-ordination with Auditor General and Audit Scotland
- Seeking to minimise duplication/inefficiency with Assurance Providers for example internal audit
- Sharing of Audit Scotland National Reports including action plans

Adds value

- clear and concise Annual Report to those charged with Governance
- recommended actions which make a difference to you and are aligned to your risk framework
- judgements and conclusions-supported by evidence

Proportionate & risk based

- focus on significant audit risks
- Risks across 4 dimensions
- tailored to you and your strategic goals



Code of Audit practice general principles

Transparent

- clear plan linked to final reporting
- upfront, open engagement
- responsive to your queries
- consideration of potential contentious audit areas upfront to agree early resolution

Quality focused

- fully ISA (UK & Ireland) compliant audit
- full compliance with Audit Scotland Code of Audit practice
- rigorous quality checks built in to our audit approach
- an internal quality compliance programme

Public focused

- focus on user of the accounts and what matters to them
- commentary supported by evidence
- risk based and relevant to you
- jargon free, easy to understand reports



Our team and key audit deliverables

The audit cycle



Our team

Joanne Brown
 Director
 T 0141 223 0848
 E joanne.e.brown@uk.gt.com

Megan Dallas
 In-charge Auditor
 T 0141 223 0612
 E magan.g.dallas@uk.gt.com

Raul Rodriguez
 IT Audit Specialist
 T 0131 659 8534
 E raul.rodriquez@uk.gt.com

Date	Activity	Key audit deliverables
October/ November 2016	Audit Planning & Meetings with Management Handover meeting with predecessor auditor Review of predecessor audit file to gain comfort over opening balances	
13 December 2016	Draft Audit Plan presented to Audit Committee	Submit Audit Plan to Audit Scotland (deadline 28 February 2017)
February 2017	Interim site visit commences (timing to be finalised)	Current issues return 1 (deadline 3 rd February 2017) – covering matters of ministerial or Auditor General interest and best value elements Contribute to informed analysis of European funding (deadline Spring 2017)
April and May 2017	Year end fieldwork commences – Early year end testing in April planned initially	
May 2017	Audit findings meeting with Chief Officer Finance and Head of Finance	Submit NFI questionnaire (deadline 30 June 2017)
20 June 2017	Report audit findings to those charged with governance (Audit Committee)	Contribution to follow up of Role of Boards (deadline 30 June 2017) Submit WGA assurance statement (deadline 2 October 2017)
August 2017	Sign financial statements opinion	Certify annual accounts, submit annual accounts and annual audit report (deadline 30 October 2017).
July 2017	Debrief and learning meeting	Current issues return 2 (deadline 4 th August 2017)



Independence and fees

Audit Fee

Service	Fees £
External Auditor Remuneration	39,100
Pooled Costs	9,610
Contribution to Audit Scotland	2,040
Expected Fee	50,750

The audit fee is calculated in accordance with guidance issued by Audit Scotland for determining the fee level for Central Government organisations. Audit Scotland sets an expected fee for each body that assumes the organisation has sound governance arrangements in place; has been operating effectively throughout the year; prepares comprehensive and accurate draft accounts; does not have significant non-standard or complex transactions and contracts and meets the agreed timetable for audit. The auditor remuneration element of the fee may be varied up to 10% above the expected fee where local issues require additional work to be undertaken.

We have agreed that the fee for 2016/17 will be maintained at expected fee as shown above.

Your total fee for the 2016-17 external audit is £50,750.

Typically our fee assumptions include:

- supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- the scope of the audit, and SEPA activities will not change significantly from planned
- SEPA will make available management and accounting staff to help us locate information and to provide explanations.
- We will only receive (and audit) 3 sets of accounts (1st draft; amended draft and final)

Fees for other services

Service	Fees £
At planning stage we confirm there are no non-audit fees	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Annual Report to those charged with governance at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team. We can confirm no independence concerns have been identified.



Fraud Arrangements

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at SEPA.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relations to management override of controls.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error. We will obtain representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. In addition, we will ask the question of the Audit Committee at the planning stage and routinely during the audit.

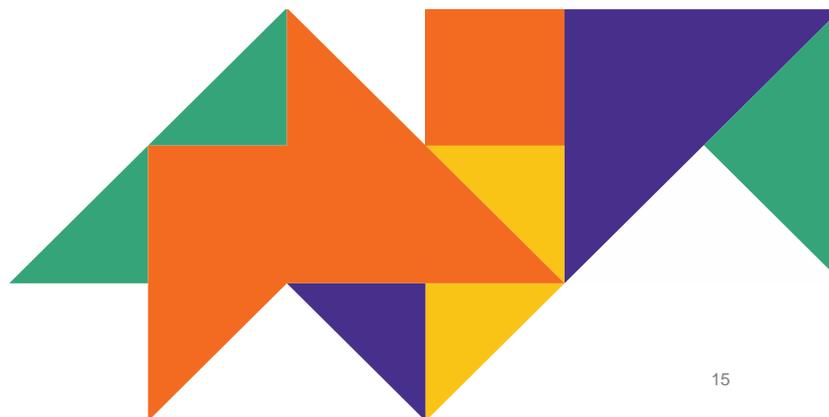
The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is SEPA's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we work with SEPA to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

In addition, as set out in the Audit Scotland Code of Audit Practice we have a role in reviewing SEPA's NFI arrangements, in response to the national fraud initiative exercise.



Respective responsibilities

As set out in the Code of Audit Practice (P10 – P16) there are a number of key responsibilities you as an organisation are responsible for, and others, as appointed auditors we are responsible for. These are summarised below:

Area	SEPA Management Responsibilities
Corporate governance	<ul style="list-style-type: none"> Establishing arrangements for proper conduct of its affairs Legality of activities and transactions Monitoring adequacy and effectiveness of arrangements (inc role of those charged with governance)
Financial statements	<ul style="list-style-type: none"> Preparing financial statements which give a true and fair view of their financial position Maintaining accounting records and working papers Putting in place systems of Internal Control Maintaining proper accounting records Preparing and publishing an annual governance statement, management commentary and remuneration report Effective systems of internal control as well as financial, operational and compliance controls – supporting achievement of objectives and secure value for money
Financial position	<ul style="list-style-type: none"> Proper arrangements to ensure financial position is soundly based and responsibility to ensure arrangements secure best value
Fraud and error	<ul style="list-style-type: none"> Establishing appropriate arrangements for prevention and detection of fraud, error, irregularities, bribery and corruption and affairs are properly managed

Our responsibilities

- Undertake statutory duties and comply with professional engagement and ethical standards
- Provide an opinion on financial statements and where appropriate regularity of transactions
- Review and report on, as appropriate, other information eg annual governance statements, management commentary, remuneration reports
- Notify the Auditor General when circumstances indicate a statutory report may be required
- Demonstrate compliance with wider public audit scope

How do we do this in practice

- By reviewing and providing judgements and conclusions on SEPA arrangements including those across the wider scope of audit dimensions.
- Consideration of the effectiveness of performance management arrangements
- Suitability and effectiveness of corporate governance arrangements in year
- Financial position and arrangements for ensuring financial sustainability in the medium to longer term
- Review of other information in line with our knowledge and understanding of the SEPA
- Ongoing dialogue and engagement with Audit Scotland during the year

Weaknesses and risks identified by us as your auditors are only those which have come to our attention during our 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.

Communication of audit matters with those charged with governance (summary of ISA requirements)

Our communication plan	Audit Plan	Annual Audit Report
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document outlines our audit strategy and plan to deliver the audit, while the Annual Audit Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to SEPA



© 2016 Grant Thornton UK LLP. All rights reserved | Draft

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

This proposal is made by Grant Thornton UK LLP and is in all respects subject to the negotiation, agreement and signing of a specific contract/letter of engagement. The client names quoted within this proposal are disclosed on a confidential basis. All information in this proposal is released strictly for the purpose of this process and must not be disclosed to any other parties without express consent from Grant Thornton UK LLP.

grantthornton.co.uk