

# Tay Road Bridge Joint Board

## Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Tay Road Bridge Joint Board  
March 2022

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Tay Road Bridge Joint Board (the Joint Board). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the 2021/22 annual accounts to support our opinions on the financial statements
- work to support our audit opinions on the other statutory information published within the 2021/22 annual accounts, including the Management Commentary, Annual Governance Statement and the Remuneration Report
- consideration of arrangements in relation to our wider scope of public sector audit responsibilities.

## Impact of Covid-19

2. The coronavirus (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required. Any such changes will be communicated to the Joint Board at the earliest opportunity available.

## Adding value

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

## Respective responsibilities of the auditor and the Joint Board

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and the Joint Board. Key responsibilities are summarised below.

## Auditor responsibilities

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

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

## The Joint Board's responsibilities

**8.** The Joint Board has responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective governance arrangements that enable them to deliver their objectives. The Joint Board is also responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

**9.** The Treasurer, as Section 95 Officer, is responsible for the administration of financial affairs. The Board has responsibility for the oversight of internal and external audit.

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

## Communication of fraud or suspected fraud

**11.** In line with ISA 240, in presenting this plan to the Board we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. Should members of the Board have any such knowledge or concerns relating to the risk of fraud within the Joint Board, we invite them to communicate this to the appointed auditor for consideration.

## Managing the transition to 2022/23 audits

**12.** Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

# Financial statements audit planning

## Audit of the financial statements

**13.** Our approach to the audit of the 2021/22 annual accounts, including the financial statements, has been designed to support the appointed auditor's opinion as to whether the annual accounts give a true and fair view of the Joint Board's finances for the year ended 31 March 2022, and have been properly prepared in accordance with International Financial Reporting Standards and the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the 2021/22 Code).

## Materiality

**14.** Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

## Exhibit 1

### Materiality levels for the 2021/22 audit

Materiality	Amount (£000)
<b>Planning materiality:</b> This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of net assets based on the latest audited annual accounts for 2020/21.	654
<b>Performance materiality:</b> This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have set performance materiality at 75% of planning materiality.	490
<b>Lower level materiality:</b> A lower materiality has been set for classes of transactions where lesser amounts could influence the decisions of the users of the accounts (i.e. comprehensive income and expenditure statement transactions). This has been set at 2% of gross expenditure based on the latest audited annual accounts for 2020/21.	73
<b>Reporting threshold:</b> We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	33

Source: Audit Scotland

## Materiality levels for the 2021/22 audit

15. We assess materiality at different levels as described in [Exhibit 1](#) above, which also outlines the levels set for the 2021/22 audit of the Joint Board.

## Significant risks of material misstatement to the financial statements

16. Our risk assessment draws on our cumulative knowledge of the Joint Board and consideration of its major transaction streams, key systems of internal control and risk management processes. It is also informed by our discussions with management, meetings with internal audit, attendance at Board meetings and a review of other relevant information.

17. Based on our risk assessment, we identify the significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. Only one such risk has been identified for the 2021/22 financial statements audit. This is shown in [Exhibit 2](#) along with details of the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 2

#### Significant risks of material misstatement for the 2021/22 financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries, with a focus on significant risk areas, including year-end and post-close down entries.</li> <li>• Detailed testing of accounting estimates, assessing any changes to the methods and underlying assumptions used to prepare these compared to the prior year.</li> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Focussed testing of accounting accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business, identified through detailed testing of income and expenditure, accruals and cut off transactions.</li> </ul>

## Consideration of the risks of fraud in the recognition of income and expenditure

**18.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for the Joint Board as:

- Significant majority of income is received in the form of Scottish Government grant income which is deemed to carry a low risk of fraud.
- There is little incentive for management to manipulate revenue recognition and opportunities to manipulate revenue recognition are limited.
- Anti-fraud procedures and arrangements are in place.

**19.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. Based on our assessment of the likelihood and magnitude of this risk, we have concluded that it does not represent a significant risk of material misstatement but does still represent a normal risk of material misstatement and will be an area of specific audit focus.

### Other areas of audit focus

**20.** As part of our assessment of audit risks, we have identified two other areas where we consider there are also risks of material misstatement to the financial statements. Both the actuarial valuation of the pension liability and the valuation of non-current assets involve a significant degree of estimation and judgement. This subjectivity represents an increased risk of misstatement for the financial statements. Although we have determined that these areas require specific audit focus, based on our assessment of the likelihood and magnitude of the risks, we do not consider them to represent significant risks of material misstatement.

### Audit of the Management Commentary, Annual Governance Statement and Annual Remuneration Report

**21.** In addition to the appointed auditor's opinion of the financial statements, the Accounts Commission prescribes that the appointed auditor should provide opinions as to whether the Management Commentary, Annual Governance Statement, and the audited part of the Annual Remuneration Report, have been compiled in accordance with the appropriate regulations and frameworks and are consistent with the financial statements.

**22.** To inform these opinions we will consider whether the disclosures within each statement comply with the requirements of the applicable guidance, and confirm that relevant information reflects the contents of the financial statements and other supporting documentation, including:

- **Management Commentary:** Performance and governance information reported to the Board and published during the year.
- **Annual Governance Statement:** Review of the Local Code of Corporate Governance, including its completeness and accuracy; assessment of the Joint Board's arrangements against the new CIPFA Financial Management Code; and Internal Audit's Annual Assurance Report.
- **Annual Remuneration Report:** Payroll data and HR reports.

**23.** Based on our knowledge of the audit, and the established procedures in place to produce these statements, we have not identified any specific risks to be communicated to those charged with governance in relation to the audit of the Management Commentary, Annual Governance Statement, and audited part of the Remuneration Report.

## Whole of Government Accounts

**24.** The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The Joint Board is required to provide information in a WGA return and external auditors are required to review and provide assurance on the WGA return.

**25.** As Her Majesty's Treasury have not yet provided local government bodies in Scotland with the WGA data collection tool for the prior year, the WGA return for 2020/21 is still to be completed and audited. Therefore, we will complete the required assurance statement and submit it to the National Audit Office once the data collection tool is available, and the 2020/21 WGA return has been completed by the Joint Board.

## Audit risk assessment process

**26.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

# Audit dimensions

## Wider scope of public sector audit

27. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

## Audit dimensions

28. The four dimensions that frame our audit work are shown in [Exhibit 3](#).

### Exhibit 3 Audit dimensions



Source: Code of Audit Practice

29. In summary, the four dimensions cover the following:

- **Financial management:** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability:** This covers the Joint Board's financial position in the longer term. We define this as medium term (two to five years) and long term (longer than five years).
- **Governance and transparency:** Governance and transparency is concerned with the effectiveness of scrutiny and governance

arrangements, leadership and decision-making, and transparent reporting of financial and performance information.

- **Value for money:** Value for money refers to using resources effectively and continually improving services.

**30.** The Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. In light of the low volume and lack of complexity of the financial transactions, we plan to apply the small body provisions of the Code to the 2021/22 audit of the Joint Board.

## Conclusions on wider scope responsibilities

**31.** The appointed auditor is required to report conclusions on our wider scope responsibilities. As part of our audit planning work we reviewed the wider dimensions of public sector audit applicable to the Joint Board. This identified one audit dimension risk for the 2021/22 audit as shown in [Exhibit 4](#). This exhibit also sets out the sources of assurance from management and the further audit procedures we plan to perform to gain assurances over the risk. The conclusions from this work will be reported within our 2021/22 Annual Audit Report.

### Exhibit 4

#### 2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p><b>1. Completion of planned improvement actions for 2021/22</b></p> <p>A number of improvement actions identified for 2021/22 have been carried over from the previous year, as they were delayed so that staff could focus on the operational priorities due to the Covid-19 pandemic.</p> <p>There is a risk that the Joint Board will be unable to deliver all the improvement actions for 2021/22.</p>	<ul style="list-style-type: none"> <li>• Regular updates provided to the Joint Board on progress against the Improvement Agenda.</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing monitoring of progress against the Improvement Agenda.</li> <li>• Review of delivery of improvement actions reported within Annual Governance Statement in 2021/22 annual accounts.</li> </ul>

Source: Audit Scotland

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

- 32.** The outputs detailed in [Exhibit 5](#), and any other outputs on matters of public interest, will be published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
- 33.** 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 relevant officers to confirm factual accuracy, prior to the issue and publication of final reports.
- 34.** We will provide an independent auditor's report (i.e. audit certificate) to the Joint Board and the Accounts Commission setting out our opinions on the annual accounts. We will also provide the Joint Board and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.
- 35.** [Exhibit 5](#) outlines the target committee dates for our key audit outputs. 2021/22 remains a transitional year, and there is a risk that pre-Covid audit timetables may not be achieved. However, our intention is for the Joint Board audit work to be completed in time to enable certification of the annual accounts by 13 September 2022.

## Exhibit 5 2021/22 Audit outputs

Audit Output	Tay Road Bridge Joint Board meeting date
Annual Audit Plan	13 June 2022
Independent Auditor's Report	12 September 2022
Annual Audit Report	12 September 2022

Source: Audit Scotland

## Timetable

- 36.** To support an efficient audit, it is critical that a timetable is agreed for the production and audit of the annual accounts. The proposed timetable for the 2021/22 annual accounts is shown in [Exhibit 6](#).

## Exhibit 6

### Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by the Joint Board, as those charged with governance	13 June 2022
Latest submission date of the unaudited annual accounts with complete working papers package to external audit	30 June 2022
Latest date for final clearance meeting	31 August 2022
Agreement of audited annual accounts for consideration by the Board	5 September 2022
Issue of Proposed Annual Audit Report to those charged with governance (including Letter of Representation and proposed independent auditor's report) *	5 September 2022
Board meeting to consider Proposed Annual Audit Report and to approve and sign the audited annual accounts	12 September 2022
Independent auditor's report certified by appointed auditor	13 September 2022

\* *The finalised Annual Audit Report will be issued after the audited 2021/22 Annual Accounts are certified.*

Source: Audit Scotland

## Audit fee

**37.** The agreed audit fee for the 2021/22 audit of Joint Board is £13,290 (£12,930 in 2020/21), an increase of 2.8 per cent. In determining the audit fee, we have taken account of the risk exposure of the Joint Board, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

**38.** Our audit approach assumes receipt of unaudited annual accounts, with a complete working papers package, by 30 June 2022. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercise out with our planned audit activity. Any such additional fee will be discussed and agreed with management prior to the work being undertaken.

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# Other matters

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## Internal audit

**39.** International Standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities, and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

**40.** From our initial review of the 2021/22 internal audit plan, we do not plan to place formal reliance on internal audit's work for our financial statements responsibilities. However, we do plan to consider the findings of internal audit's work in terms of our wider audit dimension responsibilities.

## Independence and objectivity

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

**42.** The appointed auditor for the audit of the Joint Board is Richard Smith, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the Joint Board.

## Quality control

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

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

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

# Tay Road Bridge Joint Board

## Annual Audit Plan 2021/22

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