

Lanarkshire Community Justice Authority

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for Lanarkshire Community Justice Authority

February 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

Introduction

1. This annual audit plan contains an overview of the planned scope and timing of our audit of the Lanarkshire Community Justice Authority (LCJA). Our audit is carried out in accordance with International Standards on Auditing (ISAs) and the [Code of Audit Practice](#) issued by Audit Scotland and endorsed by the Accounts Commission.

2. This plan sets out the audit work necessary to allow us to provide an independent auditor's report and meet the wider scope requirements of public sector audit. The wider scope of public sector audit includes assessing arrangements for financial sustainability, governance and transparency and value for money. We make a public report of conclusions on these matters in our annual audit report to members and the Controller of Audit.

Audit risks

3. Based on our discussions with staff and a review of supporting information we have identified the following main risk areas for LCJA. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are set out in [Exhibit 1](#).

Exhibit 1

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable. 	<ul style="list-style-type: none"> Review of journal entries. Testing of accruals and prepayments. Review of audit opinion on North Lanarkshire Council 2016/17 criminal justice grant claim.
<p>2 Risk of fraud over expenditure</p> <p>The Code of Audit Practice requires us to consider the risk of fraud over expenditure as part of our audit.</p>	<ul style="list-style-type: none"> Internal controls in financial systems to mitigate risks of error or manipulation. Expenditure is closely monitored and reported. 	<ul style="list-style-type: none"> Analytical procedures on expenditure streams. Detailed testing of expenditure transactions focusing on the areas of greatest risk. Review of audit opinion on North Lanarkshire Council 2016/17 criminal justice grant claim.

Audit Risk	Management assurance	Planned audit work
<p>3 Disestablishment of LCJA</p> <p>All CJAs will be disestablished on 31 March 2017 and responsibility for community justice services will transfer to Community Planning Partnerships. This has a number of impacts on the financial statements of LCJA.</p> <p>Transactions related to the closure (such as severance costs and the transfer of outstanding balances) are outside the normal course of business and therefore have a greater risk of misstatement.</p> <p>The accounts will be prepared by staff at South Lanarkshire Council, but the LCJA Chief Officer will no longer be in post and the Joint Committee will not meet again. The loss of the operational knowledge may impact the quality of the narrative sections of the accounts.</p>	<ul style="list-style-type: none"> • Early assessment of close down costs to establish correct accounting treatment. • Arrangements in place to draft management commentary for annual accounts prior to disestablishment date. 	<ul style="list-style-type: none"> • Focussed testing of transactions relating to the closure. • Review of the arrangements in place for preparation of the annual accounts.
Wider dimension risks		
<p>4 Wider community justice objectives</p> <p>The responsibility for the delivery of community justice services will be transferred to Community Planning Partnerships after the disestablishment of the CJAs on 31 March 2017.</p> <p>There is a risk that the transition to the new arrangements will impact on the delivery of community justice services.</p>	<ul style="list-style-type: none"> • Handover arrangements are in place to ensure that there is no impact on services during the changeover. 	<ul style="list-style-type: none"> • Review of handover process.
<p>5 Scrutiny of 2016/17 financial statements</p> <p>Following the disestablishment of the LCJA, the Director of Finance at South Lanarkshire Council will assume the role of Accountable Officer for the 2016/17 financial statements. In this final year of CJA accounts, it is also the expectation that auditors will consider the Accountable Officer to be 'those charged with governance', as defined by ISA 260, due to the absence of a CJA committee. There is a risk that this will impact upon the level of scrutiny exercised on the 2016/17 financial statements.</p>	<ul style="list-style-type: none"> • Sign-off responsibilities do not impact upon ability to act as 'those charged with governance'. 	<ul style="list-style-type: none"> • Appropriateness of arrangements will be reviewed during the course of the audit. • Issues from audit will be reported directly to Scottish Government if deemed necessary.

Reporting arrangements

4. This annual audit plan and the outputs set out in [Exhibit 2](#), and any other outputs on matters of public interest will be published on Audit Scotland's website:

www.audit-scotland.gov.uk.

5. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officer(s) to confirm factual accuracy prior to the issue and publication of final reports.

6. We will provide an independent auditor's report to the Accountable Officer (Director of Finance of South Lanarkshire Council) Lanarkshire Community Justice Authority, the Auditor General for Scotland and the Scottish Parliament setting out our opinion on the financial statements and other matters upon which we are required to provide an opinion. We will provide the Accountable Officer and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2016/17 Audit outputs

Audit Output	Target date	Meeting with Accountable Officer
Annual audit report	31 October 2017*	tbc
Latest date for issue of independent auditor's report (audit certificate)	31 October 2017*	tbc

*These dates represent the certification deadline for the 2016/17 LCJA accounts.

Audit fee

7. The agreed audit fee for the 2016/17 audit of LCJA is £4,670. In determining the audit fee we have taken account of the risk exposure of LCJA and the planned management assurances in place.

8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Lanarkshire Community Justice Authority and Accountable Officer

9. The committee and Accountable Officer are responsible for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance and scrutiny.

10. The audit of the financial statements does not relieve management or the committee, as those charged with governance, of their responsibilities.

Appointed auditor

11. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

Audit scope and timing

Financial statements

12. The statutory financial statements audit will be the foundation and source for much of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of LCJA and the associated risks which could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how LCJA will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

13. We will give an opinion on the financial statements as to whether they:

- give a true and fair view the state of the affairs of LCJA and of the income and expenditure for the year
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union and interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom
- have been prepared in accordance with the Management of Offenders etc (Scotland) Act 2005 and regulations made thereunder by the Scottish Ministers.

Materiality

14. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments to the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for LCJA are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality - This is the calculated figure we use in assessing the overall impact of potential audit adjustments to the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2016.	£115,000
Performance materiality - 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 50% of planning materiality.	£57,000
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of a predetermined reporting threshold. We consider that an appropriate figure of interest to members would be £1,000.	£1,000

15. Items can be material by nature, rather than value; for example, a failure to comply with legislation. We review other information published with the financial statements including the management commentary, annual governance statement and the remuneration report. We will report to the Accountable Officer as necessary.

Timetable

16. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements.

Exhibit 4

Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	tbc
Latest submission date of unaudited financial statements with complete working papers package	tbc
Latest date for final clearance meeting	tbc
Agreement of audited unsigned financial statements; Issue of annual audit report	31 October 2017*
Issue of independent auditor's report	31 October 2017*

*These dates represent the certification deadline for the 2016/17 LCJA accounts.

Audit dimensions

17. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#). Our reporting of these dimensions in 2016/17 will be limited as a consequence of the disestablishment of CJAs from 1 April 2017.

Exhibit 5

Audit dimensions



Financial sustainability

18. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. Given the LCJA will be disestablished on 31 March 2017 the extent of this assessment will be a review of the arrangements to meet any residual costs of winding up the CJA.

Financial management

19. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on whether there were adequate arrangements in place during the year to ensure that proper controls were exercised over resources and that proper handover arrangements were in place.

Governance and transparency

20. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements; leadership and decision-making; and, the transparent reporting of financial and performance information. We will review, conclude and report on whether appropriate governance arrangements are in place and operated effectively during the year.

Independence and objectivity

21. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. 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 in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

22. The engagement lead is Dave Richardson, 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 LCJA.

Quality control

23. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is 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 is appropriate in the circumstances.

24. 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. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews, and engages external bodies to conduct independent quality reviews.

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