



Scott-Moncrieff
business advisers and accountants

Lothian and Borders Community Justice Authority

External Audit Plan
2016/17

March 2017

Contents

- Introduction..... 1**
- Responsibilities of Scott-Moncrieff 3**
- Audit strategy 5**
- Annual accounts..... 8**
- Wider scope audit..... 12**
- Audit outputs, timetable and fees 14**
- Appendix 1: Your audit team 17**
- Appendix 2: Statement of understanding..... 18**

1

Introduction

Introduction

1. This document summarises the work plan for our 2016/17 external audit of the Lothian and Borders Community Justice Authority (LBCJA).
2. The core elements of our work include:
 - an audit of the 2016/17 financial statements and related matters;
 - a review of arrangements for governance and transparency, financial management, financial sustainability and value for money; and
 - any other work requested by Audit Scotland.
3. Full contact details for your audit team can be found in Appendix 1.
4. While this plan is addressed to LBCJA, it will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Audit appointment

3. The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of Scottish Parliament. The Auditor General is independent and not subject to any control of any member of the Scottish Government or the Parliament. The Auditor General is responsible for securing the audit of most public bodies in Scotland outside the local government sector, including central government bodies in Scotland.
4. Audit Scotland is an independent statutory body that provides the Auditor General for Scotland with the services required to carry out her statutory functions, including monitoring the performance of auditors through a quality control process.
5. The Auditor General has appointed Scott-Moncrieff as external auditor of LBCJA for 2016/17. This document comprises the audit plan for 2016/17 and summarises:
 - the responsibilities of Scott-Moncrieff as the external auditor;
 - our audit strategy;
 - our planned audit work and how we will approach it;
 - our proposed audit outputs and timetable; and
 - background to Scott-Moncrieff and the audit team.
6. Any comments you may have on the service we provide would be greatly appreciated at any

2

Responsibilities of Scott-Moncrieff

Responsibilities of Scott-Moncrieff

Code of Audit Practice

8. A new Code of Audit Practice was published in 2016 and applies to external audits for financial years starting on or after 1 April 2016. This Code replaces the previous one issued in 2011.
9. The Code of Audit Practice (the Code) outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.

Auditor responsibilities

10. The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the annual accounts, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.
11. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.
12. The Code recognises that full application of its requirements may be impractical or inappropriate due to the nature or size of the audited body. Where the full application is judged by auditors not to be appropriate then annual audit work on the wider scope should only be undertaken on:
 - The appropriateness of the disclosures in the governance statement; and
 - The financial sustainability of the body and the services that it delivers over the medium to longer term.
13. Given the nature and size of LBCJA we intend to address only those areas listed above in relation to our wider scope responsibilities.

Exhibit 1: Audit dimensions of wider scope public audit

| Audit area | Scope |
|------------------------------------|--|
| Financial sustainability | Financial sustainability looks forward to the medium (two to five years) and the longer term (over five years) to consider whether the body is planning effectively to allow it to continue to fulfil its functions in an affordable and sustainable manner. |
| Financial management | Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. |
| Governance and transparency | Governance and transparency covers 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 is concerned with using resources effectively and continually improving services. |

3

Audit Strategy

Audit strategy

Risk-based audit approach

14. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to LBCJA. This ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:



15. Planning is a continuous process and our audit plans are therefore updated during the course of our audit to take account of developments as they arise.

Communications with those charged with governance

16. Auditing standards require us to make certain communications throughout the audit to those charged with governance. The LBCJA, along with all CJAs across Scotland will be dis-established as at 1 April 2017. Following this date the accountable officer role will fall to the Head of Finance at the lead Local Authority (City of Edinburgh Council). We have agreed with the LBCJA that our communications will be to this individual as 'those charged with governance'.

Professional standards and guidance

17. We perform our audit of the annual accounts in accordance with International Standards on Auditing (UK and Ireland) (ISAs), the International Standard on Quality Control 1 (UK and Ireland), Ethical Standards, and applicable Practice Notes and other guidance issued by the Auditing Practices Board (APB).

Partnership working

18. We will coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

Audit Scotland

19. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We will share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

Internal audit

20. We are committed to avoiding duplication of audit effort and ensuring an efficient use of LBCJA's total audit resource. LBCJA's internal audit function is provided by the internal audit section of City of Edinburgh Council. We will consider the findings of the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource to LBCJA is used efficiently and effectively.

Shared systems and functions

21. Audit Scotland encourages auditors to seek efficiencies and avoid duplication of effort by liaising closely with other external auditors, agreeing an appropriate division of work and sharing audit findings. LBCJA uses Scottish Borders Council for financial systems. We will assess the control framework in place at LBCJA to gain assurance over the use of these systems. Where appropriate we will liaise with the appointed auditors to Scottish Borders Council.



Annual accounts

Annual accounts

Introduction

22. Audited bodies' annual accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of the LBCJA's annual accounts.

Approach to audit of annual accounts

23. Our opinion on the annual accounts will be based on:

Risk-based audit planning

24. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the annual accounts will be based.

An audit of key systems and internal controls

25. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the annual accounts.
26. The nature of the work we perform will be based on the initial risk assessment. We will examine and test compliance with best practice and the LBCJA's own policies and procedures.
27. Wherever possible we will look to integrate internal audit's reviews of systems and controls with our own work. We will update the risk assessment following our evaluation of systems and controls and this will ensure that we continue to focus attention on the areas of highest risk.

An audit of the annual accounts

28. During our audit we will test and review the material amounts and disclosures in the annual accounts. The extent of testing will be based on our risk assessment.
29. Our audit will seek to provide reasonable assurance that the annual accounts are free from material misstatement and comply with the Code of Practice on Local Authority Accounts in the United Kingdom 2016/17 (the Code).

Independent auditor's report

30. Our opinion on the truth and fairness of the annual accounts will be set out in our independent auditor's report which will be included within the annual accounts.
31. In line with the Companies Act 2006 requirements that apply in the private sector, we are also required to give an opinion on the remuneration report, annual governance statement and whether management commentaries are consistent with the disclosures in the annual accounts.

Materiality

32. Materiality is an expression of the relative significance of a matter in the context of the annual accounts as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.
33. Our initial assessment of materiality for the annual accounts is £228,000, being 1.5% of the LBCJA's 2015/16 expenditure. Achieving a breakeven position is a key target for the LBCJA and one of the principal considerations for the users of the accounts when assessing financial performance. We have currently assessed materiality on the assumption that the risk of misstatement to the annual accounts is low, however, we will review our assessment of materiality throughout our audit.
34. We set a performance (testing) materiality for each area of work which is based on a risk assessment for the area. We will perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be of significant risk of material misstatement.

| Area risk assessment | Weighting | Performance materiality |
|----------------------|-----------|-------------------------|
| High | 45% | £102,600 |
| Medium | 55% | £125,400 |
| Low | 70% | £159,600 |

- Uncorrected misstatements with a value in excess of 2.5% of the overall materiality figure (i.e. over £5,700); and
- Other misstatements below the 2.5% threshold that we believe warrant reporting on qualitative grounds.

Key audit risks in the annual accounts

35. We will report any misstatements identified through our audit that fall into one of the following categories:

- All material corrected misstatements;

36. Auditing standards require that we inform the LBCJA of our assessment of the risk of material misstatement in the annual accounts. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the LBCJA if our assessment changes significantly during the audit.

Exhibit 2 – Key audit risks in the annual accounts

1. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.



37. In response to this risk we will review the LBCJA's accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly.

2. Revenue Recognition

Under ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the LBCJA could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.



38. Our work on income will include an evaluation of each type of revenue transaction and review the controls in place over revenue accounting. We will consider the LBCJA's key revenue transactions and streams and carry out testing to confirm that the LBCJA's revenue recognition policy is appropriate and has been applied consistently throughout the year.

3. Dis-establishment of CJAs

The Community Justice (Scotland) Act 2016 will see the dis-establishment of all six Community Justice Authorities on 31 March 2017 as part of the redesign of the model for community justice. There is a risk that transactions around the year end are not appropriately included within the financial statements and that all relevant disclosures are not made.



39. We will liaise with the LBCJA management team prior to the year end in order to identify all potential areas for misstatement and agree upon appropriate accounting treatment. Post year end we will work with responsible individuals within the City of Edinburgh Council to ensure that all relevant disclosures are made and that we are able to access all information required for our audit.

5

Wider scope audit

Wider scope audit

Introduction

- 40. The Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. As part of our annual audit we are required to consider and report against these four dimensions; financial sustainability, financial management, governance and transparency and value for money. At the outset we will consider the LBCJA's self-evaluation arrangements as they relate to these four dimensions.
- 41. At this stage of our audit planning process we have not identified any significant risks in relation to governance and transparency and value for money. However, audit planning is a continuous process and we will report any identified significant risks, as they relate to the four dimensions, in our Annual Audit Report.
- 42. The Code recognises that full application of its requirements may be impractical or inappropriate due to the nature or size of the audited body.
- 43. We have concluded that the full application is not appropriate due to the size of the LBCJA. Our annual audit work on the wider scope therefore will consider:
 - appropriateness of the disclosures in the governance statement; and
 - financial sustainability of the body and the services that it delivers over the medium to longer term.

Exhibit 3 - Wider scope audit

Financial sustainability: Financial sustainability looks forward to the medium and longer term to consider whether the LBCJA is planning effectively to continue to fulfil its functions in an affordable and sustainable manner.

| LBCJA responsibilities | Our audit approach |
|---|--|
| <p>The LBCJA is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with any statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • How the organisation plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position. | <p>The Community Justice (Scotland) Act 2016 will see the dis-establishment of all six Community Justice Authorities on 31 March 2017 as part of the redesign of the model for community justice. We would therefore not expect to see future financial planning arrangements in place. Our audit work will consider the quality of financial monitoring and reporting throughout the year. Our conclusions will therefore be retrospective in nature.</p> |

5

Audit outputs, timetable and fees

Audit outputs, timetable and fees

| Audit output | Format | Description | Target date |
|---|--------|---|----------------|
| External audit plan | Report | This report sets out the scope of our audit for 2016/17. | February 2017 |
| Independent Auditor's Report | Report | This report will contain our opinions on the truth and fairness of the annual accounts and on the regularity of transactions. | September 2017 |
| Annual Report to the accountable officer and the Auditor General for Scotland | Report | At the conclusion of the audit we will issue an annual report setting out the nature and extent of our audit work for the year and summarising our opinions, conclusions and the significant issues arising from the work. This report will pull together all of our work under the Code of Audit Practice. | September 2017 |

Audit outputs

44. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate. We will endeavour to supply a draft report within three weeks of completion of the fieldwork. We will require formal management responses within two weeks of receipt of the draft report. On occasion these timescales may need to be shortened, e.g. to meet the reporting deadlines.
45. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

experience, new requirements, or significant changes to the audited body. The auditor remuneration element of the total fee can be increased by up to 10%, without Audit Scotland approval, based on the risks and expected additional work required. Any proposed increases above 10% must be approved by Audit Scotland.

47. Audit Scotland has set an expected fee for the LBCJA of £4,670. We have not applied any uplift to this fee based on our assessment of the risks and priorities facing the LBCJA. A breakdown of the proposed fee is shown in the table below:

Audit fee

46. Audit Scotland has completed a review of funding and fee setting arrangements and as a result revised its fee strategy. It now sets an expected fee for each audit carried out under appointment that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee will be reviewed by Audit Scotland each year and adjusted if necessary based on auditors'

| | 2016/17 |
|----------------------------------|---------------|
| Auditor remuneration | £3,600 |
| Pooled costs | £880 |
| Performance audit and best value | - |
| Audit support costs | £190 |
| Total fee | £4,670 |

48. The audit fee covers:

- The 2016/17 audit work and outputs described in this plan
- Attendance at all relevant meetings;
- Access to advice and information on relevant audit issues; and
- A contribution towards Audit Scotland's costs.

49. We will take account of the risk exposure of the LBCJA and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

Audit timetable

50. The dates for our audit visit have been discussed with the finance team and the Head of Finance at City of Edinburgh Council. A summary timetable, including audit outputs, is set out below:



6

Appendices

Appendix 1: Your audit team

Scott-Moncrieff is one of the largest independent accountancy firms in Scotland. We have 18 partners and over 200 staff operating from Edinburgh, Glasgow and Inverness. We are also part of the global Moore Stephens network.

We have been external auditors within the public sector for at least fifty years. We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE colleges. We also provide services to charities, schools, as well as private and public limited companies.

| Edinburgh | Glasgow | Inverness |
|---|---|--|
| Exchange Place 3 Semple Street Edinburgh EH3 8BL | 25 Bothwell Street Glasgow G2 6NL | Scott-Moncrieff 10 Ardross Street Inverness IV3 5NS |
| (0131) 473 3500 | (0141) 567 4500 | (01463) 701 940 |

Your core audit team



Karen Jones
Director
karen.jones@scott-moncrieff.com

Karen has over 17 years’ experience in auditing the public sector. She has extensive experience in auditing local authorities. She also manages a number of external audit appointments to arms-length external organisation of local authorities.

Karen will be your appointed Engagement Lead.



Rachael Blenkinsop
Audit Assistant Manager
rachael.blenkinsop@scott-moncrieff.com

Rachael has been part of our public sector external audit team since she started with the Firm and works closely with Karen on the audit of financial statements and governance arrangements for our public sector external audit appointments.

Confirmation of independence

ISA 260 requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we will comply with APB Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff and the LBCJA or its senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 2: Statement of understanding

Introduction

The purpose of this Statement of understanding is to clarify the terms of our appointment and the key responsibilities of the LBCJA and Scott-Moncrieff.

Annual accounts

We will require the annual accounts and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant LBCJA and City of Edinburgh Council staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit. We will issue a financial statement strategy which sets out roles, responsibilities and expectations in terms of audit deliverables. This document helps to ensure we can work together effectively to deliver an efficient and effective audit.

Scope of audit

As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for the LBCJA's responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from the LBCJA during the course of the audit on matters having a material effect on the annual accounts. This will take place by means of a letter of representation, which will require to be signed by the Treasurer.

Internal audit

It is the responsibility of the LBCJA to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective internal audit function exists.

We will liaise with internal audit to ensure an efficient audit process.

Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants of Scotland.

Fees

We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved. The indicative financial statements strategy referred to above is a key means for us to clarify our expectations in terms of quality, quantity and extent of working papers and supporting documentation.

Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting Karen Jones. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants of Scotland.

We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work. We will endeavour to supply a draft report within three weeks of the completion of the fieldwork of each element of work.

Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target dates for implementation and details of the responsible officer. Management responses should be prepared and provided to us within two weeks of the receipt of the draft report.

These timescales may need to be truncated, e.g. to meet reporting deadlines.

Agreement of terms

We shall be grateful if those charged with governance for the LBCJA would consider and note this Statement of understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.



Scott-Moncrieff
business advisers and accountants