

# Northern Community Justice Authority

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for Northern 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

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

2. The Community Justice (Scotland) Act 2016 will see the dis-establishment of the eight criminal justice authorities on 31 March 2017 under the redesign of the model for community justice. The Scottish Government has established a working group to support the dis-establishment of community justice authorities through the 2016/17 transition year in a manner which ensures smooth closure of the CJAs.

3. As CJAs will already have been dis-established at the point when the accounts are prepared, the final certification of the financial statements will require the CJA chief officers to discharge their duties to the director of finance for the relevant lead local authority dealing with their distribution of Section 27 funding. With effect from 1 April 2017, the Executive Manager - Finance (Shetland Islands Council) will assume responsibility for the preparation of the final annual accounts and he will be regarded as the person charged with governance. To enable this transition, a service level agreement was agreed between the CJA chief officer and the Executive Manager - Finance in November 2016. As in previous years, the Aberdeen City Council finance team will maintain accounting records and support the production of the financial statements.

4. Based on our discussions with staff and review of board papers and other supporting information, we have identified the following main risk areas for Northern Community Justice Authority (the Authority). We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

Audit Risk	Management assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Discharge of responsibilities</b></p> <p>The role of accountable officer will transfer from the Authority's Chief Officer to the Executive Manager - Finance, Shetland Islands Council as the Authority's lead authority from 1 April 2017. There is a risk the Executive Manager - Finance does not</p>	<p>Continuity of council officers involved in the preparation of financial statements.</p> <p>The draft Annual Report on 2016/17 performance was considered by the Board in December 2016 and following publication in January 2017, is available on Aberdeenshire</p>	<p>Review of the arrangements in place for the discharge of responsibilities including the preparation of the financial statements.</p>

Audit Risk	Management assurance	Planned audit work
<p>have sufficient assurances in order to discharge these responsibilities in relation to the financial statements.</p>	<p>Council's website. Concluding agenda for the Authority's meeting on 24 February 2017 included an updated risk register, dis-establishment and resilience plan, data management plan and financial monitoring report.</p>	
<p><b>2 Risk of management override of controls</b> 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 in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<p>Detailed testing of journal entries. Review of accounting estimates for bias. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.</p>
<p><b>3 Risk of fraud over expenditure</b> ISA 240 and the Code of Audit Practice require auditors to consider the risk of fraud over certain types of public sector expenditure. The presumed risk of fraud over expenditure is relevant due to the extent of the Authority's expenditure in delivering services.</p>	<p>Internal controls for the Authority's systems operate effectively. There is effective budgetary control by management.</p>	<p>Analytical procedures over expenditure. Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p>
<p><b>4 Severance and residual costs</b> As this is the final year of the operation, there are additional close down costs such as severance and residual costs. While arrangements have been put in place in terms of additional funding, there is a risk that the Authority's costs are not properly identified and accounted for.</p>	<p>Approved severance scheme, cases and associated funding Early identification and monitoring of additional costs</p>	<p>Review of severance scheme Focused testing on year end cut off for completeness and validity of expenditure. Review of correspondence regarding additional funding</p>
<p><b>Wider dimension risks</b></p>		
<p><b>5 Discharge of responsibilities</b> The Chief Officer and the Executive Manager - Finance are required to have an agreement in place surrounding the discharge of responsibilities upon disestablishment of the Authority. There is a risk that the agreement is not in place or does not meet the necessary requirements to facilitate the annual accounts process for 2016/17.</p>	<p>Transfer agreement for financial services between the CJA and Shetland Islands Council in place.</p>	<p>On-going liaison with client staff and review of the Authority's arrangements for the discharge of responsibilities.</p>

Audit Risk	Management assurance	Planned audit work
<p><b>6 Cessation of Northern CJA</b></p> <p>With the cessation of the CJA, there is a risk that reduced engagement of partners during the period of transition adversely impacted on service delivery.</p>	<p>Annual Report 2016/17</p> <p>Development of CJ planning partnerships will enable a smooth transition.</p>	<p>Review of minutes, plans and ongoing liaison with officers.</p>

## Reporting arrangements

**5.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**6.** 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 officer(s) to confirm factual accuracy.

**7.** We will provide an independent auditor's report to the Executive Manager - Finance (Shetland Islands Council) as the person in control of the discharge of responsibilities of Northern Community Justice Authority, the Scottish Parliament and the Auditor General for Scotland, summarising the results of the audit of the annual accounts. We will provide the Executive Manager and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the course of the audit.

## Exhibit 2

### 2016/17 Audit outputs

Audit Output	Target date
Annual Audit Report including ISA 260 requirements	31 October 2017
Signed Independent Auditor's Report	31 October 2017

### Audit fee

**8.** The audit fee for the 2016/17 audit of Northern Community Justice Authority is £5,000 (2015/16 £5,100). In determining the audit fee we have taken account of the risk exposure of Northern Community Justice Authority, the planned management assurances in place and the level of reliance we plan to take from previous years' work. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package by 15 September 2017.

**9.** 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

#### Accountable Officer

**10.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

**11.** The audit of the financial statements does not relieve those charged with governance of their responsibilities.

#### Appointed auditor

**12.** 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.

**13.** Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial statements

**14.** The statutory financial statements audit will be the foundation and source for the majority 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 Northern Community Justice Authority and the associated risks which could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Northern Community Justice Authority 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.

**15.** We will give an opinion on the financial statements as to:

- whether they give a true and fair view, in accordance with the Management of Offenders etc. (Scotland) Act 2005 and regulations made thereunder by the Scottish Ministers, of the state of the Authority's affairs and of its income and expenditure for the year
- whether they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and the Management of Offenders etc. (Scotland) Act 2005 and regulations made thereunder by Scottish Ministers.

## Materiality

**16.** 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 on the financial statements. We calculate materiality at different levels as described below. We also set out separate levels for Section 27 funding and the Authority's administration expenses. The calculated materiality values for Northern Community Justice Authority are set out in [Exhibit 3](#).





## Exhibit 3

### Materiality values

Materiality level	Section 27 Funding £	Admin costs £
<b>Planning materiality</b> - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2017, based on the projected outturn figures as at December 2016 reported to the Northern Community Justice Authority Board in February 2017.	£124,000	£2,360
<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 calculated performance materiality at 70% of planning materiality.	£87,000	£1,650
<b>Reporting threshold</b> - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£ 6,000	£ 120



17. We review and report on other information published with the financial statements including the Chief Officer's Report, Remuneration Report and the Statement on the System of Internal Financial Control. Any issue identified will be reported to those charged with governance.

### Timetable

18. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements.

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited financial statements with complete working papers package	15 September 2017
Progress meetings with officers on emerging issues	As required throughout the audit
Latest date for final clearance meeting with officers	Mid October 2017
Issue of combined ISA 260 and draft annual audit report to the accountable officer	Mid October 2017
Independent auditor's report signed and annual audit report finalised	31 October 2017
Target date for laying and publishing the annual audit report and accounts	31 December 2017

## Internal audit

19. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by the internal audit function of Aberdeen City Council, as the Northern Community Justice Authority's administering authority.

### Adequacy of Internal Audit

20. A review of the internal audit function at Aberdeenshire Council by the council's audit team concluded that the internal audit function has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS). For 2016/17, we intend to place reliance on work carried out in previous years.

## Audit dimensions

21. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

### Exhibit 5

#### Audit dimensions



### Financial sustainability

22. As 2016/17 is the final year of operation for the Northern Community Justice Authority, the scope of our work on financial sustainability will be limited to ensuring that the Authority has sufficient funding in place to meet any costs associated with dis-establishment.

### Financial management

23. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. For the year ended 31 March 2017, we will review, conclude and report on:

- whether the Authority had arrangements in place to ensure systems of internal control were operating effectively
- whether the Authority could demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how the Authority assured itself that its financial capacity and skills were appropriate
- whether the Authority established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

### **Governance and transparency**

**24.** 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. For the year ended 31 March 2017, we will review, conclude and report on:

- whether the Authority could demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there was effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

### **Value for money**

**25.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the Authority demonstrated value for money in the use of its resources and achievement of its outcomes in 2016/17.

### **Independence and objectivity**

**26.** 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.

**27.** The engagement lead for Northern Community Justice Authority is Anne MacDonald, 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 Northern Community Justice Authority.

### **Quality control**

**28.** 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 or opinion is appropriate in the circumstances.

**29.** 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 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**30.** 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 welcome feedback at any time and this may be directed to the engagement lead.

# Northern Community Justice Authority

## Annual Audit Plan 2016/17

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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