

# Tayside Community Justice Authority

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for Tayside Community Justice Authority

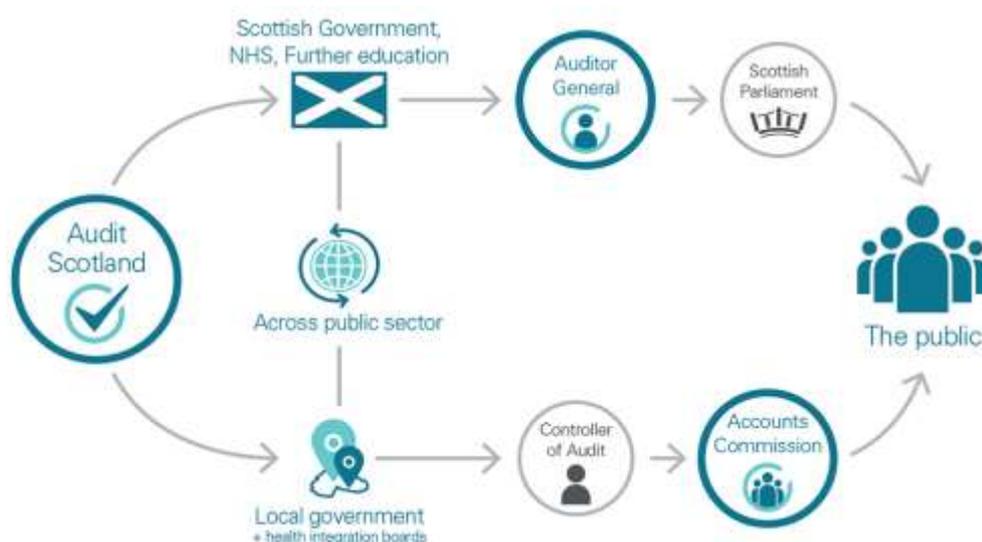
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## Who we are

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 and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), (the Code) and any other relevant guidance. The Code requires appointed auditors to give an opinion on the financial statements and report on other related matters. It also sets out further responsibilities for the wider scope of public audit in Scotland, as defined by the Code. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

2. Supplementary Guidance allows appointed auditors to use judgement to conclude that the full application of the wider scope is not appropriate based on the risks, nature and size of an audited body (a small audited body clause). In our judgement the small audited body clause applies to Tayside Community Justice Authority (the Authority).

3. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the restricted wider scope requirements as a small audited body.

## Audit risks

4. Based on our discussions with staff and a review of supporting information we have identified the following main risk areas for Tayside 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 Issues and Risks	Management assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p>1 <b>Risk of management override of controls</b></p> <p>ISA 240 <i>The auditor's responsibilities relating to fraud in an audit of financial statements</i> requires auditors to consider management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>owing to the nature of this risk, assurances from management are not applicable.</li> </ul>	<ul style="list-style-type: none"> <li>detailed testing of journal entries.</li> <li>review of accounting estimates for bias.</li> <li>focused testing of accruals and prepayments.</li> <li>evaluation of significant transactions that are outside the normal course of business.</li> </ul>

Audit Issues and Risks	Management assurance	Planned audit work
<p><b>2 Risk of fraud over expenditure</b></p> <p>The Code of Audit Practice requires consideration of risk of fraud over expenditure. The Authority incurs significant expenditure which requires audit coverage.</p>	<ul style="list-style-type: none"> <li>• budget monitoring by management.</li> <li>• criminal justice social work grant claims audited by constituent council's auditors.</li> <li>• internal controls in financial systems to mitigate risks of error or manipulation.</li> </ul>	<ul style="list-style-type: none"> <li>• consideration of component auditors' review of criminal justice social work grant claims.</li> <li>• assessment of key financial controls over expenditure.</li> <li>• detailed testing of transactions focusing on the areas of greatest risk.</li> </ul>
<p><b>3 Revisions to presentation of the financial statements</b></p> <p>The 2016/17 Code of Practice on Local Authority Accounting makes a number of changes in the presentation of the financial statements, including a new expenditure and funding analysis and changes to the requirements of the annual governance statement to provide additional disclosures. To date the Authority has presented a Statement of Internal Financial Control in its financial statements rather than an Annual Governance Statement.</p> <p>These changes present a risk of material misstatement in the financial statements if they are not properly actioned.</p>	<ul style="list-style-type: none"> <li>• consideration of changes required by Finance staff.</li> </ul>	<ul style="list-style-type: none"> <li>• focused testing on the financial statements to ensure that the changes have been properly actioned.</li> </ul>
<p><b>4 Disestablishment of the Authority</b></p> <p>All Criminal Justice Authorities 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 the Authority.</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. Disestablishment will result in the pension liability crystalizing for the local government pension scheme. The strain on fund and cessation costs accrued by the authority, as at 31 March 2017, will be reimbursed to the relevant pension funds by the Scottish Government.</p>	<ul style="list-style-type: none"> <li>• early assessment of close down costs to establish correct accounting treatment.</li> <li>• recognition of the pension cessation costs and funding from Scottish Government.</li> </ul>	<ul style="list-style-type: none"> <li>• focussed testing of transactions relating to the closure, including the pension liability and funding.</li> </ul>

Audit Issues and Risks	Management assurance	Planned audit work
<p>The Authority will need to ensure arrangements are in place to ensure its closing balances are properly reported.</p>		
<p><b>5 Annual accounts preparation</b></p> <p>The accounts will be prepared by staff at Dundee City Council, but the Authority's Chief Officer will no longer be in post (this role will transfer to the Treasurer) 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"> <li>• arrangements in place to draft management commentary for annual accounts prior to disestablishment date.</li> </ul>	<ul style="list-style-type: none"> <li>• review of the arrangements in place for preparation of the annual accounts.</li> </ul>
<p><b>Wider dimension issues and risks</b></p>		
<p><b>6 Disestablishment of Community Justice Authorities</b></p> <p>Local strategic planning and delivery of services through Community Planning Partnerships (CPPs) will be central to the new community justice arrangements.</p> <p>The Authority will need to ensure business continuity arrangements are in place to ensure a smooth transition.</p>	<ul style="list-style-type: none"> <li>• consideration of guidance received from Scottish Government in respect of disestablishment and resilience plans.</li> </ul>	<ul style="list-style-type: none"> <li>• review of disestablishment and resilience plans for the transition.</li> </ul>

## Reporting arrangements

**5.** Audit reporting is the visible output for the annual audit. All annual audit plans and the 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 Accountable Officer, Scottish Parliament and the Auditor General for Scotland summarising the results of the audit of the annual accounts. We will provide the Accountable Officer and 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.

**8.** Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year-end i.e. 31 December.

Tayside Community Justice Authority is required to submit their audited financial statements by 31 October to meet the consolidation timetable.

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## Exhibit 2

### 2016/17 Audit outputs

Audit Output	Target date
Annual Audit Report including ISA 260 requirements	24 October *
Signed Independent Auditor's Report	31 October

\* This date is the date the proposed Annual Audit Report will be presented for those charged with governance. To allow for potential subsequent post balance sheet events, the formal Annual Audit Report cannot be presented until after the date of certification of the annual accounts on 31 October.

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### Audit fee

**9.** The proposed audit fee for the 2016/17 audit of Tayside Community Justice Authority is £4,670. In determining the audit fee we have taken account of the risk exposure of the Authority, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

**10.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, 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

#### Tayside Community Justice Authority and Accountable Officer

**11.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective governance arrangements.

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

#### Appointed auditor

**13.** 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

**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 Tayside Community Justice Authority and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Tayside 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 body's affairs and of its income and expenditure
- whether they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code
- whether they have been prepared in accordance with the requirements of the Management of Offenders etc. (Scotland) Act 2005 and regulations made thereunder by the Scottish Ministers
- the regularity of the expenditure and income

## 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. The calculated materiality values for Tayside Community Justice Authority are set out in [Exhibit 3](#).



## Exhibit 3

### Materiality values

Materiality level	Amount
<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 budget for 2016/17.	£85,000
<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 75% of planning materiality.	£63,000
<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.	£4,000

17. We review and report on other information published with the financial statements including the management commentary, annual governance statement and the remuneration report. Any issue identified will be reported to the Accountable Officer.

### 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
Consideration of unaudited financial statements by the Accountable Officer	29 September 2017
Latest submission date of unaudited financial statements with complete working papers package	29 September 2017
Latest date for final clearance meeting with Accountable Officer	19 October
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	24 October *
Independent auditor's report signed	31 October

### 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. The Authority uses Dundee

City Council's financial systems and therefore does not have an internal audit function of its own. There are no specific areas in the council's internal audit plans in 2016/17 in relation to the Authority where we plan to place reliance on internal audit's work.

## Audit dimensions

**20.** As noted at paragraph 2, in our opinion the full application of the wider scope is not appropriate for the Authority. However, as a minimum, the Code requires annual audit work on financial sustainability and the appropriateness of the disclosures in the governance statement. As a result our wider dimension work will be restricted to financial sustainability and governance and transparency arrangements.

### Financial sustainability

**21.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We also comment on the body's financial sustainability in the longer term. Given the Authority 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.

### Governance and transparency

**22.** 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

**23.** 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.

**24.** The engagement lead for Tayside Community Justice Authority is Bruce Crosbie, 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 Tayside Community Justice Authority.

## Quality control

**25.** 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.

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.

# Tayside 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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