

# Tayside Contracts Joint Committee

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

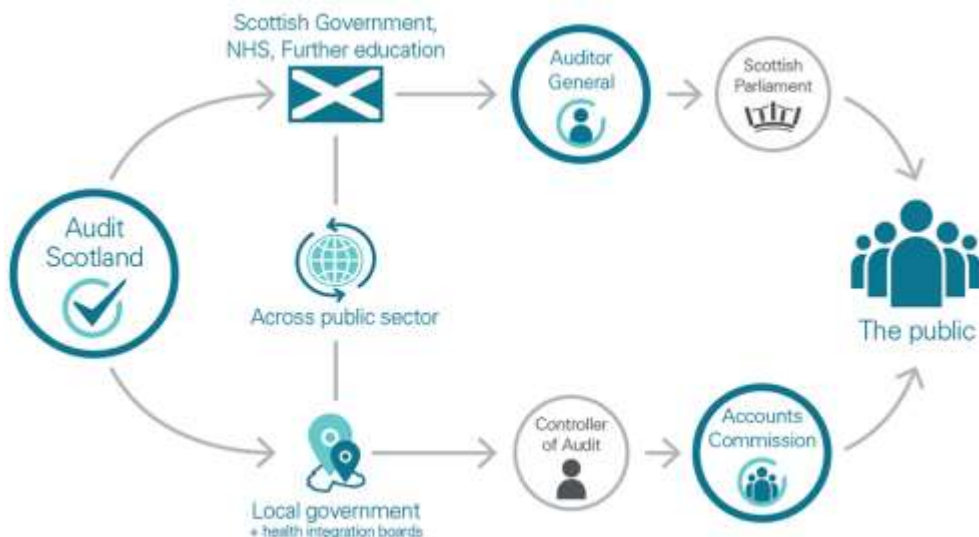
Prepared for Tayside Contracts Joint Committee

March 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 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. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Tayside Contracts Joint Committee (the Joint Committee). 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 Risk of management override of controls</b></p> <p>Management has the ability to manipulate accounting records and prepare fraudulent 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 in this instance.</li> </ul>	<ul style="list-style-type: none"> <li>detailed testing of journal entries.</li> <li>review of accounting estimates.</li> <li>focused testing of accruals and prepayments.</li> <li>evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<p><b>2 Risk of fraud over income and expenditure</b></p> <p>ISA 240 <i>The auditor's responsibilities relating to fraud in an audit of financial statements</i> include certain requirements relating to the auditor's consideration of fraud.</p> <p>ISA 240 requires auditors to presume a risk of fraud where income streams are significant. Additionally, the Code of Audit Practice requires consideration of</p>	<ul style="list-style-type: none"> <li>regular budget monitoring and reporting</li> <li>participation in the National Fraud Initiative</li> <li>internal controls in financial systems to mitigate risks of error or manipulation</li> <li>internal audit review of internal financial controls.</li> </ul>	<ul style="list-style-type: none"> <li>analytical procedures on income and expenditure</li> <li>testing of key internal financial controls</li> <li>detailed testing of transactions focusing on the areas of greatest risk</li> <li>review the Joint Committee's involvement in the National Fraud Initiative.</li> </ul>

Audit Risk	Management assurance	Planned audit work
the risk of fraud over expenditure.		
<p><b>3 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas such as non current assets, pensions and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>• valuation and impairment review of non-current assets by professional valuer</li> <li>• actuarial valuation to provide pension figures for the financial statements. Officer review of actuary information to ensure data and assumptions used are reasonable.</li> <li>• confirmation from legal services of all potential legal cases together with an assessment of potential liability and likelihood of settlement.</li> </ul>	<ul style="list-style-type: none"> <li>• review of the work of an expert for the actuary and the valuer</li> <li>• focused testing of non current asset, pension and provisions.</li> </ul>
<p><b>4 Revisions to the 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:</p> <ul style="list-style-type: none"> <li>• Changes to the structure of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement, with associated restatement of prior year figures.</li> <li>• A new expenditure and funding analysis</li> <li>• Changes to the requirements of the annual governance statement to provide additional disclosures</li> </ul> <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 the finance section</li> </ul>	<ul style="list-style-type: none"> <li>• focussed testing on the financial statements to ensure that the changes have been properly actioned.</li> </ul>
<b>Wider dimension risks</b>		
<p><b>5 Local government elections</b></p> <p>The 2017 local government elections will result in changes in the elected members. There is a risk that there is a loss of skills and experience amongst members. To ensure members understand their roles and have the necessary skills to make informed decisions and provide effective scrutiny, development and training will be required. The Audit Scotland publication</p>	<ul style="list-style-type: none"> <li>• Tayside Contracts will invite members to a presentation about Tayside Contracts specifically and will give them access to information about Tayside Contracts..</li> </ul>	<ul style="list-style-type: none"> <li>• review the arrangements for the induction and training of new members.</li> </ul>

Audit Risk	Management assurance	Planned audit work
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How Councils Work on [the role of councillors](#) provides guidance in this area:

## Reporting arrangements

**3.** 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).

**4.** 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.

**5.** We will provide an independent auditor's report to the Joint Committee, and Accounts Commission summarising the results of the audit of the annual accounts. We will provide the Proper Officer and Accounts Commission 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	Joint Committee Date
Interim management report	24 May	26 June
Annual audit report including ISA 260 requirements	17 August*	28 August
Signed independent auditor's report	28 August	N/A

\* 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 28 August.

## Audit fee

**6.** The proposed audit fee for the 2016/17 audit of the Joint Committee is £37,300. In determining the audit fee we have taken account of the risk exposure of Joint Committee, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package by 30 June.

**7.** 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

### Joint Committee and Treasurer

**8.** 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.

**9.** The audit of the financial statements does not relieve management or Tayside Contracts Joint Committee, as those charged with governance, of their responsibilities.

### Appointed auditor

**10.** Our responsibilities as independent auditor are established by the 1973 Act for local government, and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

**11.** 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 and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial statements

**12.** 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 the Joint Committee 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 the Joint Committee 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:

- of the state of the affairs of the Joint Committee and of the income and expenditure for the year
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements

## 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 on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for the Joint Committee 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 based on the latest audited accounts	£0.7 million
<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.	£0.5 million
<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.	£0.035 million



15. We review and report on other information published with the financial statements including the foreword to the accounts, Managing Director's report, Divisions' operational reports, annual governance statement and the annual remuneration report. Any issue identified will be reported to the Joint Committee

### Timetable

16. 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 and planned Joint Committee dates.

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	26 June
Latest submission date of unaudited financial statements with complete working papers package	30 June
Latest date for final clearance meeting with Proper Officer	18 July
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	17 August
Independent auditor's report signed	28 August

### Internal audit

17. 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

Wylie & Bisset who were appointed internal auditors for 3 years commencing April 2016.

### Adequacy of Internal Audit

**18.** Overall, we concluded that the internal audit service generally operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. The internal audit service is currently working towards obtaining PSIAS accreditation.

### Areas of reliance

**19.** To support our audit opinion on the financial statements we plan to place formal reliance on the work of internal audit on Human Resources and Payroll.

**20.** In respect of our wider dimension audit responsibilities we plan to consider the following areas of internal audit work:

- corporate governance
- risk management
- information technology controls
- workforce planning
- fleet management.

### 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](#).

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## Exhibit 5

### Audit dimensions



### Financial sustainability

**22.** 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. We define this as medium term

(two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether the Joint Committee can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

### Financial management

**23.** 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 the Joint Committee has arrangements in place to ensure systems of internal control are operating effectively
- whether the Joint Committee can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how the Joint Committee has assured itself that its financial capacity and skills are appropriate
- whether the Joint Committee has 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. We will review, conclude and report on:

- whether the Joint Committee can demonstrate that the governance arrangements in place are appropriate and operating effectively.
- whether there is 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 Joint Committee can provide evidence that it is demonstrating value for money in the use of its resources.
- the Joint Committee can demonstrate that there is a clear link between money spent, output and outcomes delivered.
- the Joint Committee can demonstrate that outcomes are improving.
- there is sufficient focus on improvement and the pace of it.

### 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 the Joint Committee audit is Bruce Crosbie, Senior Audit Manager. Auditing and ethical standards require communication of 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 Committee.

## 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.

# Tayside Contracts Joint Committee

## 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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