

# Tayside Contracts Joint Committee

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

Prepared for Tayside Contracts Joint Committee

15 March 2021

## 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

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**1.** This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.

**2.** The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

## Impact of COVID-19 on public audit

**3.** The public health crisis caused by the COVID-19 pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

**4.** Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from COVID-19 across the full range of audit work including annual audits and the programme of performance audits. Audit Scotland views 2020/21 as a transitional year, leading in future to audit timetables which were possible before COVID-19. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, revisions to this annual audit plan may be necessary.

## Adding value

**5.** We aim to add value to Tayside Contracts Joint Committee (Tayside Contracts) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help Tayside Contracts promote improved standards of governance, better management and decision making and more effective use of resources.

## Audit risks

**6.** Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risk for Tayside Contracts. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

### Significant risks for the 2020/21 audit

 Audit Risk	Source of assurance	Planned audit work
<b>Risks of material misstatement and opinion risks</b>		
<p><b>1 Risk of material misstatement due to fraud caused by the management override of controls</b></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 to change the position disclosed in the financial statements.</p>	<p><i>Owing to the nature of this risk, assurances from management are not applicable.</i></p>	<ul style="list-style-type: none"> <li>Review of the Annual Governance Statement and assurances obtained in support of the statement.</li> <li>Detailed testing of journal entries.</li> <li>Review of accounting estimates.</li> <li>Focussed 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 material misstatement caused by fraud in revenue recognition.</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud over income, which is presumed to be a risk in any audit with significant income streams. There is a risk that income may be materially misstated in the 2020/21 financial statements due to the following significant income streams:</p> <ul style="list-style-type: none"> <li>Income from constituent councils, including standby payments (£72 million in 2019/20)</li> <li>Other external income (£4 million in 2019/20)</li> <li>Coronavirus Job Retention Scheme income in respect of workers furloughed since 1 April 2020</li> </ul>	<ul style="list-style-type: none"> <li>Majority of income received via electronic payment.</li> <li>Robust controls over income generation and receipting processes, including segregation of duties.</li> <li>Independent monitoring and review of suspense codes – including bank reconciliations.</li> <li>Effective scrutiny over monthly reporting by operational and senior management and quarterly by the Joint Committee.</li> </ul>	<ul style="list-style-type: none"> <li>Analytical procedures on significant income streams.</li> <li>Detailed testing of revenue transactions focussing on the areas of greatest risk.</li> <li>Review of budget monitoring reports focussing on significant budget variances.</li> <li>Review of accounting treatment of monies received from HMRC under the Coronavirus Job Retention Scheme.</li> <li>Review of staff included within the Coronavirus Job Retention Scheme claims.</li> </ul>
<p><b>3 Risk of material misstatement caused by fraud in expenditure</b></p> <p>The Code of Audit Practice expands the consideration of fraud under ISA 240 to include the risk of fraud over expenditure. There is a risk that</p>	<ul style="list-style-type: none"> <li>Robust controls over expenditure and payment processes, including segregation of duties.</li> </ul>	<ul style="list-style-type: none"> <li>Analytical procedures on significant expenditure streams.</li> <li>Detailed testing of expenditure transactions, including cut-off testing,</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<p>expenditure may be materially misstated in the 2020/21 financial statements due to the following significant expenditure streams:</p> <ul style="list-style-type: none"> <li>• Construction division (£43 million in 2019/20)</li> <li>• Facilities division (£37 million in 2019/20)</li> </ul>	<ul style="list-style-type: none"> <li>• Independent monitoring and review of suspense codes – including bank reconciliations.</li> <li>• Effective scrutiny over monthly reporting by operational and senior management and quarterly by the Joint Committee.</li> <li>• Fraud prevention arrangements including involvement in the National fraud Initiative.</li> </ul>	<p>focussing on the areas of greatest risk.</p> <ul style="list-style-type: none"> <li>• Review of budget monitoring reports focussing on significant budget variances.</li> <li>• Audit work on the National Fraud Initiative matches.</li> </ul>
<b>4</b>	<p><b>Estimations and judgements</b></p> <p>There is a significant degree of estimation and judgement in the measurement and valuation of some material account areas, including:</p> <ul style="list-style-type: none"> <li>• The value of the pension liability (£28 million at 31 March 2020) is an estimate based on information provided by management and actuarial assumptions.</li> <li>• The value of provisions (£1 million at 31 March 2020) is based on management's assessment of the value and probability of potential future outflows.</li> <li>• The value of the accumulated absences accrual (£1 million as at 31 March 2020) is based on management's assessment of the value of potential future outflows.</li> </ul> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Pension Fund valuation completed by a qualified actuary with the applicability of actuarial assumptions reviewed by officers.</li> <li>• Provision calculations supported by clear evidence and/or robust assumptions.</li> <li>• Accumulated absences accrual calculations supported by clear evidence and/or robust assumptions.</li> </ul>	<ul style="list-style-type: none"> <li>• Review of the work of the actuary, including consideration of the appropriateness of the actuarial assumptions used.</li> <li>• Review of procedures for ensuring actuarial valuations provided are appropriate and include assumptions relating to relevant legal rulings.</li> <li>• Confirm pension valuations in actuarial report are correctly reflected in the 2020/21 accounts.</li> <li>• Review the basis of provisions recognised, including detailed testing to source documentation where required.</li> <li>• Review the basis and calculation of any obligations related to outstanding legal claims.</li> <li>• Review the process in place for calculating the accumulated absences accrual and the accuracy of detailed calculation.</li> </ul>
<b>5</b>	<p><b>Significant Trading Operations</b></p> <p>Tayside Contracts has a duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of its significant trading operations so that income is not less than expenditure over each three-year period.</p>	<ul style="list-style-type: none"> <li>• Financial results for the three-year period 2018/19 to 2020/21 will be reported within the 2020/21 financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>• Review the three-year position reported at 31 March 2021.</li> <li>• Report any failure to achieve the prescribed financial objective for the Construction or Facilities Division within our</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	As has been the case in recent years, it is likely that the inclusion of the IAS19 pension costs will result in the two trading divisions, Construction and Facilities Services, failing to achieve the prescribed financial objective of attaining a breakeven position over the three-year period 2018/19 to 2020/21.		2020/21 independent auditor's report.

### Wider audit dimension risks

#### 6 Financial sustainability

The Covid-19 pandemic has reduced Tayside Contract's ability to generate income during 2020/21, particularly within the facilities division.

There is a risk that the continuing restrictions on the operation of areas of the business will impact upon the longer term financial health and sustainability of the organisation.

- Effective scrutiny over monthly reporting by operational and senior management and quarterly by the Joint Committee.
- Early discussions with the constituent Councils when restrictions are causing a negative impact to alleviate these issues as any losses on trading in a year would be funded by the three constituent Councils (per the Minute of Agreement).
- Prudent assumptions when building the 2021/22 budget.

- Continue to monitor the financial position throughout the year, including additional financial support provided by constituent councils.
- Review 2021/22 budget setting decisions and future income projections.

Source: Audit Scotland

## Reporting arrangements

7. This audit plan, the outputs set out at [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).

8. 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 relevant officers to confirm their factual accuracy, prior to the issue and publication of final reports.

9. We will provide an independent auditor's report to Tayside Contracts and the Accounts Commission setting out our opinions on the annual accounts. We will also provide the Proper Officer (Section 95 Officer) and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

## Exhibit 2 2020/21 Audit outputs

Audit Output	Committee Date
Management Report <i>(This will only be required where reportable issues are identified during our interim testing)</i>	21 June 2021
Independent Auditor's Report	30 August 2021
Annual Audit Report	30 August 2021

Source: Audit Scotland

## Audit fee

**10.** The agreed fee for the 2020/21 audit is £40,030 (£39,140 in 2019/20). In determining the audit fee we considered the local risk areas for the body, the governance and accountability arrangements in, the control environment and the arrangements for producing the financial statements.

**11.** Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package, by 21 June 2021. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

## Responsibilities

### Joint Committee and Proper Officer

**12.** Audited bodies are responsible 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. For Tayside Contracts the Proper Officer (section 95 officer) has responsibility for the administration of financial affairs. The Joint Committee has responsibility for the oversight of internal and external audit.

**13.** The audit of the annual accounts does not relieve management or the Joint Committee, as those charged with governance, of their responsibilities.

### Appointed auditor

**14.** Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including supplementary guidance) and are guided by the auditing professions ethical guidance.

**15.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts.

# Audit scope and timing

## Annual accounts

**16.** The annual accounts, which include the financial statements, will be the foundation and source for most 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 Contracts Joint Committee Tayside Contracts 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 Contracts will include these in the financial statements
- assessing the risks of material misstatement in the financial statements and 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.

**17.** We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of affairs of Tayside Contracts Joint Committee as at 31 March 2021 and of its income and expenditure for the year then ended, and
- have been properly prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

## Other information in the annual accounts

**18.** We also review and report on the other information published within the annual accounts including the management commentary, annual governance statement and remuneration report. We give an opinion on whether these have been prepared in accordance with the appropriate regulations and guidance. We also read and consider the other information in the annual accounts and report any material inconsistencies.

## Materiality

**19.** We apply the concept of materiality in planning and performing the audit. Materiality defines the maximum error that we are prepared to accept and still conclude that the financial statements present a true and fair view. It helps assist our planning of the audit and allows us to assess the impact of any potential audit adjustments on the financial statements.

**20.** We calculate materiality at different levels as described below. The calculated materiality values for Tayside Contracts are set out in [Exhibit 3](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

## Exhibit 3

### Materiality values

Materiality	Amount
<b>Planning materiality:</b> This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1.5% of gross expenditure for the year ended 31 March 2020 based on the latest audited accounts	£1.2 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 60% of planning materiality.	£0.7 million
<b>Reporting threshold:</b> We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 4% of planning materiality.	£50 thousand

Source: Audit Scotland

## Timetable

**21.** To support the efficient use of resources it is critical that a timetable is agreed with us for the production and audit of the annual accounts. The agreed timetable for the 2020/21 audit is shown at [Exhibit 4](#).

## Exhibit 4

### Annual accounts audit timetable

 Key stage	 Date
Consideration of unaudited annual accounts by Joint Committee	21 June 2021
Latest submission date of unaudited annual accounts with complete working papers package	21 June 2021
Latest date for final clearance meeting with Head of Financial Services	26 July 2021
Agreement of audited unsigned annual accounts	2 August 2021
Issue of letter of representation, proposed independent auditor's report and proposed annual audit report for consideration at Joint Committee meeting on 30 August 2021	9 August 2021
Independent auditor's report signed	30 August 2021
Issue of Annual Audit Report	30 August 2021

**22.** If issues arise during the course of the 2020/21 audit that mean it is not practical to certify the audited annual accounts in line with the audit timetable at [Exhibit 4](#), we will communicate this to the Joint Committee at the earliest opportunity and agree a revised timetable for the completion of the audit.

## Internal audit

**23.** 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 annual assessment of the internal audit function at audited bodies.

**24.** Internal audit is provided by Wylie & Bisset. Our assessment of the internal audit function concluded that it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

### Using the work of internal audit

**25.** As part of our wider dimension audit responsibilities we plan to consider the work of Internal Audit in a number of areas, including:

- Data protection legislation,
- HR & payroll,
- Risk management, and
- Disaster recovery.

## Audit dimensions

**26.** 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



Source: Code of Audit Practice

## Financial management

**27.** 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:

- the effectiveness of budgetary control systems in communicating accurate and timely financial performance,

- whether financial capacity and skills are adequate, and
- whether appropriate and effective arrangements for internal control and the prevention and detection of fraud and corruption have been established.

## 28.

### Financial sustainability

**29.** 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 Tayside Contracts' financial sustainability. We will carry out work and conclude on the following areas:

- 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 there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions, and
- monitoring the impact on the organisation of the UK's withdrawal from the European Union on 31 December 2020.

### Governance and transparency

**30.** 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 governance arrangements are appropriate and operating effectively,
- the quality and timeliness of financial and performance reporting,
- whether there is effective scrutiny, challenge and transparency of decision-making and finance and performance reports.

### Value for money

**31.** Value for money refers to using resources efficiently and effectively and continually improving services. We will review, conclude and report on whether Tayside Contracts can demonstrate value for money in the use of resources and improved outcomes.

### Independence and objectivity

**32.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. 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 robust arrangements in place to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

**33.** The appointed auditor for Tayside Contracts is Richard Smith, 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 Contracts.

## Quality control

**34.** 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.

**35.** 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 (and supporting guidance) 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 and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**36.** 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 appointed auditor or to Audit Scotland's Audit Quality and Appointments group.

# Tayside Contracts Joint Committee

## Annual Audit Plan 2020/21

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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