

Tayside Contracts Joint Committee

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Tayside Contracts Joint Committee

14 March 2022

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Tayside Contracts Joint Committee (Tayside Contracts). The main elements of our work include:

- an audit of the 2021/22 annual accounts to support our opinions on the financial statements
- work to support our opinions on the statutory other information published within the annual accounts including the Management Commentary, the Governance Statement, and the Remuneration Report
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- consideration of Best Value arrangements
- review the Joint Committee's participation in the National Fraud Initiative.

Impact of Covid-19

2. The Covid-19 pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required. Any such changes will be communicated to the Joint Committee at the earliest opportunity.

Adding value

4. We aim to add value to Tayside Contracts Joint Committee 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 will help Tayside Contracts promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Joint Committee and participate in discussions where appropriate.

Respective responsibilities of the auditor and Tayside Contracts

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and Tayside Contracts. Key responsibilities are summarised below.

Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 (LG bodies) and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

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

Tayside Contracts responsibilities

8. Tayside Contracts is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, Tayside Contracts has 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 deliver their objectives.

10. The audit of the annual accounts does not relieve management or the Joint Committee of their responsibilities.

Managing the transition to 2022/23 audits

11. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

12. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

13. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for Tayside Contracts are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Materiality levels for Tayside Contracts

Materiality	Amount
Planning materiality – This is the figure we calculate to assess 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 2022 based on the latest audited financial statements for 2020/21.	£0.781 million
Performance materiality – 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 assessed performance materiality at 50% of planning materiality.	£0.390 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£0.030 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

14. Our risk assessment draws on our cumulative knowledge of Tayside Contracts, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

15. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<ul style="list-style-type: none"> Test journal entries with a focus on significant risk areas. We will consider any unusual material transactions identified through our audit testing for any evidence of management override of controls. Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.
<p>2. Risk of material misstatement caused by fraud in revenue recognition.</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</p>	<ul style="list-style-type: none"> Controls over income generation and receipting processes. Scrutiny of monthly financial reports by management and quarterly by the Joint Committee. 	<ul style="list-style-type: none"> Testing of revenue transactions focusing on the areas of greatest risk. Review of budget monitoring reports, focusing on significant budget variances.

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>in the 2021/22 financial statements due to the inherent nature and complexity of the following significant income streams:</p> <ul style="list-style-type: none"> Income from constituent councils (£68.7 million in 2020/21) Other external income (£5.1 million in 2020/21) 		
<p>3. Risk of material misstatement caused by fraud in expenditure</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 expenditure may be materially misstated in the 2021/22 financial statements due to the extent and nature of the following significant expenditure streams:</p> <ul style="list-style-type: none"> Construction division (£41.2 million in 2020/21) Facilities division (£37.3 million in 2020/21) 	<ul style="list-style-type: none"> Controls over expenditure and payment processes. Scrutiny of monthly financial reports by management and quarterly by the Joint Committee. Fraud prevention arrangements, including involvement in the National Fraud Initiative. 	<ul style="list-style-type: none"> Testing of expenditure transactions, focusing on the areas of greatest risk. Review of budget monitoring reports focusing on significant budget variances. Our review of Tayside Contracts' participation in the National Fraud Initiative.
<p>4. Significant Trading Operations</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> <p>As has been the case in recent years, it is likely that</p>	<ul style="list-style-type: none"> Financial results for the three-year period 2019/20 to 2021/22 will be reported within the 2021/22 financial statements. 	<ul style="list-style-type: none"> Review the three-year position reported at 31 March 2022. Report any failure to achieve the prescribed financial objective for the Construction or Facilities Services divisions within our 2021/22 independent auditor's report.

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>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 2019/20 to 2021/22.</p>		

Source: Audit Scotland

Other areas of audit focus

16. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

17. The areas of specific audit focus are:

- The pension liability valuation, due to the significant value and extent of estimation assumptions used in the calculation of the liability.
- Other areas of estimation and judgement, including provisions and the accumulated absences accrual, due to the degree of subjectivity of the assumptions used.

Audit risk assessment process

18. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Introduction

19. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

20. The four dimensions that frame our audit work are shown in [Exhibit 4](#).

Exhibit 4

Audit dimensions



Source: Code of Audit Practice

21. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – 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 financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).

- **Governance and transparency** – governance and transparency are concerned with the effectiveness of scrutiny and governance arrangements, leadership, and decision-making and transparent reporting of financial and performance information. Our work will include assessing the Joint Committee’s arrangements for managing and reviewing risks, and how it complies with relevant laws and regulations.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

Audit dimension risks

22. We have identified audit risks in the areas set out in [Exhibit 6](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 6

2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p>1. Longer-term financial planning</p> <p>The Joint Committee's previous short-to-medium term financial plan was due for renewal prior to the onset of the Covid-19 pandemic in 2020.</p> <p>In addition, the pandemic has placed pressure on Tayside Contract’s income streams, particularly within the facilities division.</p> <p>There is a risk that Tayside Contracts does not have a complete picture of its longer-term financial position and the challenges it faces in meeting its objectives in the medium to long term.</p>	<ul style="list-style-type: none"> • Regular monitoring and reporting to the Joint Committee on the financial position and outlook. 	<ul style="list-style-type: none"> • Assess the Joint Committee's consideration and oversight of budgets and long-term financial planning. • Continue to monitor the organisation’s financial position and outturn throughout the year.
<p>2. Finance capacity</p> <p>We reported in our 2020/21 annual audit report that a number of staff departures</p>	<ul style="list-style-type: none"> • Provision of adequate support to finance staff to undertake their roles effectively. 	<ul style="list-style-type: none"> • We will review progress made against our prior year recommendation, and assess if key finance processes and production

Description of risk	Sources of assurance	Planned audit response
<p>had placed the finance function under significant pressure.</p> <p>There is a risk that key finance functions may not be completed when required.</p>		<p>of the annual accounts have been affected as a result.</p>

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

23. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 7](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

24. 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 officers to confirm factual accuracy.

25. We will provide an independent auditor's report to the Joint Committee and the Accounts Commission setting out our opinions on the annual report and accounts. We will provide the Joint Committee and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

26. [Exhibit 7](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

Exhibit 7 2020/21 Audit outputs

Audit Output	Target date	Joint Committee Date
Annual Audit Plan	31/03/2022	14/02/2022
Independent Auditor's Report	31/10/2022	29/08/2022
Annual Audit Report	31/10/2022	29/08/2022

Source: Audit Scotland

Timetable

27. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 8](#) that has been discussed with management.

28. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

29. We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 8 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by Joint Committee	20 June 2022
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	20 June 2022
Latest date for final clearance meeting with the Director of Finance (or equivalent)	August 2022
Issue of Letter of Representation and proposed Independent Auditor's Report	August 2022
Agreement of audited and unsigned annual report and accounts	August 2022
Issue of Annual Audit Report to those charged with governance.	29 August 2022
Signed Independent Auditor's Report	29 August 2022

Source: Audit Scotland

Audit fee

30. The proposed audit fee for the 2021/22 audit of Tayside Contracts is £41,160 (2020/21: £40,030). In determining the audit fee, we have taken account of the risk

exposure of the Tayside Contracts, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

31. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers 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 out with our planned audit activity.

Other matters

Internal audit

32. International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures;
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort;
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

33. From our initial review of the internal audit plans, we plan to consider the findings of Internal Audit across a range of work including:

- Procurement and Procurement Strategy
- Budget Setting and Monitoring
- Business Continuity Planning
- Commercial Income
- Corporate Governance
- Job Costing and Recharging Models
- Interface of Fleetwave and Integra

Independence and objectivity

34. Auditors appointed by the Auditor General for Scotland or Accounts Commission 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.

35. The appointed auditor for Tayside Contracts is Christopher Gardner, 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

36. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

37. 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.

38. 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

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