

Fife & Forth Valley Community Justice Authority

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for Fife & Forth Valley Community Justice Authority

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.

Contents

Risks and planned work	4
Audit risks	4
Reporting arrangements	6
Audit fee	7
Responsibilities	7
Audit scope and timing	8
Financial statements	8
Internal audit	9
Audit dimensions	10
Independence and objectivity	11
Quality control	11

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 including the new approach to Best Value. 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 and a review of supporting information we have identified the following main risk areas for Fife & Forth Valley Community Justice Authority (FFVCJA). 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
Financial statement issues and risks		
<p>1 Management override of controls</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 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 in this instance.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Substantive testing of administration expenditure. • Focussed testing of debtors and creditors. • Due to the nature of the authority, most debtors and creditors relate to money due to/from the Scottish Government and constituent bodies. Hence, no significant estimates are included in the financial statements. .
<p>2 Risk of fraud over income and expenditure</p> <p>ISA 240 presumes a risk of fraud over income, which is expanded to include fraud over expenditure in the public sector by the Code of Audit Practice.</p> <p>The majority of the Community Justice Authority's income is in</p>	<ul style="list-style-type: none"> • Budgetary control arrangements are in place, including quarterly reporting to the Board. • The finance function is provided by Falkirk Council, which is independent from the CJA officers who authorise most 	<ul style="list-style-type: none"> • Obtain the audited returns of the s27 expenditure incurred at the four constituent bodies. • Substantive testing of administration expenditure.

Audit Risk	Management assurance	Planned audit work
<p>the form of annual funding from the Scottish Government. Due to the fixed nature of this income, the risk of fraud over income has been rebutted.</p> <p>The presumed risk of fraud over expenditure remains relevant and will be addressed through audit work.</p>	<p>administrative expenditure.</p> <ul style="list-style-type: none"> Payroll costs, which accounts for the majority of administration expenditure, is processed by Fife Council and invoiced on a 4 weekly basis to the CJA. 	
<p>3 Disestablishment of the FFVCJA - impact on the financial statements</p> <p>All CJAs will be disestablished from 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 FFVCJA.</p> <p>The accounts will be prepared by staff at Falkirk Council, but the FFVCJA Chief Officer will no longer be in post and the Board will not meet again. The loss of the operational knowledge may impact the quality of the explanatory foreword, the statement of internal financial control, or other narrative comments in the accounts.</p> <p>There is also the risk that transactions related to closure, which are outside the normal course of business, have a greater risk of misstatement.</p>	<ul style="list-style-type: none"> The Falkirk Council S95 officer is responsible for the preparation of the 2016/17 annual accounts and other governance arrangements until the conclusion of the audit. The 2015/16 annual accounts were also prepared by Falkirk Council and no issues were highlighted by the previous auditor. Accounting treatment of termination costs has been discussed with the external auditor. 	<ul style="list-style-type: none"> Substantive testing of severance costs to ensure they have been approved and calculated in accordance with the scheme approved by the Scottish Government. Review of other disestablishment costs incurred to ensure they have been agreed with the Scottish Government. Ongoing discussion of disclosure requirements with the Falkirk Council finance officer responsible for preparing the FFVCJA accounts
<p>4 Disestablishment of the FFVCJA - going concern issues</p> <p>The authority are forecasting an overspend of the administration grant of approximately £15,000. This overspend is due to transactions related to disestablishment (such as residual payroll costs and early termination fees on leases etc) and are expected to be financed by the Scottish Government.</p> <p>There is a risk that the authority does not have sufficient funds to finance all of its outstanding liabilities.</p>	<ul style="list-style-type: none"> Falkirk Council will settle all approved disestablishment costs and recover these from the Scottish Government. The relevant expenditure and reimbursement will be included in the financial statements. The Chief Officer has been in discussion with the Scottish Government seeking assurance that additional funding will be provided to Falkirk Council to meet the anticipated overspend on the administration grant. Termination payments will be in accordance with the approved scheme and leavers have been notified 	<ul style="list-style-type: none"> Substantive testing of administration expenditure. Focussed testing of debtors and creditors. Report audit findings to the Falkirk Council S95 officer.

Audit Risk	Management assurance	Planned audit work
	<p>to the Scottish Government.</p> <ul style="list-style-type: none"> Other expected disestablishment costs will be notified to the Scottish Government for approval. 	
Wider dimension risks		
<p>5 Impact of the closure of FFVCJA on wider community justice objectives</p> <p>The responsibility for the delivery of community justice services will be transferred to the four Community Planning Partnerships administered by the councils after the disestablishment of FFVCJA on 31 March 2017.</p> <p>There is a risk that there will be an impact on the delivery of these services during the transition period.</p>	<ul style="list-style-type: none"> A disestablishment plan was approved in June 2016. Progress against the allocated tasks in the plan have been reported to the Board since then. The CJA national transition risk register has been adopted by the Board. The Board has worked closely with successor parties over the transition period. The priorities contained in the area plan continued to be monitored in 2016/17. Q1 progress of the 2014/17 Area Plan action plan was reported in September 2016. While there was no Q2 progress report prepared, the CJA produced a review of objectives and work it has carried out since it was established in 2007. This is intended to provide a useful reference point to the successor bodies. 	<ul style="list-style-type: none"> Review of FFV CJA disestablishment plan progress reports. Review of 2014/17 Area Plan action plan progress report; and review of the actions contained in the 2007-2017 review. Ensure information contained in each of these enables conclusions to be reached regarding progress of outcomes; and provides a useful reference point to the incoming community justice partnerships.

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.

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 S95 officer at Falkirk Council (as the person charged with governance from 31 March 2017) and the Accounts Commission summarising the results of the audit of the annual accounts. We will provide the person charged with governance and the 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	To Falkirk Council s95 officer (charged with governance)
Annual Audit Report including ISA 260 requirements	TBC*	By 31 October 2017 TBC
Signed Independent Auditor's Report	TBC*	By 31 October 2017 TBC

*Target dates will be determined once it is agreed what date the unaudited accounts are provided to us.

Audit fee

6. The proposed audit fee for the 2016/17 audit of Fife & Forth Valley Community Justice Authority is £5,000. In determining the audit fee we have taken account of the risk exposure of FFVCJA, 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 before 31 July 2017. The exact date is still to be confirmed.

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

Those charged with governance

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 the Chief Officer, the Board or, from 31 March 2017, the person 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, regularity 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 FFVCJA 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 FFVCJA 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:

- whether they give a true and fair view of the financial position of FFVCJA as at 31 March 2017 and their income and expenditure
- whether they have been properly prepared in accordance with the applicable accounting standards



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 FFVCJA are set out in [Exhibit 3](#).

Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality - 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 latest budget information for 2016/17.	£130,000
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 calculated performance materiality at 75% of planning materiality.	£97,000
Reporting threshold - 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 1% of planning materiality.	£1,000

15. We review and report on other information published with the financial statements including the explanatory foreword, statement on the system of internal financial control and the remuneration report. Any issue identified will be reported to those charged with governance.

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 dates to report to those charged with governance:

Exhibit 4

Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	TBC
Latest submission date of unaudited FFVCJA financial statements with complete working papers package	TBC
Latest date for final clearance meeting with Chief Finance Officer	By 24 October 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	By 31 October 2017
Independent auditor's report signed	By 31 October 2017

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. Internal audit is provided by the internal audit section within Falkirk Council. We will take assurance, wherever possible,

from the work done on those systems by the internal audit section of Falkirk Council.

Audit dimensions

18. 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



19. In the local government sector, the appointed auditor's annual conclusions on these four dimensions will contribute to an overall assessment and assurance on best value.

Financial sustainability

20. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. As this is the final operational year of Fife & Forth Valley Community Justice Authority, the scope of our work on financial sustainability will be limited to ensuring that the authority has funding in place to meet any costs associated with its disestablishment.

Financial management

21. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. As this is the final operational year of Fife & Forth Valley Community Justice Authority our work will be limited to reviewing, concluding and reporting on:

- whether FFVCJA had an effective budgetary control system which communicated accurate, timely and regular financial performance to those charged with governance.
- whether appropriate financial capacity and skills were provided following disestablishment on 31 March 2017
- whether the administrative grant expenditure for 2016/17 was accurately recorded and in accordance with budget
- whether S27 grant income and expenditure for 2016/17 is accurately recorded in the financial statements.

Governance and transparency

22. 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 members met on a regular basis to assess performance of the authority against budget and to identify any risks affecting the authority
- whether the steps leading to disestablishment were recorded and information shared with the successor partnerships.

Value for money

23. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether Fife & Forth Valley Community Justice Authority reported progress against the key projects, outcomes and actions contained within the 2014/17 Area Plan.

Independence and objectivity

24. 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.

25. The engagement lead for Fife & Forth Valley Community Justice Authority is Paul Craig, 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 Fife & Forth Valley Community Justice Authority.

Quality control

26. 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.

27. 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.

Fife & Forth Valley Community Justice Authority

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