

Tayside Contracts Joint Committee

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Tayside Contracts Joint Committee

February 2020

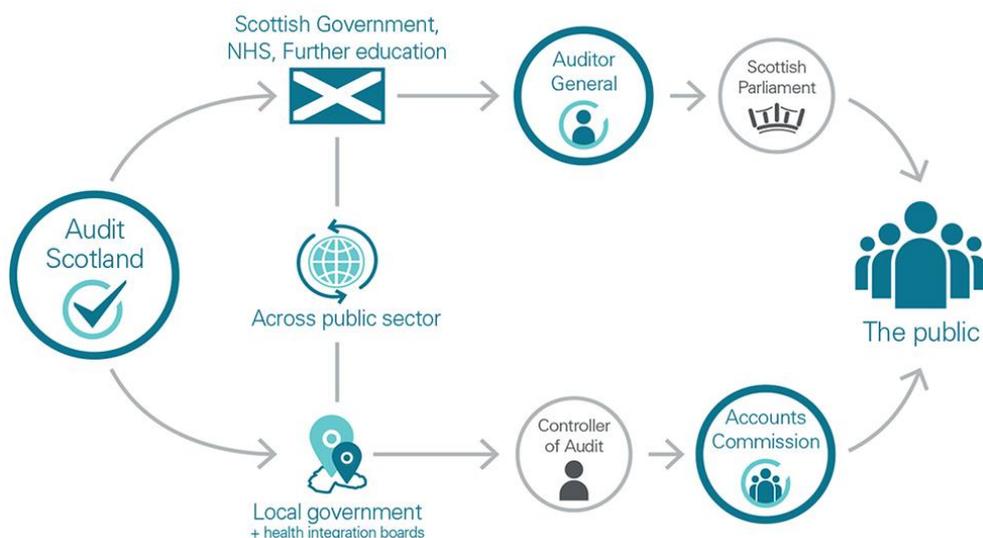
Who we are

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

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.

Adding value

3. 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 the Tayside Contracts Joint Committee promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant audit risks for Tayside Contracts Joint Committee. 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 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement caused by 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 to change the position disclosed in the financial statements.</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"> Review of the Annual Governance Statement and the assurances obtained in support of the statement. Detailed testing of journal entries. Review of accounting estimates. Focussed testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.

 Audit Risk	Source of assurance	Planned audit work
<p>2 Risk of material misstatement caused by fraud in income 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.</p>	<ul style="list-style-type: none"> • Majority of income received via electronic payment. • Robust controls over income generation and receipting processes, including segregation of duties. • Independent monitoring and review of suspense codes – including bank reconciliations. • Effective scrutiny over monthly reporting by operational and senior management and quarterly by the Joint Committee. 	<ul style="list-style-type: none"> • Analytical procedures on significant income streams. • Detailed testing of revenue transactions focussing on the areas of greatest risk. • Review of budget monitoring reports focussing on significant budget variances.
<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. This applies to the council due to the variety and extent of expenditure incurred.</p>	<ul style="list-style-type: none"> • Robust controls over expenditure and payment processes, including segregation of duties. • Independent monitoring and review of suspense codes – including bank reconciliations. • Effective scrutiny over monthly reporting by operational and senior management and quarterly by the Joint Committee. • Fraud prevention arrangements including Involvement in the National Fraud Initiative. 	<ul style="list-style-type: none"> • Analytical procedures on significant expenditure streams. • Detailed testing of expenditure transactions, including cut-off testing, focussing on the areas of greatest risk. • Review of budget monitoring reports focussing on significant budget variances. • Audit work on the National Fraud Initiative matches.
<p>4 Estimation and judgements</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"> • The value of the pension liability (£25.395 million at 31 March 2019) is an estimate based on information provided by management and actuarial assumptions. • The value of provisions (£1.174 million at 31 March 2019) is based on management's assessment of the value and 	<ul style="list-style-type: none"> • Pension Fund valuation completed by a qualified actuary with the applicability of actuarial assumptions reviewed by officers. • Provision calculations supported by clear evidence and / or robust assumptions. 	<ul style="list-style-type: none"> • Review of the work of the actuary, including consideration of the appropriateness of the actuarial assumptions used. • Review of procedures for ensuring actuarial valuations provided are appropriate and include assumptions relating to relevant legal rulings. • Confirm pension valuations in actuarial report are correctly reflected within the 2019/20 accounts. • Review the basis for provisions recognised, including detailed testing to

 Audit Risk	Source of assurance	Planned audit work
<p>probability of potential future outflows.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>		<p>source documentation where required.</p>

Wider dimension risks

5 Business Plan

The current three-year business plan, which sets out the key strategic aims and objectives for the organisation and provides a framework on how these will be delivered, covers the period 2017-2020.

The new three-year business plan covering the period 2020-2023 has not yet been prepared and there is therefore a risk that the organisation does not have a clear strategic direction going forward.

- The Joint Committee have been kept informed of developments with the business plan and the strategic priorities for 2020/21.
- The new three-year Business Plan is in development and is expected to be presented to the Joint Committee meeting on 22 June 2020.

- Review the 2020-2023 Business Plan when available.

Source: Audit Scotland

Reporting arrangements

5. This audit plan, the outputs set out at [exhibit 2](#), and any other outputs on matters of public interest will be published on Audit Scotland's website: www.audit-scotland.gov.uk.

6. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officer(s) to confirm factual accuracy, prior to the issue and publication of final reports.

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

Exhibit 2 2019/20 Audit outputs

Audit Output	Committee Date
Management Letter <i>(This will only be required where reportable issues are identified during our interim testing)</i>	22 June 2020
Independent Auditor's Report	24 August 2020
Annual Audit Report	24 August 2020

Source: Audit Scotland

Audit fee

8. The agreed fee for the 2019/20 audit of Tayside Contracts Joint Committee is £39,140 (£38,400 in 2018/19). The audit fee is £720 below the expected fee advised by Audit Scotland which reflects the current risk profile of the audit, the extent of wider code of audit practice work required for this year's audit, and the planned staffing of the audit.

9. Our audit approach assumes receipt of the unaudited annual report, with a complete working papers package, by 22 June 2020. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report 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.

Responsibilities

Joint Committee and Proper Officer

10. 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.

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

Appointed auditor

12. 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.

13. Auditors in the public sector give independent opinions on the financial statements and other information within the annual report.

Audit scope and timing

Annual report

14. The annual report, 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 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.

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

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of Tayside Contracts Joint Committee as at 31 March 2020 and of its income and expenditure for the year then ended
- 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 report

16. We also review and report on the other information published within the annual report 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

17. 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.

18. We calculate materiality at different levels as described below. The calculated materiality values for Tayside Contracts Joint Committee are set out in [exhibit 3](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

Exhibit 3

Materiality levels

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 1.5% of gross expenditure based on the audited accounts for the year ended 31 March 2019.	£1.206 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 calculated performance materiality at 60% of planning materiality.	£0.724 million
Reporting threshold – 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.	£0.050 million

Source: Audit Scotland

Timetable

19. 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 report. The agreed timetable for the 2019/20 annual report is included at [exhibit 4](#).

Exhibit 4

Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual report by Joint Committee	22 June 2020
Latest submission date of unaudited annual report and accounts with complete working papers package	22 June 2020
Latest date for final clearance meeting with Head of Financial Services	17 July 2020
Agreement of audited unsigned annual report	24 July 2020
Issue of Letter of Representation, proposed independent auditor's report and proposed Annual Audit Report for consideration at Joint Committee meeting on 24 August 2020	3 August 2020
Independent auditor's report signed	24 August 2020
Issue of Annual Audit Report	24 August 2020

Internal audit

20. 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.

21. 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).

22. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit.

Using the work of internal audit

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

- Purchasing and payments
- IT security
- Management reporting and information gathering.

Audit dimensions

24. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [exhibit 5](#). Our conclusions on the four dimensions will contribute to an overall assessment and assurance on best value.

Exhibit 5 Audit dimensions



Source: Code of Audit Practice

Financial management

25. 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 the budgetary control system in communicating accurate and timely financial performance
- whether financial capacity and skills are adequate
- whether appropriate and effective arrangements for internal control and the prevention and detection of fraud and corruption have been established

Financial sustainability

26. 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.

Governance and transparency

27. 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 assess:

- 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

28. 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

29. 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.

30. 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

31. International Standard on Quality Control (UK and Ireland) 1 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.

32. 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.

33. 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

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk