NORTH STRATHCLYDE COMMUNITY JUSTICE AUTHORITY

To: North Strathclyde Community Justice Authority

On: 12 June 2015

Item 4

Report by: The Treasurer and the Chief Officer

Heading: Annual Audit Plan 2014-15

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1. **Summary**

1.1 The Annual Audit Plan 2014-15 for the Authority is submitted for Members' information. The Plan outlines Audit Scotland's planned activities in their audit of the 2014-15 financial year.

1.2 The Annual Audit Plan 2014-15 includes a section on Audit Issues and Risks. Within this section Audit Scotland have identified a risk of "Management override of controls". This is being included in the audit plans of all bodies which Audit Scotland are working with in light of international standards on auditing. The inclusion of this risk is not a reflection of increased risk within North Strathclyde Community Justice Authority. Audit Scotland have confirmed that they have not found any issues on this in previous years

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2 **Recommendations**

2.1 The Authority is asked to note the Annual Audit Plan 2014-15 by Audit Scotland.

North Strathclyde Community Justice Authority

Annual Audit Plan 2014/15

Prepared for North Strathclyde Community Justice Authority

May 2015

Contents

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Summary

Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement and irregularity in North Strathclyde Community Justice Authority's (NSCJA) financial statements.

2. This report summarises the key challenges and risks facing NSCJA and sets out the audit work that we propose to undertake in 2014/15. Our plan reflects:
   - the risks and priorities facing NSCJA
   - current national risks that are relevant to local circumstances
   - the impact of changing international auditing and accounting standards
   - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
   - issues brought forward from previous audit reports.

Summary of planned audit activity

3. Our planned audit work in 2014/15 includes:
   - an audit of the financial statements and provision of an opinion on whether:
     - they give a true and fair view of the state of affairs of NSCJA
     - the expenditure and income for the year were incurred or applied in accordance with applicable enactments and guidance issued by Scottish Ministers
     - the accounts have been properly prepared in accordance with the Management of Offenders etc. (Scotland) Act 2005 and directions made by Scottish Ministers
   - a review and assessment of NSCJA's governance and performance arrangements in a number of key areas including a review of the statement of internal financial control
   - Preparing an Annual Report on the audit addressed to the accountable officer and Auditor General.

Responsibilities

4. The audit of the financial statements does not relieve the accountable officer or the joint committee as the body charged with governance, of their responsibilities.

Responsibility of the appointed auditor

5. Our responsibilities, as independent auditor, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

6. 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.

Responsibility of the Accountable Officer

7. It is the responsibility of NSCJA and the Chief Officer, as Accountable Officer (appointed by Scottish Ministers), to prepare the financial statements in accordance with the Management of Offenders etc. (Scotland) Act 2005 and directions signed by Scottish Ministers. This means:

- acting within the law and ensuring the regularity of transactions by putting in place appropriate systems of internal control
- maintaining proper accounting records
- preparing financial statements which give a true and fair view of the financial position of NSCJA as at 31 March 2015 and its expenditure and income for the year then ended
- preparing an annual report, including management commentary, strategic report and remuneration report.

Format of the accounts

8. Community justice authorities are required to prepare accounts in line with the Scottish Government Justice Directorate's Guidance Note Four: Management Statement/ Financial Memorandum. This memorandum states that the accounts should be prepared in line with the Code of Practice on Local Authority Accounting in the United Kingdom.

Audit Approach

9. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of NSCJA .We also consider the key audit risks and challenges in the central government sector generally. This approach includes:

   - understanding the business of NSCJA 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 NSCJA 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.

10. We have also considered the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2014/15 includes:

    - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
    - clear responsibilities for provision of accounts and working papers being agreed
    - delivery of unaudited accounts to agreed timescales with a comprehensive working papers package
    - completion of the internal audit programme for 2014/15.

11. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by the internal audit section within Renfrewshire Council.

12. Overall, we concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

13. As NSCJA uses the financial ledger and systems hosted by Renfrewshire Council we plan to place formal reliance on internal audit's work on payroll and treasury management, to support our audit opinion on the financial statements.

14. The s27 grant claim for each participating council is audited by the respective council's auditors and we consider the results from the audit certificates.

Materiality

15. International Standard on Auditing 320 provides guidance on the concept of materiality. We consider materiality and its relationship to audit risk when planning the nature, timing and extent of our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

16. Based on our knowledge and understanding of NSCJA we have set our planning materiality at 1% of gross expenditure. For 2014/15 planning materiality is £105,000. We set a lower level, known as performance materiality, when defining our audit procedures. This level depends on professional judgement and is informed by a number of factors including:

- extent of estimation and judgement within the financial statements
- nature and extent of prior year misstatements
- extent of audit testing coverage.

17. For 2014/15 performance materiality has been set at £53,000. We will report, to those charged with governance, all misstatements greater than £1,000.

18. In addition, an inaccuracy which would not normally be regarded as material in terms of monetary value may be important for other reasons (for example the failure to achieve a statutory requirement, or an item contrary to law). In the event of such an item arising, its materiality has to be viewed in a narrower context; such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

Reporting arrangements

19. To support the efficient use of resources it is critical that a timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at Exhibit 1 below which takes account of submission requirements and planned NSCJA dates.

Exhibit 1: Financial statements audit timetable

Key stage	Date
Latest submission of unaudited financial statements with complete working papers package	29 June 2015
Progress meetings with officers on emerging issues	As and when

Key stage	Date
	required
Latest date for final clearance meeting with the lead officer	9 October 2015
Issue of draft annual report on the audit; proposed independent auditor's report; agreement of unsigned financial statement	15 October 2015
Independent auditor's report signed	31 October 2015
Annual report to the Accountable Officer and the Auditor General for Scotland	30 November 2015

20. 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 senior manager to confirm factual accuracy. Responses to draft reports are expected within four weeks of submission. A copy of all final agreed reports will be sent to the Chief Officer, as Accountable Officer, treasurer and Audit Scotland's Performance Audit and Best Value Group.

21. We will provide an independent auditor's report to the NSCJA and the Auditor General for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

22. All annual reports produced by Audit Scotland are published on our website: www.audit-scotland.gov.uk

23. Planned outputs for the audit of financial year 2014/15 are summarised at Appendix I.

Quality control

24. 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. 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.

25. 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 do, however,

welcome feedback at any time and this may be directed to the engagement lead, Anne McGregor.

Independence and objectivity

26. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements auditors must also comply with professional standards issued by the Auditing Practices Board (APB) and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

27. 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 NSCJA.

Audit issues and risks

28. Based on our planning work we have identified the following main risk areas for NSCJA.

Governance

29. **Redesign of Community Justice Authorities**: In December 2013 the Scottish Government announced that planning and delivery will transfer from the eight community justice authorities (CJAs) to Scotland's 32 community planning partnerships (CPPs). A national body will also be created to set the vision for, and champion the work of, community justice services. It is anticipated that CJAs will formally disestablish on 31 March 2017.

30. Pressures on public sector spending are reflected in the decreasing S27 budget for NSCJA. The 2014/15 S27 allocation is £10.118m (2013/14: £10.213m; 2012/13 £10.532m) with £10m allocated for 2015/16. As at quarter three, officer forecast an overspend of 1.5%, which is required to be met by the relevant authorities.

31. Restructuring and pressures on budgets increases the risk that the NSCJA may not be fully focused on achieving objectives. The period of change may also negatively impact on staff morale and commitment levels.

32. **Inquorate Meetings:** Our 2013/14 Annual report on the audit noted that there were two meetings held in June of 2013 and one in December 2013, which failed to constitute a quorum and were therefore postponed and rescheduled. The meeting on 12 December 2014 was also inquorate. If meetings begin to be routinely rescheduled, particularly during a period of change, there is a risk that members and officers cannot address issues raised in a timely manner, or judgments and decisions are delayed. We will continue to monitor minutes of meetings throughout the year.

Financial statements

33. **Management Override of Controls:** ISA 240 - *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* states that: 'Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur it is a risk of material misstatement due to fraud and thus a significant risk.'

34. Given this inherent risk affects all financial statements we are required to undertake relevant audit procedures to gain assurance that no override of controls has occurred. These include detailed testing of journal entries, review of accounting estimates and evaluation of any significant transactions that are outside the normal course of business.

35. These risks with associated sources of assurance and planned audit work are summarised at Appendix II.

Fees and resources

Audit fee

36. Over the past four years, Audit Scotland has reduced audit fees by 23.5% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to restrict the increase in audit fees for 2014/15 to 1% which, in real terms, represents a 0.6% reduction at 2014 price levels.

37. In determining the audit fee we have taken account of the risk exposure of NSCJA, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 15 June 2015.

38. The agreed audit fee for the 2014/15 audit of NSCJA is £4,375. Our fee covers:

- the costs of planning, delivering and reporting the annual audit including auditor's attendance at committees
- your organisations allocation of the cost of national performance studies and statutory reports by the Auditor General for Scotland
- a contribution towards functions that support the local audit process (e.g. technical support and coordination of the National Fraud Initiative), support costs and auditors' travel and subsistence expenses.

39. 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.

Audit team

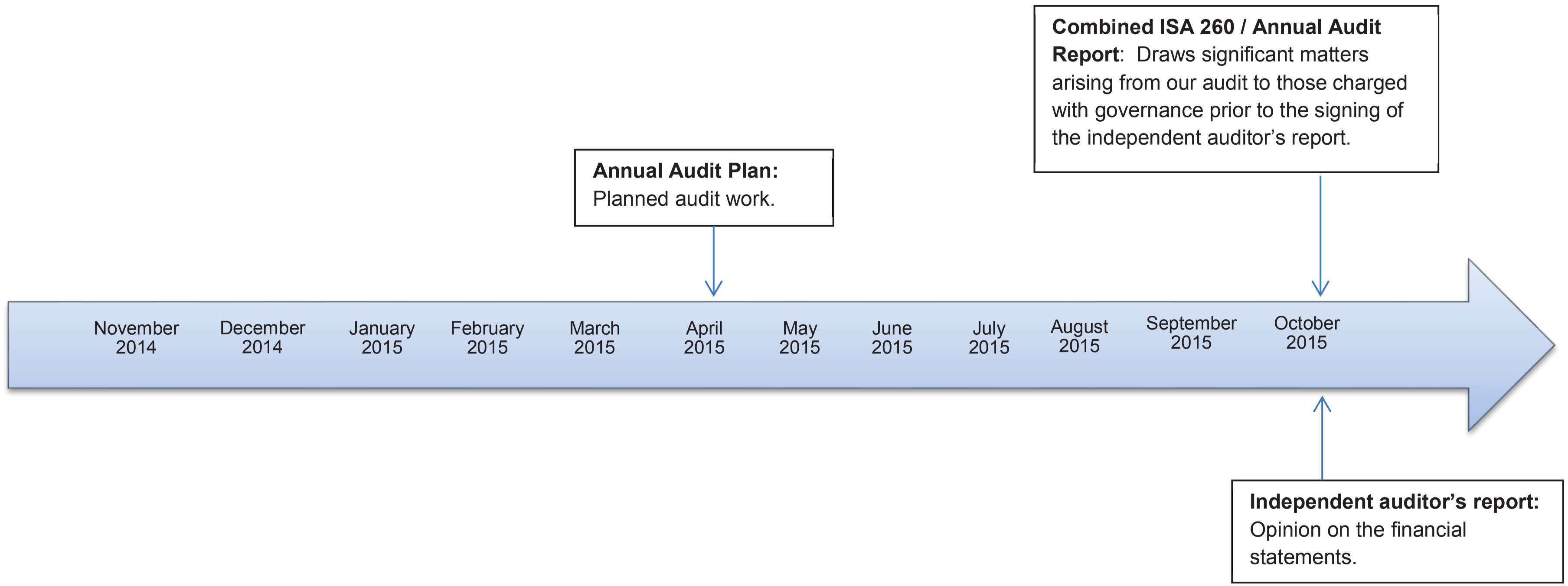
40. Anne McGregor, Senior Audit Manager, Audit Services is your appointed auditor. The local audit team will be led by Gordon McAllister, who will be responsible for day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in Exhibit 2. The core team will call on other specialist and support staff as necessary.

Exhibit 2: Audit team

Name	Experience
Anne McGregor, CA Senior Audit Manager	Anne has over 16 years experience of public sector audit after working in the private sector for 7 years. Her public sector audit experience includes central and local government and she has been involved in a number of business improvement projects within Audit Scotland.
Kenny McFall CPFA Senior Auditor	Kenny has 11 years experience of public sector audit with Audit Scotland, covering local government, central government and health sectors. Kenny is the onsite lead on the audit of Renfrewshire Council, which provides services to NSCJA.
Gordon McAllister CPFA, Auditor	Gordon joined Audit Scotland in 2009. Gordon has worked on the audits of a wide range of local and central government bodies and has previously worked on the audit of Renfrewshire Council.

Appendix I: Planned audit outputs

The diagram below shows the key outputs planned for NSCJA for financial year 2014/15.



Appendix II: Significant audit risks

The table below sets out the key audit risks, the related sources of assurance received and the audit work we propose to undertake to address the risks during our audit work.

Audit Risk	Source of assurance	Assurance procedure
Redesign of Community Justice Authorities: CJAs will cease to exist on March 2017 following a proposed shadow year when CPPs will take on the duties. *There is a risk that NSCJA may not be fully focused on achieving objectives and that staff morale may be affected.*	NSCJA continue to work to 2014-2017 Area Plan Chief Officer provides quarterly performance reports to members. NSCJA working with partner authorities on agreeing future roles/jobs of current staff. CJA Disestablishment Group and CPP Transitions group in place to ensure that knowledge transferred and to support practical arrangements. Current staff assisting CPPs to ensure sharing of knowledge and expertise.	Review the 2014/15 update on progress of objectives of area plan and provide and update in the annual report on the audit. Review financial outturn versus budget and provide update on annual report. Review updates on progress on transition to NSCJA

Audit Risk	Source of assurance	Assurance procedure
Management override of controls Management have the ability to override controls. *There is an inherent risk that management manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.*	N/A	• Detailed testing of journal entries • Review of accounting estimates • Evaluation of significant transactions that are outside the normal course of business.