Item 9

NORTH STRATHCLYDE COMMUNITY JUSTICE AUTHORITY

To: North Strathclyde Community Justice Authority

On: 10 June 2016

Report by: The Treasurer and the Chief Officer

Heading: Annual Audit Plan 2015-16

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1. Summary

1.1 The Annual Audit Plan 2015-16 for the Authority is submitted for Members' information. The Plan outlines Audit Scotland's planned activities in their audit of the 2015-16 financial year.

1.2 The Annual Audit Plan 2015-16 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's 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 2015-16 by Audit Scotland.

AUDIT SCOTLAND

North Strathclyde Community Justice Authority

Annual Audit Plan 2015/16

Prepared for North Strathclyde Community Justice Authority

19 May 2016

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Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General (www.audit-scotland.gov.uk/about/).

Anne McGregor is the appointed external auditor of North Strathclyde Community Justice Authority (NSCJA) for the period 2011/12 to 2015/16.

This report has been prepared for the use of NSCJA and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the authority.

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Summary

Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement 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 for 2015/16. 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.

3. Our planned work for 2015/16 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 as at 31 March 2016
     - the expenditure and income for the year were incurred or applied in accordance with applicable legislation 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 of the financial management arrangements and its financial sustainability.
   - a review and assessment of NSCJA's governance arrangements in a number of key areas including:
     - systems of internal control
     - prevention and detection of fraud and irregularity
     - standards of conduct and arrangements for the prevention and detection of corruption
     - financial position.

Responsibilities

4. The audit of the financial statements does not relieve the accountable officer, as the person 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 2016 and its expenditure and income for the year then ended
   - preparing an explanatory foreword.

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

Our 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 local government sector generally. This approach includes:

- understanding the business of NSCJA and the risk exposure which could impact on the financial statements
- assessing the key systems of internal control, and considering how risks 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 and addressing the risk of material misstatement in the financial statements
- determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.

10. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Planned management action being relied on for 2015/16 includes:

- comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
- clear responsibilities for preparation of financial statements and the provision of supporting working papers
- delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package
- completion of the internal audit programme for 2015/16.

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 early assessment of the internal audit function. Internal audit is provided by the internal audit section within Renfrewshire Council. 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.

12. In respect of our wider governance and performance audit work we plan to review the findings of internal audit work on performance management arrangements.

13. 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

14. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, 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.

15. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. 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 £105,000 (one per cent of gross expenditure).

17. We set a lower level, known as performance materiality, when defining our audit procedures. This is to ensure that uncorrected and undetected audit differences do not exceed our planning materiality. 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.

18. For 2015/16 performance materiality has been set at £79,000. We will report, to those charged with governance, all misstatements identified which are greater than £1,000.

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
Consideration of unaudited financial statements by those charged with governance	10 June 2016
Latest submission date of unaudited financial statements with complete working papers package	30 June 2016

Key stage	Date
Progress meetings with lead officers on emerging issues	As and when required during the audit process
Latest date for final clearance meeting	10 October
Agreement of audited unsigned financial statements, and issue of proposed Annual Audit Report which includes the ISA 260 report to those charged with governance	14 October
Independent Auditor's Report signed	21 October 2016
Issue of final Annual Report on the Audit	31 October 2016

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 officer to confirm factual accuracy. A copy of all final agreed reports will be sent to the Chief Officer, Treasurer, Internal Audit and Audit Scotland's Performance Audit and Best Value Group.

21. We will provide an independent auditor's report to NSCJA and the Auditor General for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements.

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

23. Planned outputs for 2015/16 are summarised at Appendix 1.

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. This is to provide reasonable assurance that those 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 Accounts Commission. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews and has been subject to a programme of external reviews by the Institute of Chartered Accountants of Scotland (ICAS).

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 the Accounts Commission 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

Audit issues and risks

28. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for NSCJA. We have categorised these risks into financial risks and wider dimension risks. The financial statements issues and risks, which require specific audit testing, are summarised below and detail contained in Appendix 2.

Wider dimension issues and risks

29. **Community justice re-design -** The Community Justice Scotland Bill was introduced to Parliament in May 2015 to take forward the legislative change needed to establish the new community justice model in Scotland; the bill was passed in February 2016. A new national body, Community Justice Scotland is being created, community planning partnerships (CPPS) are central to the new arrangements and the existing community justice authorities will be disestablished.

30. 2016/17 is a transition year and the plan is for community justice partners to assume their full responsibilities from 1st April 2017.

31. Current staff are assisting CPPs and Scottish Government to ensure sharing of knowledge and expertise. During a period of change and uncertainty there is a risk that NSCJA may not be fully focused on achieving its objectives.

Financial statement issues and risks

32. **Management override of controls** – Internal Standards on Auditing 240, *The Auditor's responsibilities relating to fraud in an audit of financial statements* states that audit procedures should be responsive to risks related to management override of controls. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus an audit risk. We have not identified any audit issues on this in the past but each year have to address the risk. We will design and perform audit procedures to address these risks at NSCJA.

Fees and resources

Audit fee

33. Over the past four years, Audit Scotland has reduced audit fees by 24 per cent in real terms, exceeding our 20 per cent target. Due to further refinement of our audit approach we have been able to maintain audit fees for 2015/16 at the same level as last year. This represents an additional real term fee reduction of 1.6 per cent.

34. In determining the audit fee we have taken account of the risk exposure of NSCJA, the planned 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 20 June 2016.

35. The agreed audit fee for the 2015/16 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
- 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.

36. 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

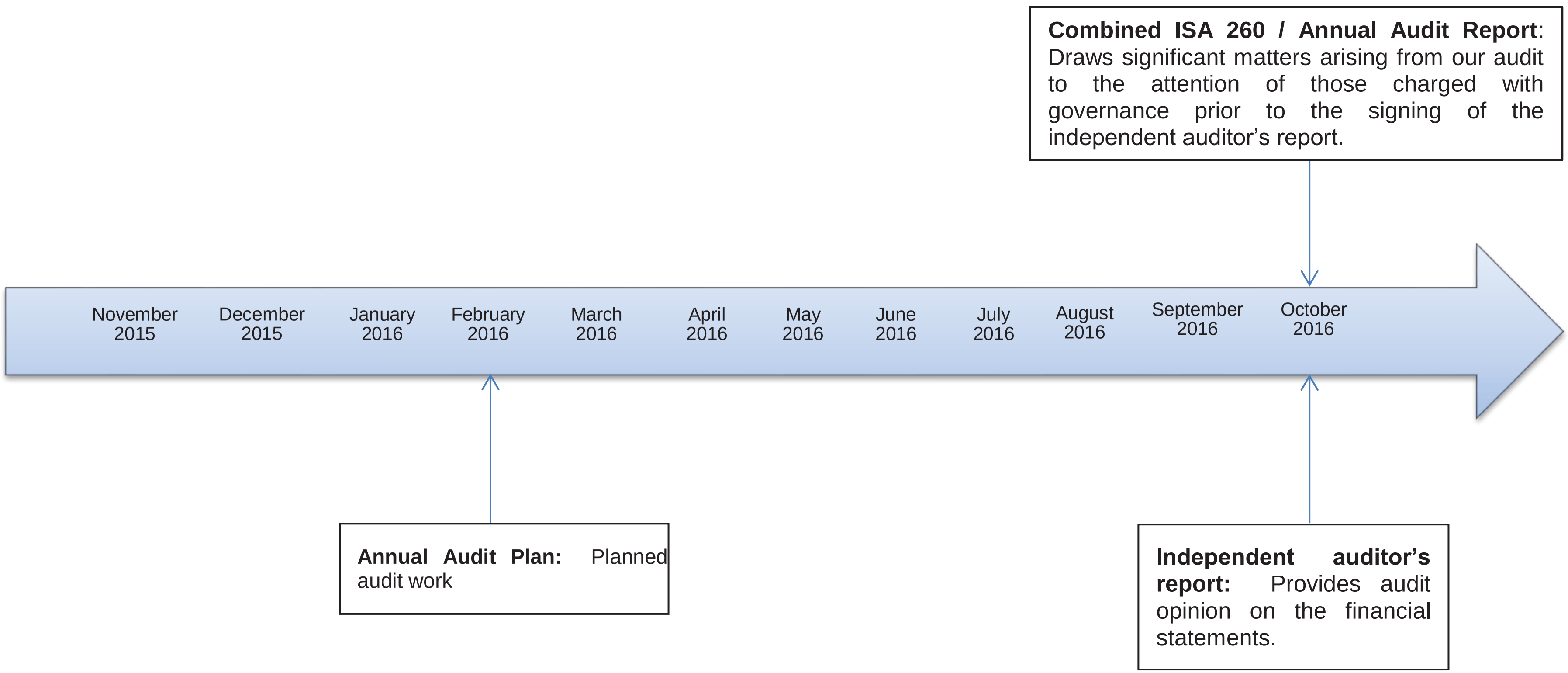
37. Anne McGregor, Senior Audit Manager is your appointed auditor. The local audit team will be led by Andrew Kerr who will be responsible for day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in Exhibit 2. The core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

Exhibit 2: Audit team

Name	Experience
Anne McGregor Senior Audit Manager	Anne has over 16 years experience of public sector audit after working in the private sector for eight 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
Kenneth McFall Senior Auditor	Kenny has 14 years experience of public sector audit with Audit Scotland, covering local government, central government and health sectors. Kenny leads on the audit of Renfrewshire Council and provides a link to the audit work on Renfrewshire Council financial systems.
Andrew Kerr Professional Trainee	Andrew joined Audit Scotland in 2013 as a professional trainee auditor and is working towards the ICAS professional qualification. Andrew is involved in the audit of a number of local government and central government bodies.

Appendix 1: Planned audit outputs

The diagram below shows the key outputs planned for NSCJA for 2015/16.



Appendix 2: 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	Audit assurance procedure
Wider dimension issues and risks			
1	**Community justice re-design** CJAs will cease to exist on March 2017 following a transition year when CPPs will take on duties. Current staff are assisting CPPs and Scottish Government to ensure sharing of knowledge and expertise. There is a risk that NSCJA may not be fully focused on achieving its objectives.	• NSCJA working to 2015-16 action plan. • Chief Officer provides quarterly performance reports to members, which includes updates on supporting transition. • CJA Disestablishment Group and CPP Transitions group in place to ensure that knowledge transferred and to support practical arrangements. • NSCJA working with partner authorities on agreeing future roles/jobs of current staff. • Chief Officer chairs the CJA finance officers group which is planning for final year of CJAs. • Office lease extended to 31/3/17.	• Review the 2015/16 update on progress of objectives of area plan and comment on progress in annual report on the audit. • Review financial outturn versus budget and investigate significant or unusual differences. • Review updates on progress on transition to NSCJA and consider level of preparedness for comment in annual report on the audit. • Enquire and investigate about dilapidation costs on lease.

#	Audit Risk	Source of assurance	Audit assurance procedure
Financial statement issues and risks			
2	**Management override of controls** As stated in ISA 240, 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.	• N/A	• Detailed testing of journal entries. • Review of accounting estimates for bias. • Testing and evaluating significant transactions that are outside the normal course of business.

Appendix 3 – Progress on 2014/15 Audit Report Actions

Action plan

No./ para	Issue/risk/Recommendation	Management action/response	Progress to date
1.	**Inquorate meetings** Meetings scheduled for December 2014 and September 2015 were inquorate. *Risk* 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 judgements and decisions are delayed. *Recommendation* Chief Officer and convener will remind all members of the importance of attending all meetings.	During the transition phase the Chief Officer and Convener will remind all members of the importance of attending all meetings.	In September 2015 the Convener wrote to members asking that they attend all meetings and the December 2015 meeting was quorate.