

# Tayside Contracts Joint Committee

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for Tayside Contracts Joint Committee

February 2019

## 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 and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements 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 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 Tayside Contracts 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 main risk areas for Tayside Contracts. 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 2018/19 Key audit risks

|  Audit Risk   | Source of management assurance   | Planned audit work  |
|--|--|---|
| <b>Financial statements issues and risks</b>   |  |   |
| <p><b>1 Risk of management override of controls</b></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.</p> | <p>In view of the nature of this risk, assurances from management are not appropriate.</p>                                       | <ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul> |
| <p><b>2 Risk of fraud over income</b></p> <p>Tayside Contracts receives a significant amount of income from different income streams. The extent and complexity of income means that,</p>  | <p>Tayside Contracts has internal controls in financial systems and segregation of duties which mitigate the risks of fraud.</p> | <ul style="list-style-type: none"> <li>• Analytical procedures on income streams.</li> <li>• Detailed testing of revenue transactions focusing on the areas of greatest risk.</li> </ul>  |

|  <b>Audit Risk</b>   | <b>Source of management assurance</b>  | <b>Planned audit work</b>   |
|---|--|---|
| <p>in accordance with ISA240, there is an inherent risk of fraud.</p>   | <p>There is effective scrutiny over monthly reporting by operational and senior management and quarterly by the Joint Committee.</p>   |   |
| <p><b>3 Risk of fraud over expenditure</b></p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur 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 Tayside Contracts due to the variety and extent of expenditure incurred.</p>   | <p>Tayside Contracts has internal controls in financial systems and segregation of duties which mitigate the risks of fraud.</p> <p>There is effective scrutiny over monthly reporting by operational and senior management and quarterly by the Joint Committee.</p> <p>Tayside Contracts participates in the National Fraud Initiative which checks on staffing and supplier payments.</p> | <ul style="list-style-type: none"> <li>Analytical procedures on expenditure streams.</li> <li>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</li> </ul>   |
| <p><b>4 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of pensions and provisions.</p> <p>Tayside Contracts net liability relating to the Tayside Pension Fund at 31 March 2018 was £19.116 million. This value is an estimate based on a number of assumptions from the pension fund actuary.</p> <p>At 31 March 2018, Tayside Contracts held provisions of £1.714 million. The provisions are based on judgments from management and legal advisers.</p> <p>This subjectivity represents an increased risk of material misstatement in the financial statements.</p> | <p>For pensions we utilise the figures derived from professional actuaries in our financial statements.</p> <p>For legal provisions we utilise information provided from the legal advisors and insurance brokers.</p> <p>For other provisions we ensure we have the appropriate basis for the calculation of the provision and that there is consistency in treatment.</p>                  | <ul style="list-style-type: none"> <li>Review of the work of the pension actuary and the assumptions made in calculating the estimated pension liability.</li> <li>Review of Tayside Contracts' arrangements for assessing the impact of any movement in fund values between the IAS19 valuation date and the year end.</li> <li>Additional assurances from legal and HR officers in relation to provisions.</li> <li>For any other areas of estimation and judgement we will carry out focussed substantive testing of provisions and accruals.</li> </ul> |
| <p><b>5 Finance capacity</b></p> <p>During 2018/19 there have been changes to the finance function with some key, experienced staff leaving the organisation.</p> <p>There is a risk that the timeliness and/or quality of the annual accounts is compromised.</p>  | <p>As of 1 February we have managed to fill all 6 vacant posts which arose from a Finance department of 15 staff since mid-November (2 of which promoted existing staff) and a member of staff returned from long term sick, therefore by year end we will have</p>  | <ul style="list-style-type: none"> <li>Discussions with management over the roles and responsibilities of those involved in the preparation of the annual report and accounts and subsequent audit.</li> <li>Review of the quality of 2018/19 annual accounts</li> </ul>  |

|  | Audit Risk | Source of management assurance   | Planned audit work                             |
|---|------------|--|--|
|   |            | <p>enough staff to carry out the processes.</p> <p>To mitigate the loss of experience (2 retired with 29 and 30 years experience respectively) and an accountant left who completed the financial statements comprehensive handovers were given to remaining staff and their procedure notes were updated. In addition the 2 internal promotions have ensured no further loss of experience.</p> | <p>and working papers presented for audit.</p> |

### Wider dimension issues and risks

#### 6 Financial planning

Tayside Contracts does not currently have medium to long term financial plans.

There is a risk that Tayside Contracts cannot respond to future budget changes and other cost pressures.

As our budget is built up annually from the income that we are expected to receive from the Councils and other work and then we have to staff that requirement accordingly; each year we respond to that budget build in order to meet the required rate of return to the Councils.

If Councils provide us with longer term information then we will build meaningful longer term plans.

- Monitor progress of implementation and review plans.

Source: Audit Scotland

## Reporting arrangements

5. 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](http://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 management reports will be issued to the relevant officer(s) to confirm factual accuracy.

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

## Exhibit 2

## 2018/19 Audit outputs

| Audit Output                        | Target date | Committee Date |
|-------------------------------------|-------------|----------------|
| Annual Audit Plan                   | 22 February | 18 March       |
| Annual Audit Report                 | 12 August   | 26 August      |
| Signed Independent Auditor's Report | 26 August   | 26 August      |

Source: Audit Scotland

## Audit fee

**8.** The agreed audit fee for the 2018/19 audit of Tayside Contracts is £38,400 (2017/18 fee: £37,870). In determining the audit fee we have taken account of the risk exposure of Tayside Contracts, 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 annual report, with a complete working papers package by 30 June.

**9.** Where our audit cannot proceed as planned through, for example, late receipt of the 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 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.

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

### Appointed auditor

**12.** Our responsibilities as independent auditors are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

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

## 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 Joint Committee 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 Joint Committee 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.

**15.** We will give an opinion on the financial statements as to:

- whether they give a true and fair view in accordance with applicable law and the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom of the financial position of the Joint Committee as at 31 March 2019 and its income and expenditure for the year then ended
- whether they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 Code
- whether they have been 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 other information published within the annual report including the management commentary, annual governance statement and the annual remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**17.** We also read and consider any information in the annual report other than the financial statements and audited part of the annual remuneration report and report any uncorrected material misstatements.

## Materiality

**18.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any



characteristics



responsibilities



principal activities



risks



governance arrangements



uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

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

### Exhibit 3 Materiality values



| Materiality   | Amount         |
|---|----------------|
| <b>Planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1.5% of gross expenditure for the year ended 31 March 2018 based on the latest audited accounts for 2017/18.  | £1.177 million |
| <b>Performance materiality</b> – 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. | £0.706 million |
| <b>Reporting threshold</b> – 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 3% of planning materiality, rounded to £35,000.   | £35,000        |

Source: Tayside Contracts Joint Committee Audited Annual Report 2017/18

### Timetable

20. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

### Exhibit 4 Annual report timetable

|  Key stage |  Date |
|---|--|
| Consideration of unaudited annual report by those charged with governance                     | 24 June  |
| Latest submission date of unaudited annual report with complete working papers package        | 30 June  |
| Latest date for final clearance meeting with Head of Financial Services                       | 12 July  |
| Agreement of audited unsigned annual report   | 19 July  |
| Issue of Letter of Representation and proposed independent auditor's report                   | 26 July  |
| Issue of Annual Audit Report to those charged with governance                                 | 12 August  |
| Independent auditor's report signed   | 26 August  |

## Internal audit

**21.** Internal audit is provided by Wylie & Bisset. 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 Public Sector Internal Audit Standards (PSIAS). We concluded that overall the service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation and reporting procedures in place.

### Using the work of internal audit

**22.** 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 to avoid duplication.

**23.** In respect of our wider dimension audit responsibilities, we plan to consider the following area of internal audit work:

- Business continuity

## National fraud initiative

**24.** Tayside Contracts engages with the National Fraud Initiative (NFI) exercise by submitting the required data sets, investigating matches and updating the NFI website. Our audit approach will include a review of Tayside Contracts participation in the 2018/19 NFI exercise. We will report our findings in the 2018/19 Annual Audit Report.

## Audit dimensions

**25.** Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are financial sustainability, financial management, governance and accountability and value for money.

**26.** The Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. In the light of the low volume and lack of complexity of the financial transactions, we plan to apply the small body provisions of the Code to the 2018/19 audit of Tayside Contracts.

## Financial sustainability

**27.** As auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term, including the potential impact of the EU withdrawal
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether Tayside Contracts can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

## Financial management

**28.** 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:

- whether Tayside Contracts has arrangements in place to ensure systems of internal control are operating effectively
- whether Tayside Contracts can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely financial performance
- how Tayside Contracts has assured itself that its financial capacity and skills are appropriate
- whether Tayside Contracts has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

### Governance and transparency

**29.** 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 Tayside Contracts can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency in the decision-making and in finance and performance reports
- the quality and timeliness of financial and performance reporting.

### Value for money

**30.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether Tayside Contracts can provide evidence that it is demonstrating value for money in the use of its resources.

### Independence and objectivity

**31.** 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.

**32.** The engagement lead for Tayside Contracts is Carol Hislop, 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

**33.** 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.

**34.** 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) has been commissioned to carry out external quality reviews.

**35.** 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

## Annual Audit Plan 2018/19

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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