

Tayside Contracts Joint Committee

Annual Audit Plan



 AUDIT SCOTLAND

Prepared for Tayside Contracts Joint Committee
March 2024

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Introduction

Summary of planned audit work

1. I, Stephen O'Hagan, have been appointed by the Accounts Commission as external auditor of Tayside Contracts for the period from 2023/24 until 2026/27. A brief biography of the audit team is provided at [Appendix 1](#).

2. This document summarises the work plan for my 2023/24 audit. The main elements of the audit include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on other statutory information published with the financial statements in the annual accounts, including the Management Commentary, the Annual Governance Statement, and the Remuneration Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements
- provision of an Independent Auditor's Report expressing my opinions on the different elements of the annual accounts and an Annual Audit Report setting out conclusions on the wide scope areas.

Respective responsibilities of the auditor and Tayside Contracts

3. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and Tayside Contracts. Key responsibilities are summarised below.

Auditor responsibilities

4. My responsibilities as appointed auditor are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

5. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the wider scope arrangements in place at Tayside Contracts. In doing this, we aim to support improvement and accountability.

Tayside Contracts' responsibilities

6. Tayside Contracts is responsible for maintaining adequate accounting records and internal controls and preparing financial statements for audit that give a true and fair view. It is also required to produce other reports in the annual accounts in accordance with statutory requirements.

7. Tayside Contracts has 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 deliver their objectives.

Adding Value

8. We aim to add value by: tailoring audit work to the circumstances of Tayside Contracts and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Joint Committee; and by recommending and encouraging good practice. In so doing, we will help the Tayside Contracts promote improved standards of governance, better management and decision making, and more effective use of resources.

Communication of fraud or suspected fraud

9. In line with ISA 240, in presenting this plan to the Joint Committee we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. Should members of the Joint Committee have any such knowledge or concerns relating to the risk of fraud within the Fund, we invite them to communicate this to the appointed auditor for consideration.

Annual accounts

Introduction

10. The annual accounts are an essential part of demonstrating Tayside Contracts' stewardship of resources and its performance in the use of those resources.

11. As appointed auditor, I am required to perform an audit of the financial statements, consider other information within the annual accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

12. We focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. I am required to plan my audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit

14. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for Tayside Contracts are set out below.

Exhibit 1 2023/24 Materiality levels for Tayside Contracts

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the Tayside Contracts' operations. For the year ended 31 March 2024, we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2022/23.	£1.90 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality,	£1.14 million

this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 60% of planning materiality.

Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£95 thousand
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Source: Audit Scotland

Risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of Tayside Contracts, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees, and a review of supporting information.

16. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.

17. Based on our risk assessment process, we identified the following significant and non-significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2

Significant and non-significant risks of material misstatement to the 2023/24 financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
Significant risks of material misstatement		
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud</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"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>because of management's ability to override controls that otherwise appear to be operating effectively.</p>		<ul style="list-style-type: none"> • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments throughout the year. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.
<p>2. Risk of material misstatement caused by fraud in expenditure.</p> <p>Practice Note 10 expands the consideration of fraud under ISA 240 to include the risk of fraud over expenditure. There is a risk that expenditure may be materially misstated in the 2023/24 financial statements due to the following significant non-pay expenditure streams:</p> <ul style="list-style-type: none"> • Construction division (£27 million in 2022/23) 	<ul style="list-style-type: none"> • Appropriate processes for the authorisation, separation of duties and workflow associated with expenditure. • Member scrutiny through regular cycle of committee reporting. 	<ul style="list-style-type: none"> • Detailed testing of expenditure transactions focusing on the areas of greatest risk. • Review of budget monitoring reports focusing on significant variances • Review of Tayside Contracts' participation in the National Fraud Initiative • Review and testing of the design and operation of controls in relation to non-pay expenditure.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<ul style="list-style-type: none"> Facilities division (£7.4 million in 2022/23) 		
Other non-significant risks of material misstatement		
<p>3. Estimation in the valuation of the pension assets and liabilities.</p> <p>Tayside Contracts recognised a net liability of £1.866 million relating to its share of Tayside Pension Fund as at 31 March 2023.</p> <p>There is a large degree of subjectivity in the measurement and valuation of the pension fund liability.</p> <p>Assets are based on an individual employer body's share of assets at the last triennial valuation. Roll forward adjustments are provided to members data and to asset valuations. The last valuation was as at 31 March 2023.</p> <p>The valuation is based on specialist assumptions and estimates and changes can result in material changes to the valuation.</p>	<ul style="list-style-type: none"> Use of professional actuaries appointed by the Pension Fund to value pension adjustments required by IAS19. Actuarial valuations are reviewed by qualified finance staff for reasonableness including confirmation of the accuracy of the source data used to produce them. 	<ul style="list-style-type: none"> Assess the competence, capabilities, and objectivity of the actuary in line with ISA 500. Review the appropriateness of assumptions used by the actuary to reach the valuation of future retirement benefits including comparison with other bodies and the pension fund as a whole. Establish officers' arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by Tayside Contracts.
<p>4. Significant Trading Operations</p> <p>Tayside Contracts has a duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of its</p>	<ul style="list-style-type: none"> Ongoing management reporting of the financial position. Disclosure of the financial performance against the 	<ul style="list-style-type: none"> Assess and test a sample of income and expenditure. Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>significant trading operations so that income is not less than expenditure over each three-year period.</p> <p>IAS19 pension costs can have a significant impact on this financial objective.</p>	<p>objective in the financial statements.</p> <ul style="list-style-type: none"> • Prior year audited financial statements. 	<ul style="list-style-type: none"> • Focussed testing of accounting accruals and prepayments. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Review the appropriateness of assumptions used by the actuary to reach the valuation of future retirement benefits including comparison with other bodies and the pension fund as a whole. • Confirm prior year results agree to audited financial statements. • Assess the disclosure and presentation of the financial performance.

Source: Audit Scotland

18. As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

19. We have rebutted this risk, with the exception of management override of controls, on the basis that:

- There are generally no incentives for staff to commit fraudulent financial reporting
- a significant proportion of Tayside Contracts' income comes from constituent authorities
- the remaining income streams comprise of a high volume of low value transactions and we have concluded there is limited opportunity or incentive for staff to manipulate the recognition of income in the financial statements.

20. We have not, therefore, incorporated specific work into our audit plan in this area over and above our standard audit procedures.

Wider Scope and Best Value

Introduction

21. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

22. In summary, the four wider scope areas are:

- **Financial management** – this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability** – we will look ahead to consider whether the body is planning effectively to continue to deliver services, also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by the Tayside Contracts. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes/Best Value** – Auditors have a duty to be satisfied that bodies that fall within section 106 of the Local Government (Scotland) Act 1973 have made proper arrangements to secure Best Value. We will consider how Tayside Contracts demonstrates that it is meeting its Best Value responsibilities and we will report our findings as part of our Annual Audit Report.

Wider scope risks

23. Our planned work on the wider scope areas is risk based and proportionate. We have not identified any significant wider scope risks for the audit. We may be asked by the Accounts Commission to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

24. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

25. We will provide:

- an Independent Auditor's Report to Tayside Contracts and the Accounts Commission setting out our opinions on the annual accounts
- Tayside Contracts and the Accounts Commission with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

26. [Exhibit 5](#) outlines the target dates for our audit outputs set by the Accounts Commission. In determining the target reporting date, due regard is paid to the dates for approving the annual accounts set out in regulations of 30 September 2024.

27. We will be unable to achieve the target date outlined above. This is due to prioritising the delivery of high-quality audits over meeting target dates as required by the Accounts Commission, and consistent with messaging from the Financial Reporting Council which has made clear that audit quality takes precedence. We are working towards completion of the audit by the later date of 31 October 2024. We will work towards delivering the audit and audit outputs by target dates over the period of the audit appointment.

Exhibit 5 2023/24 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	26 February 2024	11 March 2024
Independent Auditor's Report	31 October 2024	18 November 2024
Annual Audit Report	31 October 2024	18 November 2024

Source: Audit Scotland

28. All Annual Audit Plans and the outputs detailed in [Exhibit 5](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.



Timetable

29. To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 6](#) that has been discussed with management.

30. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 6

Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	17 June 2024
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2024
Latest date for final clearance meeting with the Service Leader - Finance & Governance	To be arranged
Issue of draft Letter of Representation and proposed Independent Auditor's Report	To be arranged
Agreement of audited and unsigned annual report and accounts	To be arranged
Issue of Annual Audit Report to those charged with governance.	To be arranged
Signed Independent Auditor's Report	18 November 2024

Source: Audit Scotland

Audit fee

31. In determining the audit fee, we have taken account of the risk exposure of the Tayside Contracts and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The agreed audit fee for 2023/24 is £49,100 (2022/23: £46,320). In setting the fee for 2023/24, we have assumed that Tayside Contracts has effective

governance arrangements and will prepare a comprehensive and accurate set of annual accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

32. It is the responsibility of Tayside Contracts to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

33. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

34. I am independent of Tayside Contracts in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

35. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

36. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of Tayside Contracts.

Audit Quality

37. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

38. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

39. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

40. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

41. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Appendix 1: Your audit team

The audit team involved in the audit of Tayside Contracts have significant experience in public sector audit.



Stephen O'Hagan
Senior Audit Manager
sohagan@audit-scotland.gov.uk

Stephen has over 27 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.



Ross Reid
Senior Auditor
rreid@audit-scotland.gov.uk

Ross is a member of the Institute of Chartered Accountants of Scotland and is experienced in planning and delivering audits. He will manage the team and work alongside the Senior Audit Manager to deliver the audit.

42. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

Tayside Contracts Joint Committee

Annual Audit Plan 2023/24

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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