KPMG
cutting through complexity

Tayside Community Justice Authority

Audit strategy review and plan

Year ending 31 March 2015

30 March 2015

Contents

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the *Code*").

This report is for the benefit of the Tayside Community Justice Authority ("the Authority") and is made available to Audit Scotland and the Accounts Commission (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introduction and responsibilities section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Andrew Shaw who is the engagement leader for our services to the Tayside Community Justice Authority, telephone 0131 527 6673 email: Andrew.shaw@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6720 or email to alex.sanderson@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 110 George Street, Edinburgh, EH2 4LH.

Introduction and responsibilities

Our audit work is undertaken in accordance with the Code of Audit Practice and guidance issued by Audit Scotland. The Code specifies a number of objectives for our audit.

The Accounts Commission has appointed KPMG LLP as auditor of Tayside Community Justice Authority ("the Authority") under the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2011-12 to 2015-16, inclusive.

> KPMG's planned audit work in 2014-15 will include:
>
> - 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 the Authority;
>   - the accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15; and
>   - the accounts have been prepared in accordance with the requirements of the Management of Offenders etc (Scotland) Act 2005 and regulations made thereunder by the Scottish Ministers.
> - our opinions or reporting in respect of matters required by the Public Finance and Accountability (Scotland) Act 2000.

Auditors and audited bodies' responsibilities are set out in Audit Scotland's Code of Audit Practice ("the Code"). This Code states the responsibilities in relation to:

- the financial statements;
- corporate governance and systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- arrangements for preparing and publishing statutory performance information;
- financial position; and
- Best Value, uses of resources and performance.

The responsibilities of the auditor and management are summarised below; appendix two sets out the detailed responsibilities.

Responsibilities of the appointed auditor

We carry out our audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the wider responsibilities embodied in the Code.

We have set out opposite the key elements of our audit work for 2014-15 on the financial statements and corporate governance arrangements. While auditors are not responsible for preventing or detecting fraud or irregularity and do not substitute for audited bodies own responsibilities, we will review and report on these arrangements. We will review and report whether the Authority has adequate arrangements in place to maintain and promote proper standards of financial conduct and to prevent and detect bribery and corruption. We will also report on whether management has established adequate arrangements to manage performance, regularity, use of resources and performance information.

Responsibilities of the accountable officer

The audit of the financial statements does not relieve management or the Authority of their responsibilities. The Authority is responsible for financial statements which show a true and fair view of the Authority's affairs, and for making available to us all the information and explanations we require for the purposes of our audit.

The Authority is responsible for establishing arrangements for ensuring the proper conduct of its affairs and developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. These systems should include arrangements to prevent and detect fraud and other irregularity. Management is responsible for implementing proper arrangements to ensure that their financial position is soundly based.

Financial statements audit focus areas

International Standard on Auditing (UK and Ireland) 315 requires us to determine whether any of the risks identified through our risk assessment processes are significant.

We have identified one significant risk in our initial risk assessment for 2014-15.

In addition to significant risks, we consider audit focus areas, including the fraud risk from income recognition.

Our risk assessment procedures are ongoing and we provide updates on any emerging risks as they become apparent.

Audit approach

Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of the Authority. We also consider the key audit risks and challenges in the sector generally.

Significant risks

International Standard on Auditing (UK and Ireland) 315: *Identifying and assessing risks of material misstatement through understanding the entity and its environment* requires the auditor to determine whether any of the risks identified as part of risk assessment are significant risks and therefore requiring specific audit consideration. In determining whether a risk is significant, judgement is applied in respect of the whether, for example, the risk is associated with the complexity of transactions, the degree of subjectivity involved in the measurement of financial information, whether the associated transactions are outside the normal course of business, or whether there is an associated risk of fraud.

We include one significant risk below which is pervasive across the financial statements.

We have used our experience gained during previous years' audits to refine our understanding of the risks in the financial statements for the purposes of identifying other audit focus areas. We have identified one such risk below in relation to income recognition.

For those balances not linked to a significant risk or other focus area, we will perform analytical reviews and specific item testing over material balances to consider material errors or disclosure errors.

Significant risk and implications	Our planned audit approach
Pervasive risk: fraud risk from management override of controls Professional standards require us to communicate the fraud risk from management override of controls as significant. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	We have not identified any specific additional risks of management override relating to this audit. Our audit methodology incorporates the risk of management override as a significant risk. This includes testing of journals at the year end and throughout the year, review of unusual transactions in the year, tests of unpredictability and controls testing, including higher level controls.

Other audit focus area	Our planned audit approach
Fraud risk from income recognition Professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk.	Professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk. However, as the Authority's income is primarily received from the Scottish Government, we do not regard the risk of fraud from this revenue recognition to be significant. We anticipate agreeing Scottish Government income to relevant third party documentation, and will obtain audited returns in respect of expenditure incurred by Authority partners.

Presentation of financial statements

The Authority is required to prepare financial statements in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014-15* (“the Code”).

While there are some changes in the content of the Code for 2014-15, the financial statements and underlying accounting policies are expected to remain substantially consistent with the previous year.

KPMG remains committed to working with management to enhance the clarity and impact of the financial statements, including the implications of the revisions to the Code.

Code of practice on Local Authority Accounting in the United Kingdom 2014-15 (“the Code”)	The 2014-15 financial statements will be prepared in accordance with the *Code of practice on local authority accounting in the United Kingdom 2014-15 (*“the Code”*)* which is based on International Financial Reporting Standards (“IFRS”). The 2014-15 Code has a number of amendments from the 2013-14 version and management should consider if these changes will impact the financial statements. The amendments include: ■ adoption of the new group accounting standards IFRS 10, IFRS 11, IFRS 12 and IAS 28; ■ amendments in respect of the restated opening balance sheet; and ■ changes to the requirements for accounting for combinations of bodies and transfer of functions. Audit Scotland has also provided enhanced guidance in respect of a number of technical topics, which will be considered during the audit.

Mandatory communications: audit materiality

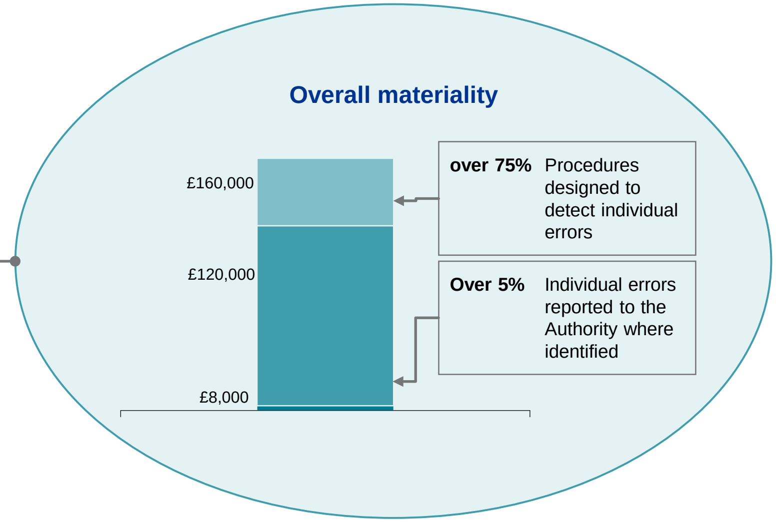
Our audit work is planned to detect errors that are material to the financial statements as a whole.

Our materiality is based on total expenditure and takes into account the low risk nature of the Authority.

We are required by Auditing Standards to report to the Authority unadjusted audit differences other than non-material, trivial, items.

Total expenditure

Source: 2013-14 financial statements



Determining materiality

We consider quantitative and qualitative factors in setting materiality and in designing our audit procedures.

We have reassessed our level of materiality this year based on our knowledge and understanding of the the Authority's risk profile and, therefore, financial statements. Materiality has been set at £160,000 which is approximately 2% of total expenditure in 2013-14. This will be revised once draft financial statements for 2014-15 are received.

We design our procedures to detect errors at a lower level of precision, i.e. £120,000.

We will report identified errors greater than £8,000 to the Authority.

Reporting to the Authority

To comply with Auditing Standards, the following three types of audit differences will be reported to the Authority:

- material adjusted audit differences;
- unadjusted audit differences; and
- disclosure differences (adjusted and unadjusted).

KPMG team, fee arrangements and reporting

The team benefits from continuity at senior level, building on our engagement leaders' involvement in the audit of the Authority.

Team member
Andy Shaw; *Director* Andy has overall authority and responsibility for the audit engagement, including reporting on the financial statements, and will review key conclusions reached by the engagement team on all accounting and auditing matters.
Michael Wilkie; *Senior Manager* Michael serves as the day-to-day audit liaison between management and KPMG and a first point of contact. He also provides technical accounting, regulatory and other advice in the first instance.

Fee proposals

Audit Scotland requires that the fee for our work is set within an indicative range, depending on the assessment of risk and other factors facing the Authority. The indicative fee range is calculated using a number of inputs:

- a central estimate of the number of days need to do the audit;
- the average remuneration rate for the audit team;
- the contribution to travel and expenses within the sector;
- the contribution towards performance audits, where relevant; and
- the contribution towards other central costs not met by the Scottish Consolidated Fund.

The indicative fee ranges are based on the following assumptions to ensure an efficient audit process:

- draft report, financial statements and full electronic files of supporting work papers available at the start date of our audit agreed with officers preferably in electronic format;
- reliance on your internal controls;
- availability of key members of staff during the audit fieldwork; and
- completion within the agreed timetable

Audit Scotland has notified us, and the Authority, that the fee range for 2014-15 is £3,500 to £5,250 with a mid-point of £4,375. This represents a 1% increase on the 2013-14 fee level. We have proposed a fee of £4,375.

Should we be required to undertake significant additional audit work in respect of any of the areas of audit focus or other matters arising, we will discuss with management the impact of this on our proposed fee.

Audit timeline:

- March 2015, planning and risk assessment
- By 16 June 2015, audit strategy document to the members of the Authority
- October 2015, substantive audit procedures carried out
- 31 October 2015, completion and sign audit opinion, plus issuance of annual audit report

Mandatory communications

Mandatory communications with those charged with governance as required by International Auditing Standards are set out opposite.

These cover:

- **fraud;**
- **related party transactions; and**
- **independence.**

Area	Management responsibility/ action	KPMG response
Fraud risks	■ It is the responsibility of management to implement accounting and internal control systems which are designed to prevent and detect fraud and error. Such systems reduce but do not eliminate the risk of misstatements caused by fraud or error. ■ Those charged with governance must ensure, through oversight of management, the integrity of these systems and that appropriate controls are in place, including those for monitoring risk, financial control and compliance with laws. This is in the context of preparing financial statements that give a true and fair view and that do not contain material misstatements arising from fraudulent reporting (intentional misstatements/ omissions to deceive the financial statement user) or from the misappropriation of assets.	■ Our audit procedures are designed to have a reasonable chance of detecting misstatements as a result of fraud or error. The audit team will review and discuss fraud related risks and controls with internal audit, the chief financial officer and senior management. ■ Our risk assessment procedures will include a number of interviews with senior personnel concerning processes to identify and respond to risks of fraud.
Related party transactions	■ Management has processes in place to identify related party transactions and a number were disclosed in the 2013-14 financial statements. All material related party transactions must be disclosed in the financial statements.	■ We will ensure that there continues to be appropriate processes in place as part of the financial statements preparation process to identify any related party transactions.
Independence	■ Auditing Standards require us to consider our independence and related matters in our dealings with the Authority.	■ We have provided our formal independence communication in appendix one. In respect of non-audit services provided to the Authority we have completed internal conflict checks to confirm that the services may be provided with no threat to our audit independence.

Appendices

Independence

Auditing Standards require us to communicate to the members of the Authority in writing at least annually on any matters which may reasonably be thought to bear on our independence and set out the safeguards in place in relation to these matters and confirm that we are independent.

Professional ethical standards require us to communicate to you as part of planning all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Audit Director and the audit team. This letter is intended to comply with this requirement although we will communicate any significant judgements made about threats to objectivity and independence and the appropriateness of safeguards put in place.

We are satisfied that our general procedures support our independence and objectivity, except for those detailed below where additional safeguards are in place.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

Confirmation of audit independence

We confirm that as of 11 March 2015 in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This letter is intended solely for the information of the members of the Authority and should not be used for any other purposes.

Yours faithfully

KPMG LLP

Audit Scotland code of audit practice – responsibilities of auditors and management

Responsibilities of auditors	Responsibilities of management
Financial statements	
Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on: ■ whether they give a true and fair view of the financial position of audited bodies and their expenditure and income; and ■ whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements. Auditors should review and report on, as appropriate, other information published with the financial statements, including the management commentary, annual governance statement, statement on internal control or statement on internal financial control and the remuneration report. Where required, auditors should also review and report on the Whole of Government Accounts return.	Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources. Audited bodies are responsible for: ■ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; ■ maintaining proper accounting records; ■ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (eg, the Financial Reporting Manual or an Accounting Code of Practice); ■ preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report; and ■ preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.
Corporate governance arrangements	
Consistent with the wider scope of public audit, the Code gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to: ■ bodies' reviews of corporate governance and systems of internal control, including their reporting arrangements ■ the prevention and detection of fraud and irregularity	Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

Audit Scotland code of audit practice – responsibilities of auditors and management (continued)

Responsibilities of auditors	Responsibilities of management
Corporate governance arrangements (continued)	
■ standards of conduct and arrangements for the prevention and detection of corruption; and ■ the financial position of audited bodies.	
Systems of internal control	
Auditors are required to review and report on the compliance statements given by bodies under the relevant code or framework before their publication. This is discharged by reviewing and, where appropriate, examining evidence relevant to audited bodies' arrangements in accordance with any guidance issued by Audit Scotland. Auditors are not required to consider whether the statements cover all risks and controls, or form an opinion on the effectiveness of procedures, but report where compliance statements are not consistent with their knowledge of the body.	Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees.
Prevention and detection of fraud and irregularities	
Auditors should review and report on these arrangements. While auditors do not substitute for audited bodies own responsibilities, and are not responsible for preventing or detecting fraud or irregularity, they should be alert to the potential for breaches of procedures, and of fraud and irregularity. Auditors examine evidence that is relevant to these arrangements, particularly aspects of internal financial control such as segregation of duties, authorisation and approval processes and reconciliation procedures.	Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. This includes: ■ developing, promoting and monitoring compliance with standing orders and financial instructions; ■ developing and implementing strategies to prevent and detect fraud and other irregularity; ■ receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity; and ■ participating, when required, in data matching exercises carried out by Audit Scotland.

Audit Scotland code of audit practice – responsibilities of auditors and management (continued)

<table>
<tr><th>Responsibilities of auditors</th><th>Responsibilities of management</th></tr>
<tr><td colspan="2">Standards of conduct and arrangements for the prevention and detection of bribery and corruption</td></tr>
<tr><td>Auditors should consider whether bodies have adequate arrangements in place to maintain and promote proper standards of financial conduct and to prevent and detect bribery and corruption. Auditors review and, where appropriate, examine evidence that is relevant to these arrangements and reporting their findings.

While auditors are not responsible for preventing or detecting failure to maintain an appropriate level of integrity and openness, they should be alert to the potential for corruption and breaches of standards of conduct in all aspects of their work. If weaknesses in arrangements are identified or notified, auditors should report them promptly to management or those charged with governance.</td><td>Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:
■ implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers;
■ promoting appropriate values and standards; and
■ developing, promoting and monitoring compliance with standing orders and financial instructions.</td></tr>
<tr><td colspan="2">Financial position</td></tr>
<tr><td>Auditors should consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based, where appropriate, examining evidence that is relevant to the arrangements.

Auditors should have regard to audited bodies’:
■ financial performance in the period under audit
■ compliance with any statutory financial requirements and financial targets
■ ability to meet known or contingent statutory and other financial obligations
■ responses to developments which may have an impact on their financial position; and
■ financial plans for future periods.</td><td>Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:
■ such financial monitoring and reporting arrangements as may be specified;
■ compliance with any statutory financial requirements and achievement of financial targets;
■ balances and reserves, including strategies about levels and future use; and
■ the impact of planned future policies and foreseeable developments on their financial position.</td></tr>
</table>

Audit Scotland code of audit practice – responsibilities of auditors and management (continued)

Responsibilities of auditors	Responsibilities of management
Best Value, use of resources and performance	
The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission. Auditors should undertake appropriate work to satisfy themselves that bodies have put in place adequate arrangements for the collection, recording and publication of statutory performance information by reviewing and examining evidence that is relevant to these arrangements in accordance with any guidance issued by Audit Scotland.	Local authorities have a statutory duty to make arrangements to secure Best Value; defined as the continuous improvement in the performance of functions. In securing Best Value, local authorities must maintain a balance of quality and cost considerations and have regard, among other things, to economy, efficiency and effectiveness (or 'value for money') and the need to meet equal opportunity requirements and contribute to the achievement of sustainable development. Local authorities also have a duty for community planning, which is to initiate, maintain and facilitate consultation among and with public bodies, community bodies and others about the provision of services in the area of the local authority and the planning of that provision. Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control, accountability and evaluation of the use of resources. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily. The Local Government Act 1992 requires the Accounts Commission to specify information which local authorities must publish about their performance.

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