Tayside Community Justice Authority

Audit strategy review and plan

Year ending 31 March 2016

28 April 2016

Contents

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 Tayside Community Justice Authority ("the Authority") and is made available to Audit Scotland and the Auditor General for Scotland (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

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 Andy Shaw, who is the engagement leader for our services to the 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.

2015-16 audit strategy on a page

SIGNIFICANT RISKS AND OTHER MATTERS

From discussions with management and from our knowledge of the Authority, we have considered areas of risk and audit focus. We have identified significant risks as:

- fraud risk from management override of controls; and
- going concern.

Other audit focus areas are fraud risk from income recognition.

MATERIALITY

MATERIALITY
£160,000
2% EXPENDITURE

REPORTING THRESHOLD
£8,000
5% MATERIALITY

WIDER SCOPE REQUIREMENTS

Other areas of the audit will consider:

- Audit Scotland's Code of Audit Practice ("the Code") and the audit dimensions set out in the 2016 code (in consultation);
- the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 ("the Code of Practice");
- regularity and best value; and
- targeted follow up.

KPMG TEAM

The audit team is:

- Andy Shaw – engagement director
- Michelle Dixon – engagement manager
- Emma De Beer – audit in-charge

Scoping and purpose

Scope definition

The Auditor General for Scotland ("the Auditor General") has appointed KPMG LLP as auditor of Tayside Community Justice Authority ("the Authority") under the Public Finance and Accountability (Scotland) Act 2000 ("the Act").

Purpose

This document summarises our responsibilities as external auditor for the year ending 31 March 2016 and our intended approach to issues impacting the Authority's activities in the year.

KPMG's planned audit work in 2015-16 will include:

- an audit of the financial statements and provision of an opinion on whether the financial statements:
  - give a true and fair view in accordance with the Management of Offenders etc (Scotland) Act 2005 and regulations made thereunder by the Scottish Ministers of the state of affairs of the body's affairs as at 31 March 2016 and of its net operating cost for the year then ended;
  - have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16;
  - 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.

Responsibilities

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;
- financial position; and
- Best Value, uses of resources and performance.

These responsibilities are outlined in appendix four.

Context

Core activities

The Authority was established by the Management of Offenders etc (Scotland) Act 2005, the provisions of which came into force between 2006 and 2007. It is due to be disestablished in 2017.

It is comprised of elected members as a strategic partnership between Dundee City, Angus and Perth and Kinross councils and is tasked with reducing reoffending and contributing to a reduction in the fear of crime in local communities.

It works in partnership with a broad range of other stakeholders to deliver the Area Plan in the application of grant funding.

Financial position

The Authority has an initial grant allocation for 2015-16 of £7.765 million (2014-15: £7.827 million baseline allocation) for disbursement to Dundee City, Angus and Perth and Kinross Councils.

The Authority also receives an administration budget of approximately £0.2 million annually which covers running costs.

The Authority does not have any long term assets. Working capital balances relate primarily to debtor and cash balances held to settle the final grant funding retentions withheld from constituent local authorities until audited statements of expenditure are received.

Key developments

In 2017 the Authority will be disestablished and its responsibilities transferred to local community planning partnerships (“CPPs”) and a new national body, Community Justice Scotland.

During 2015-16 the Authority continues to work with Dundee City, Angus and Perth and Kinross councils and has not had significant changes in operations from prior year.

The going concern assumption in the financial statements cannot be presumed and the Authority will be required to consider the appropriate basis of preparation in line with the Code of Practice

Audit dimensions – as they develop we will consider the wider scope Audit Dimensions as set out in the Code of Audit Practice 2016 (in consultation). The audit dimensions put Best Value at the core.

Financial sustainability	Financial management	Governance and transparency	Value for money
Financial sustainability looks forward to the medium and longer term to consider whether the Authority is planning effectively to continue to deliver its services or the way in which they should be delivered.	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	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.	Value for money is concerned with using resources effectively and continually improving services.

Materiality

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

Audit differences will be raised with the Authority if they are material in size or material in nature. For 2015-16 we consider individual or aggregated financial statement errors of over £160,000 (2014-15: £160,000) to be material.

To the extent that we identify misstatements above £8,000 (2014-15: £8,000) we report them to the Authority and assess whether the misstatement is indicative of a significantly deficient or materially weak control environment.

We recognise that matters can be important because of their nature regardless of their size, for example misstatements to key disclosures such as remuneration and related parties, and we will also report these to Authority.

MATERIALITY

£160,000

2% EXPENDITURE

REPORTING THRESHOLD

£8,000

5% MATERIALITY

DETERMINING MATERIALITY

We consider materiality by reference to the Authority's total expenditure, which was £8.3 million in 2014-15 with no significant change budgeted in 2015-16.

Audit Scotland guidance puts this percentage at not higher than 2% of the chosen gross metric (total expenditure).

As forecast expenditure is expected to be consistent with the prior year, we have chosen to set materiality at the same level as 2014-15.

Significant risks and other focus areas

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 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 set out our view of significant risks, along with our other audit focus areas, in terms of the comprehensive income and expenditure statement and the balance sheet.

RISK	WHY	AUDIT APPROACH
Fraud risk from management override of controls	Professional standards require us to communicate the fraud risk from management override of controls as a significant risk; as 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.	■ Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to the audit of the Authority. ■ The Authority undertakes a small number of high value transactions. Strong oversight of finances by management provides additional review of potential material errors caused by management override of controls. ■ In line with our methodology, we will carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the organisation's normal course of business, or are otherwise unusual.
Going concern	In 2017 the Authority will be disestablished and its responsibilities transferred to local community planning partnerships ("CPPs") and a national body to be called Community Justice Scotland. For this reason, the going concern assumption in the financial statements preparation cannot be presumed and the Authority will be required to consider the appropriate basis of preparation in line with the Code of Practice.	■ We will review management's assessment of the basis of preparation of the financial statements and confirm that this is in line with the Code of Practice. ■ We will consider the appropriateness of the related disclosures in the financial statements.

Significant risks and other focus areas
(continued)

FOCUS AREA	WHY	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. 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.

Approach to fraud

In accordance with International Standards on Auditing (UK and Ireland) ISA 240 “The Auditor’s responsibility to consider fraud in an Audit of a Financial Report”, we will undertake specific procedures and report findings to management and the Authority in respect of financial reporting fraud. The following table summarises the phases of our work on fraud.

Discuss fraud	Assess fraud risk	Tailor audit response
■ Discussions with: – internal audit; – treasurer; and – chief officer.	■ Preliminary fraud risk assessment: – management oversight; – internal control framework; and – nature of operations.	■ Our audit procedures are designed to have a reasonable chance of detecting misstatements as a result of fraud or error: – Review and test the fraud risk assessment process, systems and controls to prevent, deter and detect fraudulent activity. – Evaluate the design of financial reporting controls during process testing to assess their effectiveness in detecting fraud. – Identify and select specific journal entries for detailed substantiation and consolidation journals for appropriate evidence and basis. – Review significant accounting estimates for management bias. ■ The audit team will review and discuss fraud related risks and controls with the chief officer and other members of senior management. ■ We will incorporate an element of unpredictability into our testing, as individuals within the Authority who are familiar with our audit procedures may be able to use that knowledge to conceal fraudulent financial reporting.

Timeline and reporting

MARCH
Planning and risk assessment

JUNE
Review and approval of audit strategy by the Authority

OCTOBER
Final audit fieldwork commences

DECEMBER
Presentation of final report to the Authority. Approval of financial statements.

Mar Apr May Jun Jul Aug Sep Oct Nov

2016

OCTOBER
Audit opinion signed by KPMG

OCTOBER
Financial statements signed by the Authority

Audit Scotland reporting deadlines

Annual audit report	31 October 2016

Appendices

Mandated communications with the Authority

Matters to be communicated	Link to Authority papers
Independence and our quality procedures ISA 260 (UK and Ireland).	■ See next page
The general approach and overall scope of the audit, including levels of materiality, fraud and engagement letter (ISA 260 (UK and Ireland)).	■ Main body of this paper
■ Disagreement with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or the auditor's report, and their resolution (AU 380).	■ In the event of such matters of significance we would expect to communicate with the Authority throughout the year. ■ Formal reporting will be included in our annual audit report to the members of the Authority in December.
■ Significant difficulties we encountered during the audit. ■ Significant matters discussed, or subject to correspondence, with management (ISA 260).	
■ Our views about the qualitative aspects of the entity's accounting and financial reporting. ■ The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements (ISA 260 and ISA 540).	
■ Audit adjustments, whether or not recorded by the entity, that have, or could have, a material effect on its financial statements. We will request you to correct material uncorrected misstatements (including disclosure misstatements) (ISA 450).	
■ The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements (ISA 570).	
■ Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570).	
■ Expected modifications to the auditor's report (ISA 705).	
■ Related party transactions that are not appropriately disclosed (ISA 550)	

Auditor independence

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 Andy Shaw 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.

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 partners, 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; and
- Independent reviews.

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

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the Authority.

Confirmation of our audit independence

We confirm that as at 31 March 2016, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of Andy Shaw and the audit team is not impaired.

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

Yours faithfully

KPMG LLP

Fees

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 needed to complete 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
- 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 on site visit agreed with officers preferably in electronic format
- reliance on your internal controls
- availability of key members of staff during the audit fieldwork
- completion within the agreed timetable

Audit Scotland has notified us that the fee range for the Authority for 2015-16 is £3,500 to £5,240, with a mid-point of £4,370 (including VAT). We have proposed a fee of £4,370 (2014-15: £4,375), reflecting there being no significant changes in operations from prior year.

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 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 directors' report, 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 (e.g. 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; ▪ standards of conduct and arrangements for the prevention and detection of corruption; and ▪ the financial position of audited bodies.	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

Responsibilities of auditors	Responsibilities of management
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 form a 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

Responsibilities of auditors	Responsibilities of management
Standards of conduct and arrangements for the prevention and detection of bribery and corruption	
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.	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.
Financial position	
Auditors should consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based and, 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.	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.

cutting through complexity

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