

Lothian and Borders Community Justice Authority

Annual Audit Plan 2009/10



 AUDIT SCOTLAND



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Summary Plan

Summary of planned audit activity

Based on our analysis of the risks facing Lothian and Borders Community Justice Authority, our planned work in 2009/10 includes:

- an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the financial position of Lothian and Borders Community Justice Authority as at 31 March 2010 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2009 SORP
- an assessment of Lothian and Borders Community Justice Authority's governance and performance arrangements

Introduction

1. Our audit is focused on the identification and assessment of the key challenges and risks to Lothian and Borders Community Justice Authority (LBCJA) in achieving its business objectives. We also assess the risk of material misstatement or irregularity in insert client name's financial statements. This report summarises the key challenges and risks facing insert client name and sets out the audit work that we propose to undertake in 2009/10. Our plan reflects:

- the risks and priorities facing insert client name
- current national risks relevant to local circumstances
- the impact of changing international auditing and accounting standards
- our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
- issues brought forward from previous audit reports.

Our responsibilities

2. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.



3. Audit in the public sector goes beyond simply providing assurance on the financial statements and the organisation's internal control environment. We are also required to provide a view on performance, regularity and the organisation's use of resources. In doing this, we aim to support improvement and accountability.
4. In carrying out our audit, we seek to gain assurance that LBCJA:
 - has good corporate governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability
 - has systems of recording and processing transactions which provides a sound basis for the preparation of financial statements and the effective management of its assets and interests
 - prepares financial statements which give a true and fair view the financial position at 31 March 2010 and income and expenditure for the year then ended, in accordance with the Local Government (Scotland) Act 1973 and other applicable laws and regulations, including the 2009 'Code of practice on local authority accounting in the United Kingdom – A statement of recommended practice' (the SORP)
 - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
 - complies with established policies, procedures, laws and regulations
 - has made proper arrangements for securing best value in its use of resources.

Our approach

5. Our audit approach is based on an understanding of the characteristics, responsibilities and principal activities, risks and governance arrangements of LBCJA, and identification of the key audit risks and challenges in the local government sector generally. This approach includes:
 - understanding the business of LBCJA and the risk exposure which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation, understanding how LBCJA will include these in the financial statements and developing procedures to audit these
 - assessing the risk of material misstatement in the financial statements, in conjunction with our evaluation of inherent risk, the control environment and control risk as part of our risk assessment
 - determining the nature, timing and extent of our testing programme to provide us with sufficient appropriate audit evidence as to whether the financial statements are free of material misstatement.



6. Through this approach we have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2009/10 includes:
 - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for provision of accounts and working papers being agreed
 - delivery of unaudited accounts to agreed timescales with a comprehensive working papers package
 - completion of the internal audit programme for 2009/10.

7. Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and, as part of our planning process we carry out an early assessment of the internal audit function. The s27 Criminal Justice Social Work grant for each Council is audited by the Councils' external auditors and each Council has its own internal audit arrangements. In addition City of Edinburgh Council internal audit provide services to LBCJA in respect of the assurances required to support their Statement of internal Control. We plan to place reliance on this aspect of their work.

8. At the completion of the audit we will provide the Chief Officer with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Responsibility for the preparation of accounts

9. It is the responsibility of LBCJA and the Chief Officer as Accountable Officer to prepare the financial statements in accordance with the SORP. This means:
 - acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
 - maintaining proper accounting records
 - preparing financial statements timeously which present fairly the financial position of LBCJA as at 31 March 2010 and its expenditure and income for the year then ended
 - preparing an explanatory foreword.



Format of the Accounts

10. The financial statements should be prepared in accordance with the SORP which constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003.
11. LBCJA are not required to prepare a consolidation pack for the Scottish Government for Whole of Government Accounts (WGA).

Audit issues and risks

12. Based on our discussions with staff, consideration of your own risk management arrangements and a review of supporting information, we identified the main risk areas for your organisation:

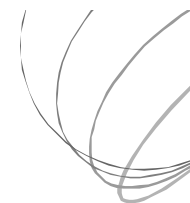
Financial pressures

- economic recession /general budget pressures/inadequate funding to meet statutory responsibilities
- funding levels and the need for Councils to subsidise CJA services

Governance issues

- preparation of Area Plan update
- representation and liaison with Community planning Partnerships – development of strategic links with CPP
- procurement of non-core services
- changes in criminal justice legislation

13. Within these identified risk areas there is a range of more specific risks and these are summarised at Appendix A. In most cases, actions to manage these risks are either planned or already underway within the organisation. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake is also set out in Appendix A. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

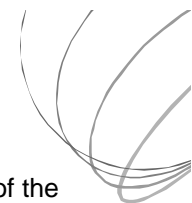


Materiality

14. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
15. International Standard on Auditing 320 states that, *“information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of item or error judged in the particular circumstances of its omissions or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.”*
16. When considering, in the context of a possible qualification, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement, experience and internal guidelines from peers as broad guidance in regard to considering whether the results of tests of detail are material.
17. An item may be judged material for reasons other than its monetary or quantitative value. An inaccuracy, which would not normally be regarded as material by amount, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, an item contrary to law, or areas affected by central government control). Again we use professional judgement, experience and internal guidelines from peers to determine when such matters would fall to be covered in an explanatory paragraph, rather than as a qualification to the audit opinion.

Reporting Arrangements

18. Under the Local Government (Scotland) Act 1973, there is a requirement for unaudited financial statements to be presented to the council and the Controller of Audit within nine months of the financial year end i.e. 31 December. To achieve this target, it is critical that a timetable for the audit of the accounts is agreed with us. An agreed timetable is included at Appendix B of this plan, which takes account of submission requirements, proposed LBCJA board meeting dates and audit resources.
19. 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 Chief Officer to confirm factual accuracy. Responses to draft reports are expected within four weeks of submission.
20. A copy of all final agreed reports will be sent to the Chief Officer and Audit Scotland's Public Reporting Group.



21. We will provide an independent auditor's report to LBCJA and the Auditor General that the audit of the financial statements has been completed in accordance with applicable statutory requirements, including an opinion on those financial statements. An annual report to LBCJA will also be produced to summarise all significant matters arising from the audit and overall conclusions about LBCJA's management of key risks.
22. All annual reports produced by Audit Scotland are published on our website: (www.audit-scotland.gov.uk).
23. The full range of outputs to be delivered by the audit team are summarised below:

Planned outputs	Target delivery date
Report to Audit Committee in terms of ISA 260 (Communication of audit matters to those charged with governance)	15 October
Independent auditor's report on the financial statements	31 October 2010
Annual report to the Members and the Controller of Audit	31 October 2010

Quality control

24. We are committed to ensuring that our audit reflects best practice and demonstrates best value to LBCJA and the Accounts Commission. We operate a strong quality control framework that seeks to ensure that your organisation receives a high quality service. The framework is embedded in our organisational structures and processes and includes an engagement lead for every client; in your case this is Mary Bowman, who is responsible for ensuring that our work is carried out on time and to a high quality standard.
25. As part of our commitment to quality and continuous improvement, we may periodically seek your views. We would be grateful for any feedback on our services.

Fees and resources

26. Our agreed fee for the 2009/10 audit of LBCJA is £5230 comprising a local audit fee of £4730 and a fixed charge of £500. Our fee covers:
 - all of the work and outputs described in this plan
 - a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
 - reporting to those charged with governance
 - access to advice and information on relevant audit issues



- access to workshops/seminars on topical issues
 - travel and subsistence costs.
27. In determining the agreed fee we have taken account of the risk exposure of LBCJA and the management assurances in place. We have assumed receipt of the draft accounts and working papers by 31 August 2010. If the draft accounts and papers are late, or agreed management assurances are unavailable, or planned internal audit reliance is not achieved, we reserve the right to charge an additional fee for further audit work.
28. An additional fee will be required in relation to any work or other significant exercises not within our planned audit activity.
29. Mary Bowman, Senior Audit Manager, is your appointed auditor. Details of the experience/skills of our team are provided at Appendix C. The core audit team will call on other specialist and support staff, as necessary.

Independence and objectivity

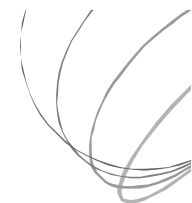
30. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships within the audit team.
31. We comply with ethical standards issued by the Auditing Practices Board and with Audit Scotland's requirements in respect of independence and objectivity, as summarised at Appendix E.

Looking Forward

32. Budget setting and funding in 2010/11 will continue to present challenges to the LBCJA and the constituent councils. Scottish government have issued instructions that no expenditure be committed beyond 31 March 2011 and there is no guarantee that s27 funding will remain ring-fenced. Delays with re-tendering contracts at City of Edinburgh Council will result in delays in realising expected savings for 2010/11.
33. The outcome of a review by Baker Tilly to establish a common cost base for C five local authorities was intended to inform the basis of the financial allocation. Completion of the review has been delayed as a result of the complexities involved in the exercise and the results will not be available in time for setting 2010/11 allocations. Councils have also indicated that they will no longer be prepared to subsidise s27 CJA services from 2010/11.



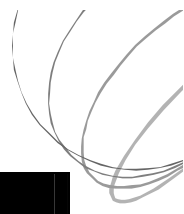
March 2010



Appendix A - Summary assurance plan

In this section we identify a range of operational risks facing [insert client name], the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of [insert client name] and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Risk	Source of assurance	Planned audit action
Financial pressures		
<ul style="list-style-type: none"> Ongoing budget pressures arising from the economic recession /general budget pressures could result in inadequate funding to meet statutory responsibilities 	<ul style="list-style-type: none"> Quarterly budget monitoring 	<ul style="list-style-type: none"> Review outturn and monitoring reports throughout the year
<ul style="list-style-type: none"> The review by Baker Tilly to establish a common cost base for core services intended to inform the 2010/11 allocations to local authorities has been delayed. This was also intended to improve the accuracy of quarterly reporting by Councils. 	<ul style="list-style-type: none"> Baker Tilly were commissioned to undertake a review of costings and provide model template for quarterly returns. This work is still ongoing and findings should be available early in 2010/11. 	<ul style="list-style-type: none"> Review report from Baker Tilly when available
<ul style="list-style-type: none"> The Introduction of IFRS will require provision to be made for employee benefits – liabilities in respect of untaken leave. 	<ul style="list-style-type: none"> The required information for the staff involved should be readily available 	<ul style="list-style-type: none"> Ensure adequate arrangements in place.
<ul style="list-style-type: none"> Conveners have now joined COSLAs' Conveners Group and this could result in increased remuneration. 	<ul style="list-style-type: none"> LBCJA monitoring developments 	<ul style="list-style-type: none"> Monitor outcome
Governance		
<ul style="list-style-type: none"> Preparation and completion of 2011-014Area plan for submission to National Advisory Board in May 2010 (and Cabinet Secretary sign-off in September 2010) 	<ul style="list-style-type: none"> Regular progress reports to LBCJA Board Draft plan due to be issued for consultation in March 2010 	<ul style="list-style-type: none"> Monitor progress against timetable Review completion and submission to Minister
<ul style="list-style-type: none"> Risk that the LBCJA does not have adequate representation on, and liaison with CPPs 	<ul style="list-style-type: none"> New post developed to address this risk - 	<ul style="list-style-type: none"> Monitor effectiveness



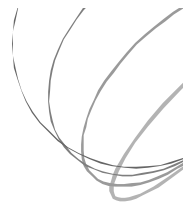
Risk	Source of assurance	Planned audit action
<ul style="list-style-type: none">▪ Risk that the procurement of non-core services does not achieve value for money.	<ul style="list-style-type: none">▪ CEC undertaking full review of all purchased services and bids evaluated on cost and quality basis. Quality reviews complete and costs reviews ongoing-report to Council expected in June 2010	<ul style="list-style-type: none">▪ Monitor progress and review report to Council
<ul style="list-style-type: none">▪ The change in criminal justice legislation – creation of Community payback order - has not been completed.	<ul style="list-style-type: none">▪ LBCJA is monitoring developments	<ul style="list-style-type: none">▪ Monitor progress



Appendix B

Financial statements audit timetable

Key stage	Date
Meetings with officers to clarify expectations of detailed working papers and financial system reports	29 January 2010 August 2009
Testing and review of internal control systems and transactions	30 June 2010
Provision of closedown procedures to audit	30 June 2010
Latest submission of unaudited financial statements with working papers package	30 August 2010? (or 30 September 2010?)
Progress meetings with lead officers on emerging issues	As required during the audit
Latest date for final clearance meeting with director of finance	tba
Report to the audit committee on the audit of financial statements (ISA 260)	31 October 2010??
Audit committee date	date
Independent Auditors Report signed	31 October 2010
Annual report and certified accounts presented to Council	31 October 2010



Appendix C - Audit team

A summarised curriculum vitae for each core team member is set out below:

Mary Bowman, BSc, CPFA

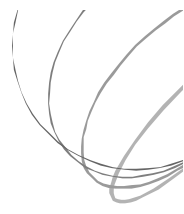
Senior Audit Manager]

Mary has over 30 years experience of public sector audit , joining Audit Scotland in 2000 from the National Audit office. Mary is now predominantly involved with Local government .audits but has previously worked extensively in Central Government and Health sectors..

David Wightman, MAAT

(Auditor)

David has worked in both private and public sectors, including 6 years within the Health sector. David has over 11 years of experience gained from working in both internal and external auditing.



Appendix D - Reliance on internal audit

Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Our review of the internal audit service provided by City of Edinburgh Council concluded that the internal audit service operates in accordance with the CIPFA code of practice for internal audit in local government. We therefore plan to place reliance on the work of internal audit in the following areas:

- corporate governance – assurances for the Statement of Internal Control



Appendix E - Independence and objectivity

Auditors appointed by the Auditor General for Scotland are required to comply with the Code of Audit Practice and standing guidance for auditors, which defines the terms of appointment. When auditing the financial statements auditors are also required to comply with the auditing and ethical standards issued by the Auditing Practices Board (APB). The main requirements of the Code of Audit Practice, standing guidance for auditors and the standards are summarised below.

International Standards on Auditing (UK and Ireland) 260 (Communication of audit matters to those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of the fee that the auditor has charged the client
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is insert relevant committee name. The auditor reserves the right to communicate directly with members on matters which are considered to be of sufficient importance.

Audit Scotland's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. Appointed auditors and their staff should avoid entering in to any official, professional or personal relationships which may impair their independence, or might lead to a reasonable perception that their independence could be impaired.

The standing guidance for auditors includes a number of specific requirements. The key requirements relevant to this audit appointment are as follows:

- during the currency of an appointment, auditors should not perform non-audit work for an audited body, consultancy or otherwise, without the prior approval of Audit Scotland
- the appointed auditor and key staff should, in all but exceptional circumstances, be changed at least once every five years in line with Audit Scotland's rotation policy
- the appointed auditor and audit team are required to carry out their duties in a politically neutral way, and should not engage in high profile public party political activity
- the appointed auditor and audit team must abide by Audit Scotland's policy on gifts and hospitality, as set out in the Audit Scotland Staff Code of Conduct.