

Lothian and Borders Community Justice Authority

Annual Audit Plan 2010/11

March 2011



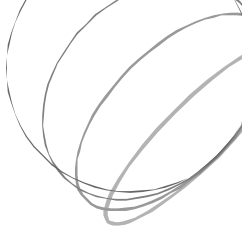
 AUDIT SCOTLAND

Lothian and Borders Community Justice Authority

Annual Audit Plan 2010/11

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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 2010/11 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 2011 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with Scottish Government guidance and the 2010 Code of practice on local authority accounting in the United Kingdom (the Code)
- a review and assessment of Lothian and Borders Community Justice Authority's governance and performance arrangements.

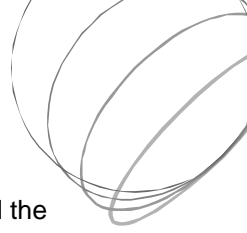
Introduction

1. Our audit is focused on the identification and assessment of the key challenges and risks to Lothian and Borders Community Justice Authority in achieving its business objectives. We also assess the risk of material misstatement or irregularity in Lothian and Borders Community Justice Authority's financial statements. This report summarises the key challenges and risks facing Lothian and Borders Community Justice Authority and sets out the audit work that we propose to undertake in 2010/11. Our plan reflects:

- the risks and priorities facing the CJA
- 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 Public Finance and Accountability Act 2000 and the Code of Audit Practice approved by the Auditor General, 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 Lothian and Borders Community Justice Authority:
 - 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 2011 and income and expenditure for the year then ended, in accordance with the Management of Offenders etc (Scotland) Act 2005 and other applicable laws and regulations, including the 2010 'Code of practice on local authority accounting in the United Kingdom – A statement of recommended practice' (the Code)
 - 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 Lothian and Borders Community Justice Authority, and identification of the key audit risks and challenges in the local government sector generally. This approach includes:
 - understanding the business of Lothian and Borders Community Justice Authority 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 Lothian and Borders Community Justice Authority 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 2010/11 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 2010/11.
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 Council's external auditors and each Council has its own internal audit arrangements. In addition City of Edinburgh Council internal audit provides 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. Lothian and Borders Community Justice Authority utilises the services of both Scottish Borders Council and City of Edinburgh Council HR and finance functions for its operational and accounting requirements. However, it is the responsibility of Lothian and Borders Community Justice Authority and the Chief Officer as Accountable Officer, to prepare the financial statements in accordance with the 2010 Code. 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 give a true and fair view of the financial position of Lothian and Borders Community Justice Authority as at 31 March 2011 and its expenditure and income for the year then ended

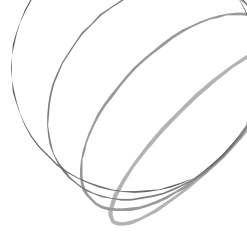
- preparing an explanatory foreword.

Format of the Accounts

10. The financial statements should be prepared in accordance with the 2010 Code which constitutes proper accounting practice for the purposes of Scottish Government guidance.

Audit issues and risks

11. Local government will move from UK Generally Accepted Accounting Principles (UK GAAP) to International Financial Reporting Standards (IFRS) from 2010/11. As Community Justice Authorities are required to prepare their financial statements in accordance with the local government accounting framework, Community Justice Authorities will also be expected to adopt IFRS in 2010/11. The main changes following transition to IFRS will relate to accounting for employee benefits and leases. Full IFRS-compliant accounts will be required for 2010/11
12. In our 2009/10 Report to members we highlighted the fact that the financial statements included a creditor due to City of Edinburgh Council in relation to the SLA of which £15000 remained required to be paid in 2010/11. However, part of the amount relates to the management of s27 funds, and part to the provision of financial services to L&BCJA such as budget monitoring and accounts preparation. It is important to separately identify these two amounts so that the management of s27 funds are properly funded from the s27 allocation in line with the Scottish government guidance.
13. We also noted that, as at the end of Quarter one, four of the five Councils were reporting forecast overspends. In the past individual councils have subsidised some aspects of provision of criminal justice social work services but this is unlikely to be sustainable going forward in the current economic climate. The CJA appointed Baker Tilley to undertake a review and report on the cost base for each of the 12 core services with a view to providing a sound basis for future resource allocation. It was envisaged that this review would report in time to inform the basis of resource allocation for 2010/11. However, this timescale proved over-ambitious as the complexity of the work became apparent. Directors agreed that further work would be required in order to agree a revised allocation formula. A cross-council working group was established to complete this work and their findings were reported to, and accepted by the Board in February 2011. We will continue to monitor the outcome of this exercise.
14. In addition to this exercise, more accurate and timely quarterly reporting of expenditure by the Councils would assist the CJA to more accurately monitor its financial position throughout the year and reduce the risk of it being unable to deliver the required level of service.
15. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.



Performance audit

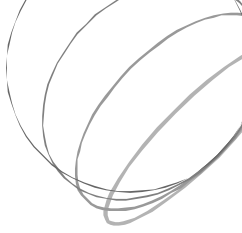
16. In addition to the above work, Audit Scotland's Public Reporting Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. The Group is currently finalising their forward work programme for approval by the Auditor General. We may notify the Chief Officer of any areas which may impact on Lothian and Borders Community Justice Authority.

Materiality

17. 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.
18. 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."*
19. 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.
20. 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

21. Under the Public Finance and Accountability (Scotland) 2000 Act, there is a requirement for the Resource account of the Scottish Government to be presented to Parliament within 9 months of the financial year-end. i.e. 31 December. Lothian and Borders Community Justice Authority is required to have their audited financial statements submitted by 31 October to meet the consolidation timetable.
22. To achieve this deadline, it is critical that a timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at Appendix B of this plan, which takes account of submission



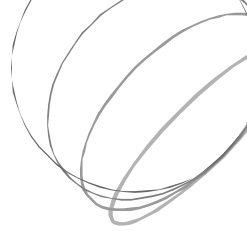
requirements, proposed Lothian and Borders Community Justice Authority meeting dates and audit resources.

- 23. 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 three weeks of submission.
- 24. A copy of all final agreed reports will be sent to the Chief Officer, the Treasurer and Audit Scotland's Public Reporting Group.
- 25. We will provide an independent auditor's report to Lothian and Borders Community Justice Authority and the Accounts Commission for Scotland 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 members and the Controller of Audit will also be produced to summarise all significant matters arising from the audit and overall conclusions about Lothian and Borders Community Justice Authority's management of key risks.
- 26. All annual reports produced by Audit Scotland are published on our website: (www.audit-scotland.gov.uk).
- 27. The full range of outputs to be delivered by the audit team are summarised below:

Planned outputs	Target delivery date
Report to the Chief Officer in terms of ISA 260 (Communication of audit matters to those charged with governance)	31 October 2011
Independent auditor's report on the financial statements	31 October 2011
Annual report to the Accountable Officer/Members and the Auditor General for Scotland	30 November 2011

Quality control

- 28. We are committed to ensuring that our audit reflects best practice and demonstrates best value to Lothian and Borders Community Justice Authority 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.
- 29. 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

30. Our agreed fee for the 2010/11 audit of Lothian and Borders Community Justice Authority is £4700 comprising a local audit fee of £4400 and a fixed charge of £300. 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 Auditor General
- access to advice and information on relevant audit issues
- access to workshops/seminars on topical issues
- travel and subsistence costs.

31. In determining the agreed fee we have taken account of the risk exposure of Lothian and Borders Community Justice Authority, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of the draft accounts and working papers by 12 September 2011. 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.

32. An additional fee will be required in relation to any work or other significant exercises not within our planned audit activity. An additional fee will also be charged for work on any grant claims or returns not included in the planned outputs noted previously.

33. Mary Bowman, Senior Audit Manager, Audit Services (Local Government) 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

34. 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.

35. 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 D.

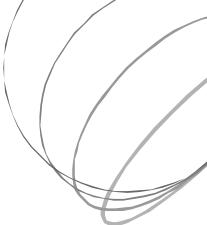
Appendix A - Summary assurance plan

In this section we identify a range of operational risks facing Lothian and Borders Community Justice Authority, 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 Lothian and Borders Community Justice Authority 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
<p>IFRS implementation</p> <p>The necessary steps may not be taken during 2010/11 to ensure the Authority is appropriately placed to produce IFRS compliant financial statements in 2010/11.</p>	<p><i>Preparation of accounts is undertaken by City of Edinburgh Council who have established appropriate IFRS procedures</i></p>	Annual audit
<p>Use of resources</p> <p>Management of s27 funds is essential to ensure that the s27 allocation is applied for proper purposes and that all relevant expenditure is funded from the allocation in line with the Scottish government guidance.</p>	<p><i>Repayment of the Creditor to CEC will be properly apportioned and S27 expenditure regularly monitored to ensure the necessary separation. Going forward, expenditure relating to the management of s27 funds will be top-sliced from the allocation to ensure it is not paid from the admin. grant</i></p>	Ongoing monitoring
<p>Economic climate</p> <p>The current economic climate is likely to result in tighter funding commitments from partner authorities in future years. In the past individual councils have subsidised some aspects of provision of criminal justice social work services but this is unlikely to be sustainable going forward. A revised allocation formula for future funding to partner councils together with more accurate and timely quarterly reporting of expenditure by the Councils would assist the CJA in monitoring its financial position throughout the year, thereby reducing the risk of the CJA being unable to deliver the required level of service.</p>	<p><i>Directors agreed that further work would be required following on from the Baker Tilley review of the cost base of for each of the 12 core services in order to agree a revised allocation formula. A cross-council working group was established to complete this work and it reported its recommendations to the Board in February 2011.</i></p> <p><i>There will be an ongoing review of the accuracy and content of the quarterly reports through the Chief Officers quarterly meetings with the Directors/Chief Social Work Officers and Chief Officer attendance at the Finance Officers Group.</i></p>	Ongoing monitoring

Appendix B - Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	September 2011
Provision of closedown procedures to audit	September 2011
Meetings with officers to clarify expectations of detailed working papers and financial system reports	May 2011
Latest submission of unaudited financial statements with working papers package	12 September 2011
Progress meetings with lead officers on emerging issues	As required during audit process
Latest date for final clearance meeting with lead officer	21 October 2011
Agreement of unsigned financial statements for Board agenda, and issue of report to the Board on the audit of financial statements (ISA 260))	28 October 2011
Annual report and certified accounts to Accountable Officer & the Auditor General	30 November 2011



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..

Brian Battison CA

Senior Auditor

Brian has worked with Audit Scotland since 2000. He has audited a variety of organisations across central government and associated agencies, local government and the NHS.

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 - 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.