

Tayside Contracts Joint Committee

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Tayside Contracts Joint Committee

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Tayside Contracts. The main elements of our work include:

- an audit of the annual report and accounts, and provision of an Independent Auditor's Report
- an audit opinion on other statutory information published within the annual report and accounts including the Management Commentary, the Governance Statement and the Remuneration Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements

Audit Appointment

2. We are pleased to be appointed as the external auditor of Tayside Contracts for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at Appendix 1.

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to Tayside Contracts through our external audit work by being constructive and forward looking, by attending meetings of the Joint Committee and by recommending and encouraging good practice. In so doing, we will help the Tayside Contracts promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and Audited Body

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the Tayside Contracts. Key responsibilities are summarised below.

Auditor responsibilities

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

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

Tayside Contracts responsibilities

9. Tayside Contracts is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. Tayside Contracts has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

Communication of fraud or suspected fraud

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

Financial statements audit planning

Introduction

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

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

Materiality

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

Materiality levels for the 2022/23 audit

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

Exhibit 1

2022/23 Materiality levels for Tayside Contracts

Materiality	Amount
<p>Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of Tayside Contracts' operations. For the year ended 31 March 2023 we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2021/22.</p>	£1.9 million
<p>Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 60% of planning materiality.</p>	£1.14 million

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

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

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

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

18. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. We also identify any other non-significant risks of material misstatement that require a specific audit response over and above our standard audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

Significant and non-significant risks of material misstatement for the 2022/23 financial statements

Nature of Risk	Sources of assurance	Planned audit response
Significant risks of material misstatement		
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Test journals at the year-end and post-closing entries and focus on significant risk areas. Consider the need to test journal entries and other adjustments during the period. Evaluate significant transactions outside the normal course of business. Assess any changes to the methods and underlying assumptions used to prepare

Nature of Risk	Sources of assurance	Planned audit response
because of management's ability to override controls that otherwise appear to be operating effectively.		<p>accounting estimates compared to the prior year.</p> <ul style="list-style-type: none"> • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.

Other non-significant risks of material misstatement

2. Estimation in the valuation of the pension assets and liabilities.

Tayside Contracts recognised a net liability of £8.924 million relating to its share of Tayside Pension Fund as at 31 March 2022.

There is a large degree of subjectivity in the measurement and valuation of the pension fund liability.

Assets are based on an individual employer body's share of assets at the last triennial valuation. Roll forward adjustments are provided to members data and to asset valuations.

The valuation is based on specialist assumptions and estimates and changes can result in material changes to the valuation.

- Use of professional actuaries appointed by the Pension Fund to value pension adjustments required by IAS19.
- Actuarial valuations are reviewed by qualified finance staff for reasonableness including confirmation of the accuracy of the source data used to produce them.

- Assess the competence, capabilities, and objectivity of the actuary in line with ISA 500.
- Review the appropriateness of assumptions used by the actuary to reach the valuation of future retirement benefits including comparison with other bodies and the pension fund as a whole.
- Establish officers' arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by Tayside Contracts.

Nature of Risk	Sources of assurance	Planned audit response
<p>3. Significant Trading Operations</p> <p>Tayside Contracts has a duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of its significant trading operations so that income is not less than expenditure over each three-year period.</p> <p>IAS19 pension costs can have a significant impact on this financial objective.</p>	<ul style="list-style-type: none"> • Ongoing management reporting of the financial position. • Disclosure of the financial performance against the objective in the financial statements. • Prior year audited financial statements. 	<ul style="list-style-type: none"> • Assess and test a sample of income and expenditure • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Review the appropriateness of assumptions used by the actuary to reach the valuation of future retirement benefits including comparison with other bodies and the pension fund as a whole. • Confirm prior year results agree to audited financial statements. • Assess the disclosure and presentation of the financial performance.

Source: Audit Scotland

19. As set out in International Standard on Auditing (UK) 240: The auditor's responsibilities relating to fraud in an audit of financial statements, there is a presumed risk of fraud over the recognition of revenue. We have considered the risk over income recognition and the risk of fraud over expenditure (in accordance with Practice Note 10 (Audit of Financial Statements and Regularity of Public Sector Bodies in the UK)).

20. We have rebutted the presumption that a risk of material misstatement exists, with the exception of management override of controls, as detailed at point 1 in [Exhibit 2](#) above. Our assessment is on the basis that:

- there are generally no incentives for staff to commit fraudulent financial reporting,
- a significant portion of Tayside Contracts' income comes from constituent councils,
- most expenditure is in low-risk areas where individual transactions are well-controlled (for example salaried staff costs in a well-defined grading system) and individual transactions are relatively small in scale, and

- evidence of external fraud from counter fraud services and the National Fraud Initiative does not indicate material risks.

21. Our audit testing is directed towards testing significant and unusual transactions and towards assessing accounting estimates to address any residual risk, as part of our standard fraud procedures. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Revisions to ISA (UK) 315 on auditors' responsibility to identify and assess the risks of material misstatement

22. The revised [International Standard on Auditing \(UK\) 315](#) includes a revised requirement for auditors to understand a body's use of IT, as part of our understanding of the wider control environment, and to consider the related risks.

23. As part of our 2022/23 audit planning work, we will undertake an assessment of Tayside Contracts' IT systems to obtain an understanding of the use of IT in financial reporting. This will consider the nature and characteristics of the audited body's IT applications and IT infrastructure.

24. Any risks of material misstatement identified from our assessment of Tayside Contracts' IT systems and infrastructure will be communicated to management and reflected in our approach to the audit of the 2022/23 financial statements.

Wider Scope and Best Value

Introduction

25. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

26. In summary, the four wider scope areas cover the following:

- **Financial management** - means having sound financial control processes. We will consider these arrangements and comment on financial management in our Annual Audit Report.
- **Financial sustainability** - as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability over the medium term (two to five years) and longer term (longer than five years).
- **Vision, leadership and governance** - We will consider the vision, strategy and priorities adopted by Tayside Contracts. We will also consider the effectiveness of the governance arrangements.
- **Use of resources to improve outcomes / Best Value** - Auditors have a duty to be satisfied that bodies that fall within section 106 of the 1973 Act have made proper arrangements to secure Best Value. We will consider how Tayside Contracts demonstrates that it is meeting its Best Value responsibilities and we will report our findings as part of our Annual Audit Report. We will consider how Tayside Contracts demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

Wider scope areas of focus

27. Our planned work on our wider scope responsibilities is risk based and proportionate. We have not identified any additional local wider scope risks for the 2022/23 audit of Tayside Contracts. Progress on the outstanding recommendations identified in prior years will be followed-up with management during the course of the 2022/23 audit.

Climate Change

28. The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on Tayside Contracts' arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

Cyber Security

29. As noted in paragraph 22. , we will consider Tayside Contracts' arrangements for managing and mitigating cyber security risks.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

30. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 6](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

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

32. We will provide an independent auditor's report to the Joint Committee and the Accounts Commission setting out our opinions on the annual report and accounts. We will provide the Joint Committee and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

33. [Exhibit 6](#) outlines the target dates for our audit outputs

Exhibit 6 2020/21 Audit outputs

Audit Output	Target date	Joint Committee Date
Annual Audit Plan	31 March 2023	19 June 2023
Independent Auditor's Report	31 October 2023	20 November 2023
Annual Audit Report	31 October 2023	20 November 2023

Source: Audit Scotland



34. The Local Authority Accounts (Scotland) Regulations 2014 require local authorities to 'aim to approve the audited accounts for signature no later than 30 September immediately following the financial year to which the accounts relate' and that the signed accounts 'must be published no later than 31 October'. Due to the legacy of the late completion of prior year audits due to Covid-19 and ongoing resourcing challenges within Audit Scotland, we are unable to complete Tayside Contract's audit by the 30 September or in time to publish the audited accounts by

31 October. We acknowledge that this planned timetable is determined by the availability of the audit process and not by Tayside Contracts, which proposes to present unaudited accounts for audit by the 30 June 2023.

Timetable

35. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 7](#) that has been discussed with management.

Exhibit 7 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	19 June 2023
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	30 June 2023
Latest date for final clearance meeting with the Service Leader - Finance & Governance	To be arranged
Issue of draft Letter of Representation and proposed Independent Auditor's Report	To be arranged
Agreement of audited and unsigned annual report and accounts	To be arranged
Issue of Annual Audit Report to those charged with governance.	To be arranged
Signed Independent Auditor's Report	20 November 2023

Source: Audit Scotland

36. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

37. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Audit fee

38. In determining the audit fee, we have taken account of the risk exposure of the Tayside Contracts and the planned management assurances in place. The proposed audit fee for 2022/23 is £46,320 (2021/22: £41,160).

39. Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

40. In setting the fee for 2022/23 we have assumed that Tayside Contracts has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

41. It is the responsibility of the Tayside Contracts to establish adequate internal audit arrangements. The internal audit function is provided by Wylie and Bisset. We will review the internal audit plan and the results of internal audit's work. While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

42. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

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

44. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. The appointed auditor for Tayside Contracts is Fiona Owens, Audit Manager. We are not aware of any such relationships pertaining to the audit of Tayside Contracts.

Audit Quality

45. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

46. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

47. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

48. Audit Scotland is committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supplementary guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

49. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

Appendix 1. Your audit team

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



Fiona Owens
Audit Manager
fowens@audit-scotland.gov.uk

Fiona has 10 years of public sector audit experience with Audit Scotland and is a member of the Institute of Chartered Accountants Scotland. She has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.



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

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

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

Tayside Contracts JC

Annual Audit Plan 2022/23

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

www.audit-scotland.gov.uk/accessibility

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