

Fife & Forth Valley Community Justice  
Authority

Our Final Report to the Board on the  
2012 Audit

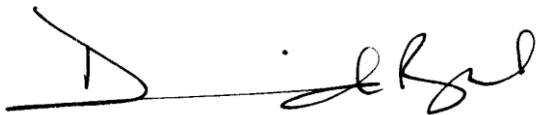
Dear Sirs

We have pleasure in setting out in this document our report to the Fife & Forth Valley Community Justice Authority for the year ended 31 March 2012 for discussion at the meeting scheduled for 25 October 2012. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2012.

In summary:

- The major issues, which are summarised in the Executive Summary, have now been largely addressed and our conclusions are set out in our report.
- There are a number of judgemental areas to which we draw your attention in our report which you should consider carefully.
- In the absence of unforeseen difficulties, management and we expect to meet the agreed audit and financial reporting timetable.

We would like to take this opportunity to thank the management team for their assistance and co-operation during the course of our audit work.

A handwritten signature in black ink, appearing to read 'D. J. [unclear]', written over a horizontal line.

Senior Statutory Auditor

Deloitte LLP

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# Executive summary

Status	Description	Detail
<b>Completion of the audit</b>		
<b>Our audit is largely complete</b>	<p>The status of the audit is as expected at this stage of the timetable agreed in our audit plan</p> <p>The following are the remaining areas we are required to complete to finalise the audit:</p> <ul style="list-style-type: none"> <li>• Our review of events since 31 March 2012; and</li> <li>• Receipt of signed management representation letter.</li> </ul>	N/A
<b>Overall view</b>		
<b>Anticipated unmodified audit opinion</b>	<p>On satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements.</p> <p>The matters that we have taken into account in forming our overall view are described in the following sections.</p>	N/A
<b>Significant identified risks</b>		
<b>We are satisfied with the treatment adopted for key audit risk areas</b>	<p>We discuss within <b>Section 1</b> the results of our work in relation to the key audit risk which have been identified as being significant for the current year accounts. These include:</p> <ol style="list-style-type: none"> <li>1. Revenue recognition; and</li> <li>2. Management override of controls.</li> </ol>	Section 1
<b>Our observations on your financial statements</b>		
<b>Disclosures agreed as in line with the Code of practice on local authority accounting in the United Kingdom 2011/12</b>	<p>We have performed a review of the financial statements against the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code). We have made comments in this report on the following:</p> <ul style="list-style-type: none"> <li>• Disclosure of critical accounting judgements and key sources of estimation uncertainty; and</li> <li>• Related party disclosure.</li> </ul>	Section 2

# Executive summary (continued)

Status	Description	Detail
<b>Our observations on the “front half” of your annual report</b>		
<b>Disclosures agreed as in line with the Code</b>	<p>We have performed a review of the financial statements against the requirements of the Code. We have made comments in this report on the following:</p> <ul style="list-style-type: none"> <li>• Statement of Assurance on the System of Internal Financial Control;</li> <li>• Remuneration Report; and</li> <li>• Going concern.</li> </ul>	Section 3
<b>Financial performance and outlook</b>		
<b>The net operating expenditure for the year was £12.48 million resulting in a surplus on provision of services of £0.009 million</b>	<p>The Board spent £12.48m in the year, and this resulted in a net £0.009m surplus. The general fund balance increased by this amount to a net assets position of £0.018m.</p> <p>The budgeted spend for 2012/13 is £12.356m, with the latest view at 31 July 2012 forecasting a £489k overspend against these projections. This overspend shall be recovered from the constituent authorities.</p>	Section 4
<b>Independence</b>		
<b>We are independent as stipulated by APB Ethical Standards of Auditors</b>	Our reporting requirements in respect of independence matters, including fees, are covered in <b>Section 5</b> .	Section 5
<b>Identified misstatements and disclosure misstatements</b>		
<b>No misstatements have been identified</b>	Audit materiality was £124,800. No material corrected or uncorrected misstatements have been identified. Details of recorded audit adjustments are included in <b>Appendix 1</b> . There are no disclosure deficiencies that we would like to bring to your attention:	Appendix 1
<b>Significant representations</b>		
<b>No non-standard representations</b>	A copy of the representation letter to be signed on behalf of the Board is included at <b>Appendix 2</b> . There are no non-standard representations.	Appendix 2

# Financial statements and corporate governance

## 1. Significant identified risks

Revenue recognition	
<b>Description of risk</b>	<p>Under ISA (UK and Ireland) 240 'The auditor's responsibility to consider fraud in an audit of financial statements there is a rebuttable presumption that there is a risk of fraud in relation to revenue recognition'.</p> <p>For Fife and Forth Valley Community Justice Authority, we have considered this risk to be around the completeness of participating council contributions.</p>
<b>Deloitte response</b>	<p>We have agreed funding to signed correspondence from each participating Council and traced all receipts through the bank account.</p>

Management override of controls	
<b>Description of risk</b>	<p>Management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent Financial Statements by overriding controls that otherwise appear to be operating effectively. The risk of management override of control is present in all entities. This risk cannot be pinpointed to an account balance or potential error and therefore specific procedures to respond to the risk of management override of controls should be designed and performed.</p>
<b>Deloitte response</b>	<p>We have obtained an understanding of the design and implementation of the key controls in place in relation to the posting of journal entries. We have performed year end procedures on a judgemental sample of journal entries posted in the year and confirmed the appropriateness of the journals posted.</p> <p>In addition, we have also conducted a review of significant accounting estimates in order to assess the reasonableness of managements' judgements in relation to these estimates. We have not noted any transactions that appear to by outwith the course of normal business.</p>

# Financial statements and corporate governance (continued)

## 2. Our observations on your financial statements

In the course of our audit of the financial statements, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understand ability and materiality of the information provided by the financial statements. Our comments on the quality and acceptability of the accounting policies and estimates are discussed below.

Disclosure of critical accounting judgements and key sources of estimation uncertainty	
<b>Description</b>	<p>IAS 1 requires disclosure of:</p> <ul style="list-style-type: none"> <li>the critical judgements made in the process of applying accounting policies, which have the most significant effects on the amounts recognised in the financial statements; and</li> <li>major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.</li> </ul> <p>No critical judgements have been identified by management. It has however been noted that there is a high degree of uncertainty about future levels of funding from local government, but this uncertainty has not been deemed sufficient to provide an indication that levels of service provision will be affected.</p>
<b>Deloitte response</b>	<p>We have assessed the above disclosures based upon our review of the accounts and understanding of the organisation and the significant risks we identified as part of our planning process. We have not identified any critical accounting judgements or key sources of estimation uncertainty that require to be disclosed.</p>

Related party disclosures	
<b>Description</b>	<p>The 2011/12 Code requires reporting of related party relationships, transactions and balances. The disclosure required in respect of central government departments, government agencies, NHS bodies and other local authorities are less detailed than in the 2010/11 Code. The Board have processes and controls in place to ensure transactions with these individuals are identified and appropriately approved and disclosed.</p>
<b>Deloitte response</b>	<p>We have not identified any undisclosed related party transactions, and consider this to be a relatively low risk disclosure for the Board.</p>

# Financial statements and corporate governance (continued)

## 3. Our observations on the 'front half' of your annual accounts

We are required to read the "front half" of your annual accounts to consider consistency with the financial statements and any apparent misstatements. Here we summarise our observations on disclosures in a number of key areas for high quality reporting:

### Statement of Assurance on the System of Internal Financial Control

*Regulations require English, Welsh and Northern Irish authorities to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review with any Statement of Accounts. "Delivering Good Governance in Local Government" published by CIPFA and SOLACE recommends that the review be reported in an Annual Governance Statement. Scottish local authorities are not subject to such statutory requirements but may adopt them voluntarily. Authorities that do not voluntarily choose to do this shall include a statement on the system of internal financial control with their Statement of Accounts.*

We have reviewed the Annual Governance Statement and noted that it complies with Internal Financial Control requirements.

### Remuneration Report

*Local authorities are required by an amendment to the 1985 Regulations to publish a remuneration report as part of their statement of accounts. Guidance was issued by the Scottish Government with finance circular 8/2011 which is intended to assist authorities in implementing this requirements, and provides a number of sample disclosures.*

Fife & Forth Valley Community Justice Authority has published a Remuneration Report as part of its statement of accounts, in accordance with the amendment regulations. The Remuneration Report provides details of the Board's remuneration policy for its senior employees, being the Chief Officer. In addition disclosure is made of the remuneration of senior councilors in the year.

We are satisfied that the remuneration report has been prepared in accordance with the amendment regulations and is consistent with the findings of our audit.



# Financial statements and corporate governance (continued)

## 3. Our observations on the 'front half' of your annual account (continued)

Going concern	
<p><i>“The purpose of the going concern assessment and disclosures should be to provide information to stakeholders about these matters and they should be designed to encourage appropriate business behaviours.”</i></p> <p>Lord Sharman November 2011</p>	<p>Relevant disclosures around the basis of preparation have been made within the financial statements. The balance sheet as at 31 March 2012 shows net assets of £0.018 million. Any additional costs payable by the Authority will be reclaimed from the constituent authority.</p> <p>We concur that it is appropriate to adopt a going concern basis for the preparation of the financial statements.</p>

# Performance and outlook

## 4. Financial performance and outlook

Financial Performance	2011/12	2010/11	2009/10
	£'000	£'000	£'000
Net Cost of Services	0	11	0
Financing and Investment	(10)	(8)	(8)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>(10)</b>	<b>3</b>	<b>(8)</b>
Actuarial gains/losses on pension assets/liabilities	0	0	0
<b>Total Comprehensive Income and Expenditure</b>	<b>(10)</b>	<b>3</b>	<b>(8)</b>

### Financial Performance

Fife and Forth Valley CJA is responsible for the disbursement of Section 27 Grant from the Scottish Government to Fife, Clackmannanshire, Falkirk and Stirling Local Authorities. In 2011-2012, the Fife and Forth Valley CJA was responsible for the disbursement of a total Section 27 Grant allocation of £12,274,398. An overspend of £141,723 was incurred and is the liability of the respective individual Local Authorities.

The Fife and Forth Valley CJA also receives a Grant from the Scottish Government for Administration purposes. In 2011-2012, the Grant received was £207,316. An underspend of £571 was generated and this will be repaid to the Scottish Government.

There is a surplus shown in the Comprehensive Income and Expenditure Account of £9,857 this represents interest received on revenue balances during the year. This has been added to the usable reserves.

### Usable Reserves balance

The CJA's Usable Reserves balance at 31 March 2012 was £17,898 (31 March 2011: £9,383). The movement is driven by interest received on revenue balances during the year of £9,857.

### Outlook

The budgeted spend for the financial year 2012/13 is £12.356m. Criminal Justice Social Work Services are funded via a ring fenced grant from the Scottish Government and budgeted spend is £12,148,540m. Individual local authorities are liable for any expenditure incurred over their agreed allocation. At the latest review as at 30<sup>th</sup> June 2012 there was a total projected expenditure outturn of £485,155 over grant allocation. There is an overspend in Core of £635,743, and an underspend in Non Core of £150,588.

Fife and Forth Valley Community Justice Authority can claim a maximum allocation of £207,316 in 2012/13 from the Scottish Government for the normal running costs of the CJA. The projection is that the administration grant will overall make an overspend of £3,960, in relation to additional deputy convener costs. The issue of Convener and Deputy Convener costs is being examined at a national level, jointly between all eight CJA's and the Scottish Government. It is anticipated that extra funding will be made available to those CJA's that have seen their costs increase.

# Other

## 5. Independence

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General, we are required to report to you on the matters listed below.

Confirmation	
<b>We are independent</b>	We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.

Non-audit services	
<b>No non audit services provided in the year</b>	<p>In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non audit services or of any apparent breach of that policy.</p> <p>There were no non audit services fees charged in relation thereto by Deloitte in the period from 1 April 2011 to 31 March 2012.</p>

Fees	
<b>Audit fee agreed within indicative range</b>	<p>The audit fee for the year has been agreed at £4,710 (inclusive of VAT) and is within the indicative fee range set by Audit Scotland. This fee incorporates the contribution to Audit Scotland covering your organisation's allocation of the costs of, among other things:</p> <ul style="list-style-type: none"><li>• the programme of national performance audits in Central Government as set out in the recently published forward programme;</li><li>• functions that support the local audit process (e.g. technical support and co-ordination of the National Fraud Initiative);</li><li>• Audit Scotland's other support costs; and</li><li>• auditors' travel and subsistence expenses.</li></ul>

Relationships	
<b>There are no business or personal relationships to report</b>	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its Board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its Board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>

# Other (continued)

## 6. Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by Audit Scotland, within the Code of audit practice, explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report has been prepared for the Board, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

### **Deloitte LLP**

Chartered Accountants  
Glasgow

25 October 2012

# Appendices

## 1 - Audit adjustments

### Uncorrected misstatements

We noted no material uncorrected misstatements. We report to you on all misstatements over our reporting threshold of £6,240.

### Corrected misstatements

We noted no material corrected misstatements. We report to you on all misstatements over our reporting threshold of £6,240.

### Disclosure misstatements

We would suggest the following enhancements to the disclosures in the financial statements as follows;

- Additional disclosures in relation to related parties, segmental analysis and post balance sheet events; and
- Additional note providing a reconciliation of non-cash movements within the cash flow statement.

The final draft of the accounts incorporates all these points.

# Appendices (continued)

## 2 - Representation letter

Deloitte LLP  
Lomond House  
9 George Square  
Glasgow  
G2 1QQ

Our Ref: FFVCJA/2012

***Date: at time of signing***

Dear Sirs,

This representation letter is provided in connection with your audit of the annual financial statements ("the financial statements") of Fife & Forth Valley Community Justice Authority for the year ended 31 March 2012 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Fife & Forth Valley Community Justice Authority as of 31 March 2012 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with proper practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom. We are aware that it is an offence to mislead a Board auditor.

As Responsible Financial officer and on behalf of the Board, I confirm to the best of my knowledge and belief, the following representations.

### *Financial statements*

1. I understand and have fulfilled my responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), which give a true and fair view, as set out in the terms of the audit engagement letter.
2. We have provided you with all relevant information and access as agreed in the terms of the audit engagement letter with Audit Scotland. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.
3. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of *IAS24 "Related party disclosures"*
5. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
6. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole.
7. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate the Authority or cease operating as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Authority's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
8. We have considered the valuation of the Authority's Property, Plant and Equipment, and are not aware of any circumstances indicating volatility in asset values requiring a revaluation in the current year
9. With respect to the revaluation of properties in accordance with the Code:
  - a) the measurement processes used are appropriate and have been applied consistently, including related assumptions and models;
  - b) the assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity where relevant to the accounting estimates and disclosures;
  - c) the disclosures are complete and appropriate.
  - d) there have been no subsequent events that require adjustment to the valuations and disclosures included in the financial statements.
10. We confirm that we consider that depreciated historic cost is an appropriate proxy for the fair value of non-property assets, and are not aware of any circumstances that would indicate that these assets require revaluation.

*Information provided*

11. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
12. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
13. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

14. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
15. *We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects Fife & Forth Valley Community Justice Authority and involves:*
  - (i). management;
  - (ii). employees who have significant roles in internal control; or
  - (iii). others where the fraud could have a material effect on the financial statements.
16. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
17. We are not aware of any actual or possible instances of non-compliance with laws and regulations.
18. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
19. No claims in connection with litigation have been or are expected to be received.
20. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
21. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.
22. I confirm that I have appropriately discharged my responsibility for the regularity of transactions.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed as Responsible Financial Officer, and on behalf of the Authority



# Appendices (continued)

## 3 – Additional resources available to you

Additional information on current and future technical developments	
<b>IASPlus</b>	<p>The IAS Plus website, maintained by Deloitte, provides the most comprehensive information on the Internet about international financial reporting. It is aimed at accounting professionals, businesses, financial analysts, standard-setters and regulators, and accounting educators and students. The site, which is totally free of charge, has a broad array of resources about the International Accounting Standards Board, International Financial Reporting Standards, and international accounting and auditing in general. It includes:</p> <ul style="list-style-type: none"> <li>• Summaries of all IASB standards and interpretations;</li> <li>• Background on all IASB and IFRIC agenda projects plus summaries of all IASB and IFRIC meetings;</li> <li>• Comparisons of IFRSs and various local GAAPs;</li> <li>• Updates on national accounting standards development in around 80 countries and regions throughout the world; and</li> <li>• Free e-learning modules for each IAS and IFRS – made available at no charge in the public interest.</li> </ul> <p>The site is available to browse at any time; alternatively you can subscribe to e-mail alerts and newsletters by going to <a href="http://www.iasplus.com/subscribe.htm">http://www.iasplus.com/subscribe.htm</a>.</p>
<b>Our range of publications</b>	<p>Our iGAAP books are available to our clients electronically and in hard copy. These include our major manuals providing comprehensive, practical guidance; model annual report and financial statements; and our major text on financial instruments providing in depth support to preparers and auditors in this challenging area.</p> <p>Our range also includes quarterly iGAAP newsletters providing a roundup of recent developments. iGAAP and ukGAAP alerts are issued whenever a new exposure draft or standard is issued.</p>
<b>Stay tuned online: Internet-based corporate reporting updates</b>	<p>The Deloitte UK Technical Team run a series of internet-based financial reporting updates, aimed at helping finance teams keep up to speed with IFRS, UK GAAP and other reporting issues.</p> <p>Each update lasts no more than one hour, and sessions are held three times a year, at the end of March, July and November. Recordings of past sessions are available via <a href="http://www.deloitte.co.uk/audit">www.deloitte.co.uk/audit</a>.</p>
<b>Audit podcasts</b>	<p>Our leading experts provide you with a short discussion of new IFRS standards and practical insights. These can be accessed via our website, <a href="http://www.deloitte.co.uk/audit">www.deloitte.co.uk/audit</a>. Alternatively, you can subscribe to our podcasts via iTunes – just search for Deloitte IFRS.</p>

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