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# Tayside Community Justice Authority

Annual audit report to the members of Tayside Community  
Justice Authority and the Auditor General for Scotland

Year ended 31 March 2013

31 October 2013



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**About this report**

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of the Tayside Community Justice Authority ("the Authority") and is made available to Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.



## Executive summary Headlines

This annual audit report summarises our findings in relation to the audit of Tayside Community Justice Authority for the year ended 31 March 2013. Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the Code").

This report also sets out those matters specified by ISA (UK and Ireland) 260: *Communication with those charged with governance in relation to the financial statements for the year ended 31 March 2013*.

We wish to record our appreciation of the continued co-operation and assistance extended to us by staff during the course of our work.

Area	Summary observations	Analysis
<b>Use of resources</b>		
Financial position	For the year ended 31 March 2013 the Authority reported a net cost of services of £8,351,000, which was funded by Scottish Government 'Section 27' and 'CJA administration' grants.	Page 5
<b>Financial statements and accounting</b>		
Accounting policies	The Code of Practice on Local Authority Accounting in the United Kingdom 2012-13 ("the Code") did not include any major amendments which impacted on the preparation of the Authority's financial statements. There have been no changes to accounting policies in 2012-13, which have been applied consistently.  We have highlighted to management to remain aware of any applicable guidance in respect of accounting for the Authority's participation in the Tayside Pension Fund.	Page 7
Key judgement areas	There are no key accounting judgements in relation to the preparation of the financial statements.	Page 7
Audit conclusions	We have issued an unqualified audit opinion on the 2012-13 financial statements.	Page 8
Year-end process	The unaudited financial statements were made available on a timely basis and were accompanied by working papers of an appropriate standard. There were no uncorrected audit misstatements arising from our work.	Page 8
<b>Governance and narrative reporting</b>		
Corporate governance arrangements	Over-arching and supporting corporate governance arrangements remain primarily unchanged and provide a sound framework for organisational decision-making.  We are satisfied that the content of the statement on the system of internal financial control meets the requirements of the Code of Practice, and is consistent with our understanding of the Authority's activities.  The remuneration report has been prepared in accordance with relevant guidance.	Page 10
Other matters	We are satisfied that arrangements in respect of maintaining standards of conduct and the prevention and detection of fraud and corruption are appropriate for the Authority's circumstances.	Page 10

### Purpose of this report

Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit of the Authority's financial statements for 2012-13. It is addressed to both those charged with governance at the Authority and the Auditor General for Scotland. The scope and nature of our audit were set out in our audit strategy document which was presented to the Authority at the outset of our audit.

### Responsibilities

The Chief Officer's responsibilities are set out in the statement of responsibilities within the financial statements. As set out within that statement, it is the responsibility of the Treasurer to prepare the financial statements in accordance with the proper practices set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13.

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. Together with our previous report, this annual audit report to the Authority discharges the requirements of ISA 260.

# Use of resources

Our perspective on the Authority's use of resources

For the year ended 31 March 2013, the Authority reported a net cost of services of £8,351,000, which was funded by the Scottish Government 'Section 27' and 'CJA administration' grants.

#### Financial position

The Authority received an initial grant allocation of £7.891 million, which was subsequently increased to £8.127 million after confirmation of additional grant allocation in respect of a pilot project for a community integration unit and payback funding for the sports facilities fund. In addition, an administration grant of £224,880 was received.

Expenditure was in line with the revised budget following the additional grant funding. There were no significant variances in any expenditure line.

#### Balance sheet

The Authority has no long term assets, with working capital balances reflecting primarily the debtor and cash balances held to settle the final grant funding retentions which are withheld until the annual audited statements of expenditure are completed.

In line with expectations and the funding position of the Authority, there are no carry forward useable reserves as at 31 March 2013.

	Budget 2012-13 £'000	Actual 2012-13 £'000	Over / (under) spend £'000
Staff costs	155	150	(5)
Property costs	14	13	(1)
Supplies and services	25	27	2
Transport costs	4	5	1
Third party payments	5	4	(1)
Support services	22	25	3
Funds disbursed to constituent authorities	8,127	8,127	-
<b>Gross expenditure</b>	<b>8,352</b>	<b>8,351</b>	<b>(1)</b>
CJA administration grant	(225)	(224)	1
Section 27 grant	(8,127)	(8,127)	-
<b>Total income</b>	<b>(8,352)</b>	<b>(8,351)</b>	<b>(1)</b>
<b>Net (surplus) / deficit</b>	<b>-</b>	<b>-</b>	<b>-</b>

# Financial statements and accounting

Our perspective on the preparation of the  
financial statements and key accounting  
judgements made by management



## Financial statements and accounting

### Accounting policies

There have been no substantive changes to the financial reporting framework as set out in the *Code of practice on Local Authority Accounting in the United Kingdom 2012-13*.

There have been no changes to accounting policies in 2012-13. All accounting policies have been applied consistently.

There are no key accounting judgements made in the preparation of the financial statements.

Accounting framework and application of accounting policies	
Area	KPMG comment
<b>Code of practice on Local Authority Accounting in the United Kingdom 2012-13</b>	<p>The 2012-13 financial statements have been prepared in accordance with the Code of Practice which is based upon International Financial Reporting Standards ("IFRS"). The 2012-13 Code of Practice had a number of amendments from the 2011-12 version which included:</p> <ul style="list-style-type: none"> <li>changes in relation to the objective of the financial statements and the qualitative characteristics of financial information; and</li> <li>encouragement for local authorities to prepare the Explanatory Forward taking into consideration the requirements of the Government's Financial Reporting Manual (FRM).</li> </ul> <p>Management has considered that the information provided within the Chief Officer's Report and Treasurer's Report meets the requirements of the 2012-13 Code of Practice.</p>
<b>Accounting policies</b>	<ul style="list-style-type: none"> <li>There have been no significant changes in accounting policies in 2012-13.</li> <li>We are satisfied that all accounting policies have been applied consistently and are appropriate for the Authority's activities.</li> <li>We do, however, note that the Authority continues to account for its participation in the Tayside Pension Fund as if it were a defined contribution scheme. As the Authority only has three employees, management do not believe that it is practical or represents value for money to seek to obtain an actuarial valuation of potential pension liabilities which could be directly attributable to the Authority in respect of the Tayside Pension Fund. In addition, the statutory set-up of the Authority makes it unclear whether the mitigation in respect of the impact of pension fund accounting through the movement in reserves statement, as set out in the Code of Practice, is applicable to the Authority. We would recommend that management continue to be aware of any guidance available in this area prior to preparation of the financial statements in 2013-14</li> </ul> <p style="text-align: right;"><b>Recommendation one</b></p>
<b>Key accounting judgements</b>	<ul style="list-style-type: none"> <li>There are no key accounting judgements made in the preparation of the Authority's financial statements.</li> </ul>





## Financial statements and accounting

### Audit conclusions

**We have issued an unqualified audit opinion on the financial statements.**

**The unaudited financial statements were made available on a timely basis and were accompanied by working papers of an appropriate standard.**

#### Audit conclusions

We have issued an unqualified opinion on the truth and fairness of the state of the Authority's affairs as at 31 March 2013, and of its expenditure and income for the year then ended. The financial statements have been properly prepared in accordance with the 2012-13 Code of Practice. There are no matters identified on which we are required to report by exception.

In gathering the evidence for our opinion we have:

- performed a mixture of substantive and controls testing to ensure an efficient approach that covers all the key risks;
- reviewed assumptions and judgements made by management and considered these for appropriateness;
- considered if the financial statements may be affected by fraud through discussions with senior management and internal audit to gain a better understanding of their work in relation to prevention and detection of fraud with the potential to impact on the financial statements;
- obtained confirmation from the auditors of the three constituent councils that funding provided to those councils has been applied for the purposes of the Authority; and
- submitted our audit strategy and this annual audit report to communicate our findings to those charged with governance.

#### Financial statements preparation

- The unaudited financial statements were authorised for issue by the Treasurer of the Authority on 26 September 2013, and passed to us for audit on 27 September 2013. This was in line with the statutory requirements and the agreed audit timetable.
- Good quality supporting documentation was made available in electronic format to support the unaudited financial statements.
- There are no significant matters in respect of (i) audit differences; (ii) auditor independence and non-audit fees; and (iii) management representation letter content, as reported in appendix one.
- We have made one recommendation in respect of management action, which is included in the action plan in appendix three.

# Governance and narrative reporting

Update on your governance arrangements

Our overall perspective on your narrative reporting, including the remuneration report and annual governance statement



## Governance and narrative reporting

# Corporate governance arrangements

**Over-arching and supporting corporate governance arrangements remain primarily unchanged and provide a sound framework for organisational decision-making.**

**We are satisfied that the content of the statement on the system of internal financial control meets the requirements of the Code of Practice and is consistent with our understanding of the Authority's activities.**

**The remuneration report has been prepared in accordance with relevant guidance.**

<p>Corporate governance and internal control arrangements</p>	<p>Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all bodies.</p> <p>The responsibilities of the Authority and its Treasurer for establishing arrangements for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements are outlined in the statement of responsibilities in the financial statements. The Authority meets at appropriate times during 2012-13 to discharge these responsibilities.</p> <p>The Authority utilises the key financial systems of Dundee City Council under service level agreement. We undertook appropriate systems audit work as part of our 2012-13 audit of Dundee City Council, with any findings reported to Council management. No audit findings relating uniquely to the Authority were identified.</p>
<p>Statement on the system of internal financial control</p>	<p>The Authority has prepared a statement on the system of internal financial control which outlines the framework of arrangements within which financial control is managed. No significant weaknesses in financial control have been identified, and disclosed within the statement. We are satisfied that the content of the statement on the system of internal financial control meets the requirements of the Code of Practice, and is consistent with our understanding of the Authority's activities.</p> <p>An assessment of the governance and internal control arrangements in respect of the Section 27 grant within the constituent councils was made by the head of criminal justice services within each council, based on completion of a 25 point checklist. The results were primarily positive, but with two areas identified for continual monitoring and improvement.</p>
<p>Remuneration report</p>	<p>In accordance with regulations, the Authority's remuneration report sets out the remuneration arrangements for members and senior management. We are satisfied that this has been prepared in accordance with the requirements of the regulations and other relevant guidance issued by the Scottish Government.</p>
<p>Maintaining standards of conduct and the prevention and detection of fraud and corruption</p>	<p>The members of the Authority are drawn from the constituent councils, and as such are bound by the respective codes of conduct of those councils. Administration of the financial records of the Authority is undertaken by Dundee City Council staff who are subject to that Council's policies on standards of conduct, fraud and corruption.</p> <p>We are satisfied that these arrangements are appropriate for the Authority's circumstances.</p>

# Appendices



## Appendix one Mandatory communications

There were no changes to the core financial statement and there are no unadjusted audit differences.

Area	Key content	Reference
<b>Adjusted audit differences</b> Adjustments made as a result of our audit	There were no audit adjustments required to the unaudited financial statements which impacted on the net assets or the surplus and deficit for the year.	-
<b>Unadjusted audit differences</b>	We are required by ISA (UK and Ireland) 260 to communicate all uncorrected misstatements, other than those which are trivial, to you.  There are no unadjusted audit differences.	-
<b>Confirmation of Independence</b> Letter issued by KPMG to the Authority	We have considered and confirmed our independence as auditors and our quality procedures, together with the objectivity of our Audit Director and audit staff. Other than in respect of our audit, there were no fees payable to us.	Appendix two
<b>Draft management representation letter</b> Proposed draft of letter to be issued by the Authority to KPMG prior to audit sign-off	In accordance with International Standards on Auditing (UK & Ireland), management is required to provide us with representations on specific matters such as your financial standing, application of accounting policies, and whether the transactions in the financial statements are legal and unaffected by fraud.	-

**Auditing Standards require us to consider and confirm formally our independence and related matters in our dealings with the Authority.**

**We have appropriate procedures and safeguards in place to enable us to make the formal confirmation in our letter included opposite.**

### **Auditor independence**

Professional ethical standards require us to provide to you at the conclusion of an audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed. This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence.

We have considered the fees paid to us by the Authority and its related entities for professional services provided by us during the reporting period. There were no fees payable other than in respect of our audit.

We are satisfied that our general procedures support our independence and objectivity.

### **General procedures to safeguard independence and objectivity**

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Regular communications
- Internal accountability

- Risk management
- Independent reviews

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

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

### **Confirmation of audit independence**

We confirm that as of 28 October 2013, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

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

Yours faithfully

KPMG LLP

The action plan summarises specific recommendations, together with related risks and management’s responses.

### Priority rating for recommendations

**Grade one** (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the entity or systems under consideration. The weaknesses may therefore give rise to loss or error.

**Grade two** (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

**Grade three** (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<b>1 Pension accounting policy</b>		<b>Grade three</b>
The Authority continues to account for its participation in the Tayside Pension Fund on a defined contribution basis, based on management’s consideration of the relevant statutory principles and the acknowledgement that the Authority has only three employees.	We recommend that management continue to be aware of any relevant guidance in respect of accounting for the Authority’s participation in the Tayside Pension Fund, and ensuring the Authority’s practice is in line with that adopted by other community justice authorities.	Agreed <b>Responsible officer(s):</b> Treasurer <b>Implementation :</b> 30 September 2014



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