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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 2014

25 November 2014

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in connection with this
report are:**

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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 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. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the beneficiaries alone.

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 (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a beneficiary's publication scheme or otherwise) 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 (“the Authority”) for the year ended 31 March 2014. 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 2014.

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

| Area | Summary observations | Analysis |
|--|---|----------|
| Use of resources | | |
| Financial position | For the year ended 31 March 2014 the Authority reported a net cost of services of £8.194 million which was funded by Scottish Government ‘Section 27’ and ‘CJA administration’ grants. | Page 5 |
| Financial statements and accounting | | |
| Accounting policies | The Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 (“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 2013-14, which have been applied consistently. We have highlighted management need to continue to be 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 2013-14 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 |
| 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. | 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 Tayside Community Justice Authority's ("the Authority's") financial statements for the year ended 31 March 2014. 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 2013-14.

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. 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 2014, the Authority reported a net cost of services of £8.194 million which was funded by the Scottish Government 'Section 27' and 'CJA administration' grants.

Financial position

The Authority received an initial grant allocation of £7.828 million in respect of the year ended 31 March 2014, a small decrease compared with the year ended 31 March 2013 (£7.891 million). This budget was subsequently increased to £8.069 million after confirmation of additional grant allocations in respect of:

- a pilot project for a community integration unit;
- the extension of the pilot programme for the fiscal work orders; and
- a grant in relation to services for women offenders.

In addition, an administration grant of £227,129 was received, a small increase on the previous year.

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

Balance sheet

The Authority holds no long term assets, with working capital balances primarily relating to 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 by constituent local authorities.

| | Budget 2013-14 £'000 | Actual 2013-14 £'000 | Over / (under) spend £'000 |
|--|----------------------------|----------------------------|----------------------------------|
| Staff costs | 154 | 151 | (3) |
| Property costs | 14 | 13 | (1) |
| Supplies and services | 24 | 29 | 5 |
| Transport costs | 4 | 3 | (1) |
| Third party payments | 4 | 4 | - |
| Support services | 25 | 25 | - |
| Funds disbursed to constituent authorities | 8,069 | 7,969 | (100) |
| Gross expenditure | 8,294 | 8,194 | (100) |
| CJA administration grant | (227) | (227) | - |
| Section 27 grant | (8,069) | (7,969) | 100 |
| Total income | (8,296) | (8,196) | 100 |
| Net (surplus) / deficit | (2) | (2) | - |

Financial statements and accounting

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

There have been no substantive changes to the financial reporting framework as set out in UK GAAP and the Code of Practice, and applicable accounting standards.

There have been no changes to accounting policies in 2013-14. All accounting policies have been applied consistently.

The financial statements have been prepared on a going concern basis.

| Accounting framework and application of accounting policies | |
|---|---|
| Area | KPMG comment |
| Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 (“the Code”) | <ul style="list-style-type: none"> ■ The 2013-14 financial statements have been prepared in accordance with the Code of Practice which is based upon International Financial Reporting Standards (“IFRS”). ■ There have been no substantive changes in the Code’s financial reporting requirements, and consequently there are no material changes to the Council’s accounting policies. ■ We are satisfied that the accounting policies adopted remain appropriate to the business, and have been applied consistently. |
| Accounting policies | <ul style="list-style-type: none"> ■ There have been no significant changes in accounting policies in 2013-14. ■ We are satisfied that all accounting policies have been applied consistently and are appropriate for the Authority’s activities. ■ We 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 consider 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. In line with previous recommendations, management will 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. |
| Key accounting judgements | <ul style="list-style-type: none"> ■ There are no key accounting judgements made in the preparation of the Authority’s financial statements. |
| Going concern | <ul style="list-style-type: none"> ■ The authority had net current liabilities of £3,000 at the balance sheet date. Cash at bank totalled £663,000. ■ Sundry creditors of £866,000 primarily includes the final retention payment due to constituent local authorities. The Authority receives annual grant funding which is distributed to authorities and incurs minimal other costs or overheads. ■ Based on this information, the treasurer has confirmed that in her view that it has adequate resources to continue in operational existence for the foreseeable future. We are therefore satisfied that is appropriate to adopt the going concern assumption for the preparation of the financial statements. |

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

The Authority continues to prepare good quality draft financial statements for audit.

There were no audit adjustments made to the draft financial statements presented for audit. There are no unadjusted audit differences.

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 2014, and of its expenditure and income for the year then ended. The financial statements have been properly prepared in accordance with the 2013-14 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 2014, and passed to us for audit on the same day. 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.

Significant risks

We did not identify any matters which were considered to be significant risks, as defined by International Standards on Auditing. Specifically, we rebutted the assumed risk in respect of fraudulent revenue recognition since the income is derived from grant allocations. No instances of management override of controls were identified during the course of our work.

Governance and narrative reporting

Update on your governance arrangements

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

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 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 2013-14 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 positive, with the exercise indicating a high level of compliance with good practice.</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

| Area | Key content | Reference |
|---|---|--------------|
| Adjusted audit differences 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 for the year. | - |
| Unadjusted audit differences | 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. | - |
| Confirmation of Independence Letter issued by KPMG to the Authority | We have considered and confirmed our independence as auditor 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 |
| Draft management representation letter 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 25 November 2014, 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 letter is intended solely for the information of the Authority and should not be used for any other purpose.

Yours faithfully

KPMG LLP



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