

Fife & Forth Valley
Community Justice
Authority



Final Report to the Members and the Auditor General on the 2014/15 audit

27 October 2015

the
Distinctive
audit

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An overview of our audit plan:

- Materiality: £122,674 (2013/14: £128,756)
- Performance materiality: £110,407 (2013/14: £115,880).
- Threshold for reporting misstatements: £6,134 (2013/14: £6,430).
- International Standards on Auditing require us to identify and assess the risk of material misstatement and to identify areas of risk that will require focused consideration. The following are identified significant risks: revenue recognition and management override of controls.
- **Fully substantive audit** - We have not placed any reliance on internal controls and our audit work was fully substantive. We assessed the design and implementation of controls as part of our planning procedures, to assess the sufficiency of the control environment governing the production of financial information.
- We were informed by the work of Clackmannanshire Council's internal auditors in relation to key financial controls to shape our audit procedures and approach.



Partner Introduction

Partner Introduction

Financial statement audit

I have pleasure in presenting our final report to the Authority for the 2014/15 audit. I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

The key risks and judgements in the audit process related to:

- Revenue recognition
- Management override of controls

We have not identified any misstatements during our audit.

Based on the current status of our audit work, we envisage issuing an unmodified audit opinion.

Status of the audit

The audit is substantially complete subject to the completion of the following principal matters:

- Receipt of signed management of representation letter; and
- Our review of events since 31 March 2015.

Audit quality is our number one priority. When planning our audit we set the following audit quality objectives for this audit:

A robust challenge of the key judgements taken in the preparation of the financial statements.

A strong understanding of your internal control environment.

A well planned and delivered audit that raises findings early with those charged with governance.

Partner Introduction (continued)

Public sector audit dimensions

We have commented below on the Audit Scotland impact dimensions with regard to Fife and Forth Valley Community Justice Authority (FFV CJA).

Financial sustainability

Financial sustainability continues to be one of the most significant challenges and risks for the public sector.

The 2015/16 grant allocation of £12.167m has been awarded by the Scottish Government which represents an increase of £483k on 2014/15.

The Future Model for Community Justice in Scotland will result in the CJA being formally dis-established on 31 March 2017. FFV CJA will continue to provide a wide range of information to assist with the transition. The funding arrangements for this are still to be agreed.

Financial Management

The final outturn reported group expenditure of £12.267m, comprising £12.034m payments to other local authorities in respect of section 27 grants, and £233k administration costs. The latter was £14k over the grant settlement and was funded by interest on revenue balances.

The CJA closely monitors budget and actual expenditure through regular reporting to the Authority.

Best Value (BV)

FFV CJA Area Plan and accompanying Action Plan 2014-17 was approved by the Board on 16 June 2014 setting out the strategic priorities and outcomes for the Authority. This Area Plan was also approved by a scrutiny panel comprising the Scottish Government, Scottish Prison Service, COSLA and Criminal Justice Social Work.

Progress against this is monitored regularly by the Board.

Governance and Transparency

The CJA Board meets on a regular basis to assess performance of the Board against budget and to determine any risks affecting the entity.

Partner Introduction (continued)

Significant risk dashboard



Fraud risk	Controls approach and findings	Consistency of judgements with Deloitte expectations	Comment
Revenue Recognition - Completeness of income			
✓	Evaluate design / implementation of key controls. No controls reliance. No significant observations.	●	We are satisfied that revenue has been appropriately recognised and noted no issues regarding completeness of income.
Management override of controls			
✓	Evaluate design / implementation of key controls. No controls reliance. No significant observations.	●	<p>We have noted no issues with journal entries and other adjustments made in the preparation of the financial statements.</p> <p>Our review of accounting estimates for bias that could result in material misstatement due to fraud noted no issues.</p>

Overly prudent, likely to lead to future credit      Overly optimistic, likely to lead to future debit.

Scope, nature and extent of audit

Scope, nature and extent of audit

Our overall responsibility as external auditor of FFV CJA is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

The special accountabilities that attach to the conduct of public business, and the use of public money, means that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements and associated documents such as governance statements, but providing a view also, where appropriate, on matters such as regularity (or legality), propriety, performance and use of resources in accordance with the principles of Best Value and 'value for money'.

Our core audit work as defined by Audit Scotland comprises:

- Providing the Independent Auditor's Report on the financial statements;
- Providing the annual report on the audit to those charged with governance;
- Providing reports to management, as appropriate, in respect of the auditor's corporate governance responsibilities in the Code (including auditors' involvement in National Fraud Initiative (NFI)); and
- Submit fraud returns, including nil returns, to Audit Scotland.



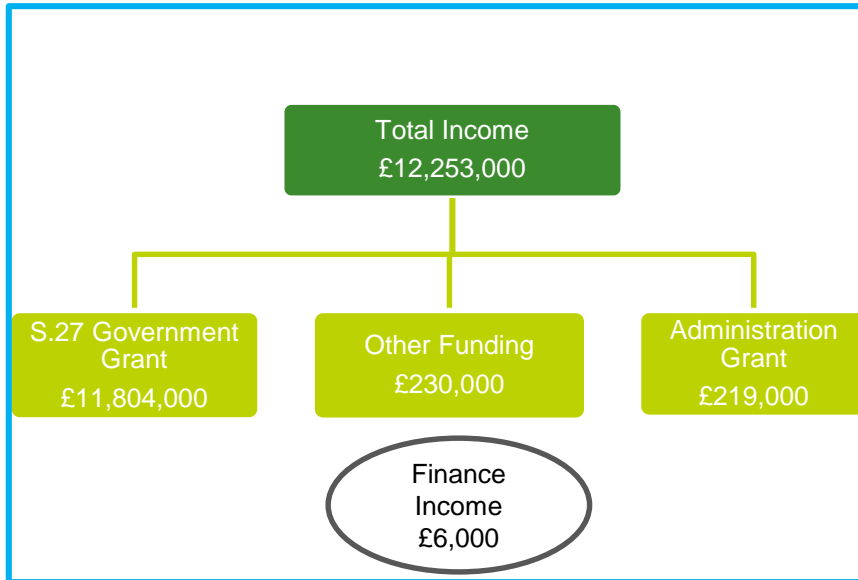
Significant risks

Revenue recognition

Risk Identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

For the Authority, we have considered this risk to be around the completeness of grant income from the Scottish Government given the significance of this to the organisation.



Key judgements

We have reviewed the treatment of income in the year to consider whether it is line with IFRS guidance and the Code. We have obtained a copy of the 2014/15 budget approved by the Board detailing the requisitions due from the Scottish Government which have been agreed to the amount recognised by the Board. We have also agreed the amounts received through the bank account.

Deloitte response

- No issues noted from our review of the treatment of income in the year, which has been accounted for in line with the Code.
- We have agreed all income received to bank statements and journal entries.

Management override of controls

Risk Identified

International Standards on Auditing require auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor.

This recognises that management within Clackmannanshire Council acting on behalf of the Authority 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.

Key judgements

Our audit work is designed to test for instances of management override of controls.

Amongst procedures performed was journal entry testing and evaluation of key management controls' design and implementation. Trial balance management at year end was also evaluated, and board meeting minutes and internal audit reports reviewed for potential override risks.

Deloitte response

- No issues noted around journal entries and other adjustments made in the preparation of the financial statements.
- Our review of accounting estimates for bias that could result in material misstatement due to fraud noted no issues.
- Retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements completed with no issues noted.
- We have not noted any transactions that appear to be outwith the course of normal business.

Financial performance and outlook

Best value, use of resources and performance

Financial performance and outlook

The tables below illustrate how the Board's performance with respect to this year's bottom line compares with prior year.

	2013/14 £	2014/15 £	Movement
Net Expenditure	21,517	14,770	(6,747)
Financing and Investment Income	<u>(17,191)</u>	<u>(5,770)</u>	<u>11,421</u>
Total Comprehensive Expenditure	4,326	9,000	4,674

Comments on the key variances in 2014/15 are as follows:

- £12.267m was spent in 2014/15 which is £0.609m less than in 2013/14 and £0.233m greater than the 2014/15 budgeted allocation – however, spending over and above the allocation was for staff and service costs not included within the budget.
- The reduction in expenditure is largely due to a reduced cost in financial services during the year as a result of efficiencies and reducing payments made to other bodies by £0.611m.
- Income for 2014/15 was £12.253m, down £0.601m from 2013/14, largely as a result of a £759k decrease in the Section 27 Grant from the Scottish Government.

Governance and accountability

Governance and Transparency

Governance arrangements are operating effectively

In accordance with the Code of Audit Practice, we are required to consider and formally report in relation to the following key matters:



We confirm that we have reviewed the arrangements in each of the four areas and have identified no issues in this regard.

The Authority met on a regular basis during 2014/15 in order to review performance to date, and to monitor changes from budget.

We are comfortable with the fraud arrangements in place and confirm there have been no frauds of which management have made us aware.

Internal Audit services continue to be provided through Clackmannanshire Council's Chief Internal Auditor.

Your Annual Report

Our comments on your annual report

We welcome this opportunity to set out for the Board our observations on the annual report. We are required to read the “front half” of your annual report to consider consistency with the financial statements and any apparent misstatements. Here we summarise our observations on your response to these areas:

Deloitte response

Explanatory Foreword

As the FFV CJA is a central government body, the new requirements for a management commentary as specified in the Local Authority Accounts Regulation (Scotland) 2014 do not apply. The Authority has therefore continued to prepare an Explanatory Foreword.

We have read the Explanatory Foreword in full to ensure that it is in line with our understanding of the Authority and complies with Code. We are satisfied with the contents of this report.

Statement on the System of Financial Control

FFV CJA have chosen not to publish a wider Annual Governance Statement within its statement of accounts. It has therefore included a Statement on the System of Financial Control. The format and content of the statement is consistent with the requirements of the Code and concludes that reasonable assurance can be placed on the adequacy and effectiveness of the Authority’s internal control system in the year to 31 March 2015.

This is consistent with the findings of our audit.

Remuneration Report

The financial memorandum requires CJA’s remuneration report to follow the principles in the local government regulations and guidance. The remuneration report has been prepared in accordance with the requirements of the Local Authority Accounts (Scotland) Regulations 2014, disclosing the remuneration of the senior employees working for the Authority.

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

Purpose of our report and responsibility statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Authority and Auditor General discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK and Ireland) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Other insights we have identified from our audit.

What we don't report

- As you will be aware, our audit was not designed to identify all matters that may be relevant to the Authority.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan and the supplementary "briefing on audit matters" previously circulated to you.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

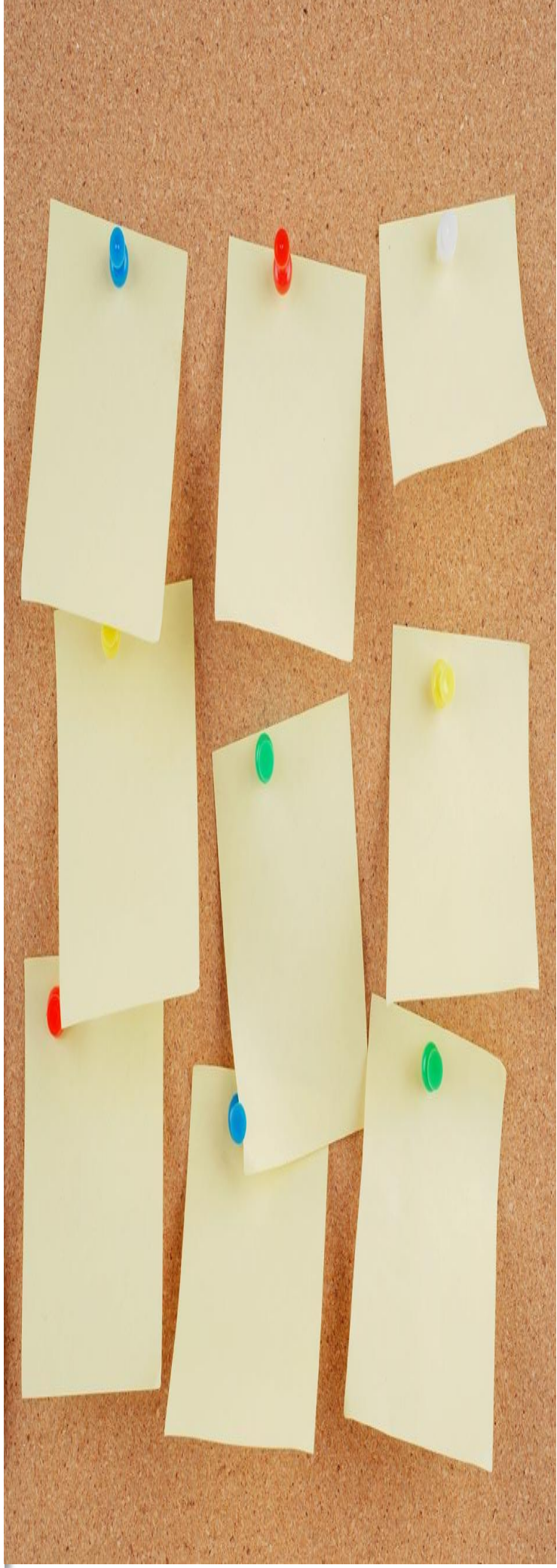
Deloitte LLP

Chartered Accountants

Edinburgh

27 October 2015

Appendices



Audit adjustments



Summary of uncorrected and corrected misstatements

Uncorrected misstatements

- There have been no uncorrected misstatements noted during the process of our audit work

Corrected misstatements

- There have been no corrected misstatements noted during the process of our audit work.

Disclosure misstatements

- Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. We have noted no material disclosure deficiencies in the course of our audit work.

Fraud responsibilities and representations

Responsibilities explained



Responsibilities

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations

We have asked the Authority to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the Authority to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed

- In our planning we identified the risk of fraud in revenue recognition and management override of controls as key audit risks for the Board.
- During course of our audit, we have had discussions with management and those charged with governance.

Concerns

- As set out above we have identified the inherent risk of fraud in other income recognition and management override of controls as a key audit risk for your organisation.

Independence and fees

There are no issues we wish to raise to you



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:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	The audit fee for the year has been agreed at £4,500 (inclusive of VAT and Audit Scotland fixed charge) and is within the indicative fee range set by Audit Scotland. There were no non-audit services for the period.
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Authority's policy for the supply of non-audit services or of any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	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. We are not aware of any relationships which are required to be disclosed.

Events and publications

Our publications to support the Authority

IAS Plus

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:

- Summaries of all IASB standards and interpretations;
- Background on all IASB and IFRIC agenda projects plus summaries of all IASB and IFRIC meetings;
- Comparisons of IFRSs and various local GAAPs;
- Updates on national accounting standards development in around 80 countries and regions throughout the world; and
- Free e-learning modules for each IAS and IFRS – made available at no charge in the public interest. The site is available to browse at any time; alternatively you can subscribe to e-mail alerts and newsletters by going to <http://www.iasplus.com/subscribe.htm>

Finance Business Partnering – A Public Sector View

Deloitte's research into Finance Business Partnering has analysed the responses of 75 senior Finance executives from UK headquartered organisations, including 20 public sector organisations across central government departments, arm's length bodies and agencies.

The results were as follows:

- No Public Sector respondents see Finance as their primary source of insight for decision-making. As the need to demonstrate and contribute to value for money becomes more important than ever, Public Sector Finance teams must look to position themselves as a central part of decision-making.
- Fifty-three per cent of Public Sector respondents recognise a lack of appropriate skills and behaviours in their existing teams as a barrier to more effective Business Partnering. This is an issue also felt by the Private Sector, which creates fierce competition for skills.
- Deloitte analysis finds that role definition drives skill demonstration. CFO's are looking at the wrong problem. It is not a lack of skills but a lack of role definition that they need to address.,



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