



Glasgow Community Justice Authority

Annual audit report to
Members and the Auditor
General for Scotland

The Auditor General for Scotland appoints external auditors to central government bodies (www.audit-scotland.gov.uk/about/ags). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

The Auditor General has appointed Elaine Barrowman as the external auditor of Glasgow Community Justice Authority for the period to 2015/16.

This report has been prepared for the use of Glasgow Community Justice Authority and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the authority. The information in this report may be used by Audit Scotland in any reporting to the Scottish Parliament.

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Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none">• Unqualified auditor's report on the 2014/15 financial statements.• The financial statements of the authority have been prepared on a going concern basis. The net liability on the balance sheet relates to the value of the pension liability and we are not aware of any events or conditions that may cast significant doubt on the authority's ability to continue as a going concern.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• The financial management arrangements are satisfactory for an organisation the size of the authority.• Rising demands for and costs of services will continue to place a strain on the authority's financial position and capacity to deliver services at the current levels.
 <p>Governance and transparency</p>	<ul style="list-style-type: none">• Sound governance arrangements in place.• Systems of internal control operated effectively.



Performance

- An Area Plan is in place setting the authority's aims and objectives over the period 2014-2017.
- The 2014/15 Annual Report was approved in September 2015.
- Progress continues in developing a local performance management framework.



Outlook

- The Community Justice (Scotland) Bill proposes that community justice authorities will be dissolved. It is anticipated that the Glasgow Community Justice Authority will be disestablished from 1 April 2017. This is a significant change which brings with it potential risks relating to performance and the sustainability of services.

Introduction

1. This report is a summary of our findings from the 2014/15 audit of Glasgow Community Justice Authority (the authority). The report is divided into sections which reflect our public sector audit model.
2. The management of the authority is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of the authority, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. The significant audit risks identified at the planning stage and how we address each risk at arriving at our opinion for the financial statements is set out in **appendix I**.
6. Both local and national reports have been issued by Audit Scotland during the course of the year. These reports, summarised at **appendices II and III**, include recommendations for improvements.
7. **Appendix IV** is an action plan setting out one recommendation to address an issue we have identified during the course of the audit. Officers have considered the issue and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that the authority understands its risks and has arrangements in place to manage these risks. The authority should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
8. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
9. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 financial statements

Submission of financial statements for audit

10. We received the unaudited financial statements on 18 June 2015. The working papers were of a good standard and staff provided good support to the audit team which assisted the delivery of the audit to deadline.

Overview of the scope of the audit of the financial statements

11. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our annual audit plan issued in February 2015.
12. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the annual audit plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
13. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of

judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our annual audit plan the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
17. We summarised our approach to materiality in our annual audit plan. Based on our knowledge and understanding of the authority

we set our planning materiality for 2014/15 at £187,000 (1% of gross expenditure). Performance materiality was calculated at £168,000 to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level. We report all misstatements greater than £10,000.

18. On receipt of the financial statements we reviewed our materiality levels and concluded that our original calculation basis remained appropriate.

Evaluation of misstatements

19. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The overall effect of the adjustments made to the financial statements had no impact on the net position of either the comprehensive income and expenditure statement or the balance sheet.

Significant findings from the audit

20. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:

- the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
- significant difficulties encountered during the audit

- significant matters arising from the audit that were discussed, or subject to correspondence with management
 - written representations requested by the auditor
 - other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
21. We did not identify any issues during the course of our audit which in our view require to be communicated to you.

Financial management and sustainability

Financial management

23. In this section we comment on the authority's financial outcomes and assess its financial management arrangements.
24. The authority sets an annual budget to meet its service commitments for the forthcoming financial year. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

25. In 2014/15, the authority's total expenditure was £18.975 million. This was met mainly by grant funding from the Section 27 criminal justice grant, administration grant and national grant. Having accounted for these grants and a recharge to other bodies of £0.038 million, there remained expenditure of £0.042 million which was funded by a contribution from Glasgow City Council's Social Work Services. After making adjustments for the £0.010 million difference between the accounting basis and funding basis for pension costs, the breakeven requirement was met.

Financial management arrangements

26. As auditors, we need to consider whether the authority has established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- financial regulations are comprehensive, current and promoted within the body
 - budget monitoring reports are regularly prepared and reported to members
 - monitoring reports do not just contain financial data but are linked to information about performance.
27. The authority's financial transactions are processed through Glasgow City Council's main financial systems. The first monitoring report on the 2015/16 budget is to be reported to the Board at the December 2015 meeting. As this is nearly 9 months after the start of the financial year, we have recommended that budget monitoring reports are put to members at an earlier date after the start of the financial year.

Refer action plan 1

28. Overall we have concluded that the authority's financial management arrangements are satisfactory, with scope for more timely budget monitoring reporting to members.

Financial sustainability

29. Financial sustainability means that the authority has the capacity to meet the current and future demands for services. In assessing financial sustainability we are concerned with whether:
- spending is being balanced with income in the short term
 - long term financial pressures are understood and planned for.

Pension Liability

30. The authority's balance sheet at 31 March 2015 showed a net liability position of £0.267 million. This equals the value of the pension liability at the year end and represents the difference between expected future pension payments and the underlying value of the pension fund assets available to meet this cost.
31. A material net liability position can highlight a potential going concern issue however we recognise that the appointed actuary used by the authority is of the view that the asset holdings and future pension contributions provide security over future liabilities. In the light of these factors, it is reasonable that the financial statements are prepared on a going concern basis.
32. Under the Community Justice (Scotland) Bill, the authority will cease to exist as from 1 April 2017. We are advised that current proposals are that any pension liabilities existing at the date of dissolution of the Community Justice Authorities will be met by the Scottish Government as part of the redesign of the community justice system. However this position has yet to be finalised and is an area that should be kept under close review by the authority.

Financial budget 2015/16

33. The Section 27 grant allocation for the Glasgow Community Justice Authority in 2015/16 has reduced by £0.144 million to £17.949 million, which is a 1% reduction from the 2014/15 grant value. It is noted that the level of funding provided to the authority from the council's Social Work Services has increased (£0.042 million in 2014/15 compared with £0.027 million in 2013/14).
34. Reducing funding levels against the backdrop of rising service demands pose a significant risk for the authority's future financial position and places a strain on its capacity to deliver services at the current levels through to the disestablishment date of 1 April 2017. It is therefore important that the authority's financial position is kept under close review.

Governance and transparency

35. Members and management of the authority are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.

Corporate governance

36. The corporate governance framework within the authority is centred on the Glasgow Community Justice Authority's Board (the board). The board meet every quarter to consider and meetings are supported by detailed and comprehensive reports from officers. The authority has adopted the same Standing Orders and Financial Regulations of Glasgow City Council and has approved its own Scheme of Delegation in respect of the authority's Chief Officer.
37. The Community Justice (Scotland) Bill was introduced to Parliament in May 2015 and proposes that a new body, Community Justice Scotland, will be established and the community justice authorities disestablished. It is anticipated that the Glasgow Community Justice Authority will cease to exist from 1 April 2017. During the transition period it is vital that business continues as normal.

38. Reports have been made to the Board throughout the year to update members on the redesign of Community Justice Authorities and the implications and risks for the Glasgow Community Justice Authority. The authority is continuing to work closely with the Glasgow Community Planning Partnership during the transition period.
39. We have no issues to raise regarding the authority's governance framework and arrangements.

Internal control

40. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
41. It is the responsibility of the authority's management to maintain adequate financial systems and associated internal controls. The authority's Statement on the System of Internal Financial Control states that reasonable assurance can be placed upon the adequacy and effectiveness of the authority's internal control systems. The statement complies with accounting requirements and is consistent with the findings of our audit.
42. The authority's financial transactions are processed through the main financial systems of Glasgow City Council. A review of these

systems was conducted as part of the council's audit, supplemented by specific audit work on the authority's financial statements.

43. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption/fraud

44. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place.
45. The authority does not have its own arrangements for the prevention and detection of fraud and corruption and follows those of Glasgow City Council. We have reviewed these arrangements as part of our audit the council and there are no matters that we wish to bring to the attention of the authority. It should be noted that no system can eliminate the risk of fraud entirely.

Transparency

46. Transparency means the availability to the public of understandable, relevant and timely information about how decisions are made and how best use is made of resources. The authority demonstrates the characteristics of openness and transparency by:
- holding meetings of the Board in public
 - ensuring agendas and minutes of Board meetings are available for review on its website
 - making information on its performance available to the public.
47. We have not encountered any evidence to suggest that information is routinely and unjustifiably withheld from public scrutiny.

Performance

Best Value

48. Achievement of best value depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value.

Performance reporting

49. An Area Plan for the period 2014 to 2017 was approved by the Board in March 2014 which sets out the authority's key aims and objectives. The authority is required under the terms of the Management of Offenders (Scotland) Act 2015 to report annually on its activities and performance and to demonstrate progress against the main strategic objectives contained within the Area Plan. The authority's Annual Report for 2014/15 was approved by the Board in September 2015.

50. The Annual Report describes what has happened during 2014/15 to progress the following agreed priorities:

- using resources where they are most effective
- recognising where a different approach is needed

- identifying and building protective factors
- service user voice
- delivering structural change without compromising quality and progress.

51. The 2014/15 Annual Report includes for most targets baseline data for 2013/4 along with a comparator for 2014/15. Overall the performance results were largely positive, with some areas noted for further improvement. Reducing re-offending is one of the main aims of Community Justice Authorities in Scotland and is a key national performance indicator. The Annual Report highlights that since the inception of the authority in 2006/07 there have been a reducing trend in the one year reconviction rates (from 33.9% in 2006/07 to 30.7% in 2012/13) with an increase to 31.2% in 2013/14. The target for 2014/15 was set at 29% and information on actual performance levels has yet to be finalised. The number of recorded crimes in Glasgow has been reducing from 75,386 in 2006/07 to 47,758 in 2014/15.

52. The authority is continuing to make progress in developing its local performance management framework. As reported to the Board in March 2015, an outcomes framework has been developed which includes a number of progress indicators. This covers key national and equalities indicators as well as a selection of measures used to demonstrate progress against the aims of the Area Plan. It is noted that the authority will continue to consult with partners to establish meaningful data and baseline positions and that regular performance updates will be reported to the Board.

53. The Annual Report also includes a Transition Risk Register. This identifies the top risks associated with the disestablishment of the Glasgow Community Justice Authority and the transfer of the responsibility for the planning and delivery of services to the Glasgow Community Planning Partnership. Risk areas include the loss of staff, loss of momentum in existing projects and the lack of engagement by partners in the transition process. Actions aimed at mitigating each of the risks have also been identified.

Equalities

54. The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.
55. The authority has published on its website its 2014/15 Equalities Report. The report describes the actions taken during the year to progress the agreed equality outcomes and the planned next steps.

National performance audit reports

56. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which may be of interest to the authority. These are outlined in appendix III.

Appendix I – Significant audit risks

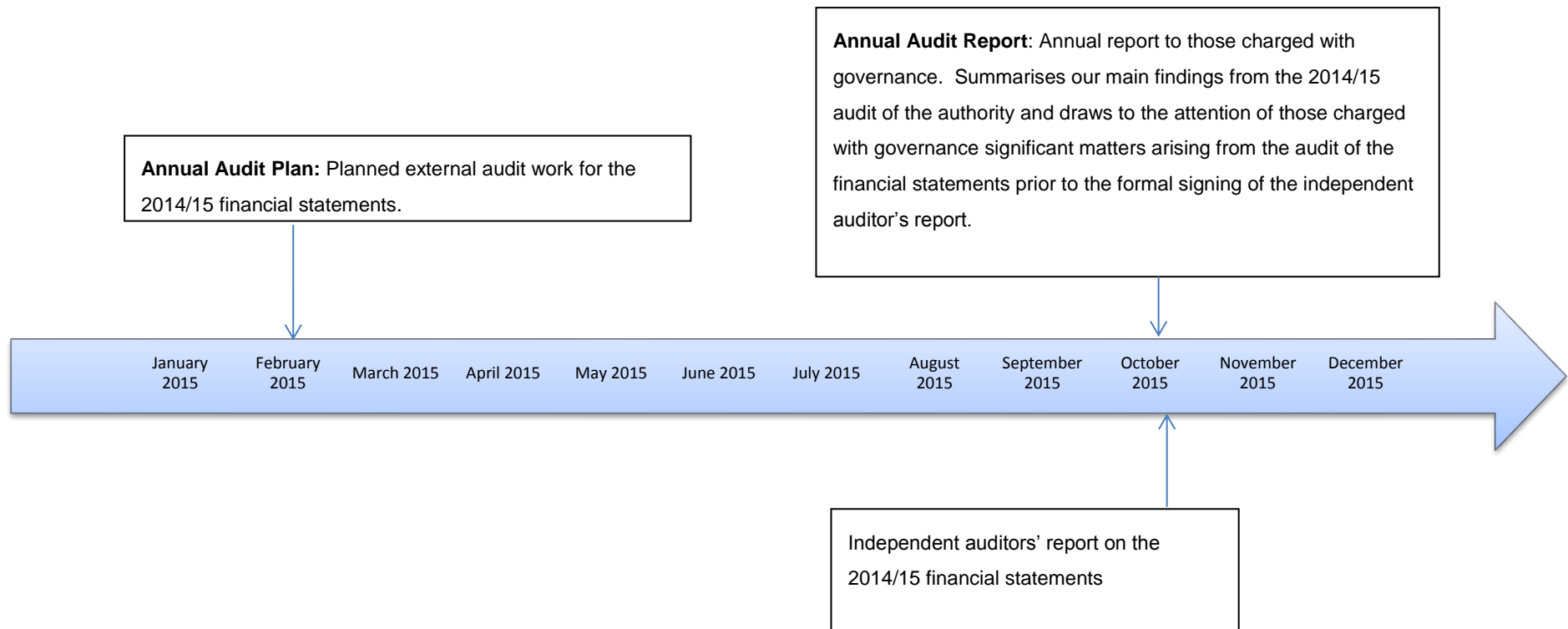
The table below sets out the audit risks we identified in our annual audit plan and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
<p>Redesign of Community Justice Authorities</p> <p>Following the announcement by the Scottish Government on the future of the Community Justice Authorities within Scotland, from April 2017 the Glasgow Community Justice Authority will cease to exist.</p> <p>Risk:</p> <p>There is a risk that the authority may not be fully focused on achieving objectives and ensuring the continuation of sound governance arrangements</p>	<p>We have considered the actions taken in preparation of the disestablishment of the Glasgow Community Justice Authority.</p>	<p>Reports have been made to the Board throughout the year to update members on the redesign of Community Justice Authorities and the implications and risks for the Glasgow Community Justice Authority.</p> <p>The Authority are continuing to work closely with the Glasgow Community Planning Partnership, including the completion of a mapping exercise to identify the provision of community justice services across Glasgow.</p> <p>A risk register has been established covering the key risks associated with the disestablishment of the Authority on 1 April 2017.</p> <p>A resilience plan covering staffing risks over the transition period is to be developed.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Budget monitoring: Spend to date is not regularly presented to and monitored by the authority’s Board.</p> <p>Risk: There is a risk that decisions are based on out of date information adversely impacting the financial sustainability of services and the ability to achieve objectives.</p>	<p>We have reviewed Board minutes and considered the year end budget position.</p>	<p>The first 2015/16 budget monitoring report will be reported to the Board at the December 2015 meeting. As this is nearly 9 months after the start of the financial year, we have recommended that budget monitoring reports are put to members sooner than nine months after the start of the financial year.</p> <p>Refer action point 1</p>
<p>Management override of controls: As is the case in all entities, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Risk: There is a risk that management could override controls in order to change the position disclosed in the financial statements.</p>	<p>We carried out substantive testing of a sample of both income and expenditure transactions.</p> <p>We reviewed the basis of any accounting estimates and considered any transactions outside the normal course of business.</p>	<p>We did not identify any instances of management manipulating accounting records or overriding controls.</p>

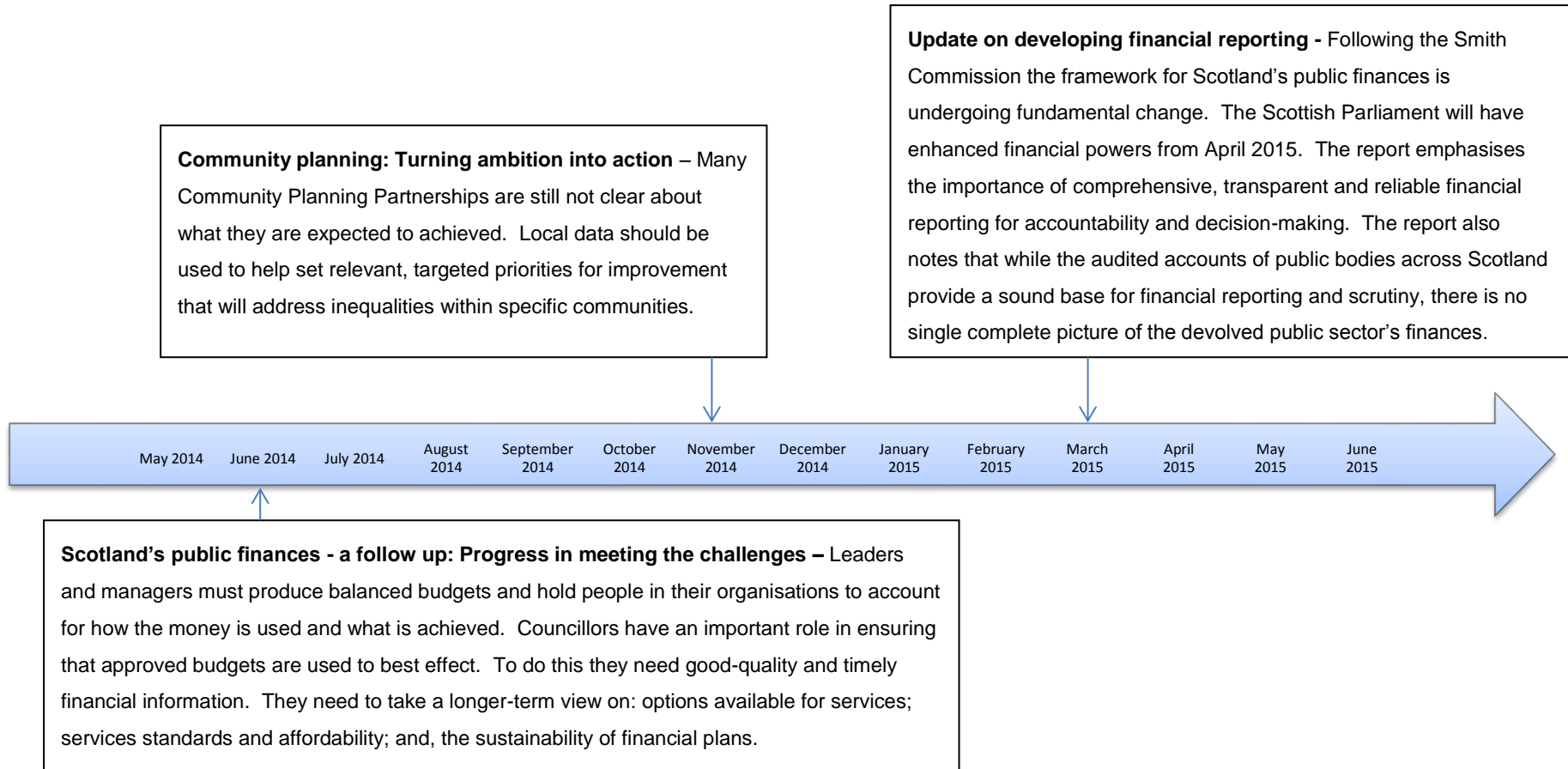
Appendix II – Local reports

Summary of Glasgow Community Justice Authority local audit reports 2014/15



Appendix III – National reports

Summary of Audit Scotland national reports 2014/15



Appendix IV – Action plan

No. Para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 Para 27	<p>Issue: The first budget monitoring report on the 2015/16 budget will not be reported to members until the December 2015 Board meeting, approximately nine months after the start of the financial year. This will cover the financial position for the first six months of 2015/16.</p> <p>Risk: Members are not aware of any budget overspends until well into the financial year.</p> <p>Recommendation: The first budget monitoring report for the new financial year should be made to the Board sooner than nine months after the start of the financial year.</p>	Two interim reports will be presented to the Board during 2016/17 and a final report for the year will be presented after the financial year end.	Chief Officer	April 2016 September 2016 January 2017