



# North Strathclyde Community Justice Authority

Annual report on the  
2014/15 audit

Prepared for NSCJA and the Auditor General

October 2015

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The Auditor General for Scotland appoints external auditors to central government bodies ([www.audit-scotland.gov.uk/about/ags](http://www.audit-scotland.gov.uk/about/ags)).

The Auditor General has appointed Anne McGregor as the external auditor of North Strathclyde Community Justice Authority (NSCJA) for the period 2011/12 to 2015/16.

This report has been prepared for the use of NSCJA 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 audit committee. The information in this report may be used by Audit Scotland in any reporting to the Scottish Parliament.

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# Key messages

 Audit of financial statements	<ul style="list-style-type: none"><li>• Unqualified auditor's report on the 2014/15 financial statements.</li></ul>
 Financial management and sustainability	<ul style="list-style-type: none"><li>• NSCJA operated within its administration grant of £222k.</li><li>• NSCJA incurred an accounting deficit of £18k. The deficit was due to pension accounting adjustments at the year-end.</li><li>• The spend on community justice by authorities was £118k (1%) greater than the grant distributed of £10,306k. The excess is funded by the individual authorities.</li></ul>
 Governance and transparency	<ul style="list-style-type: none"><li>• Overall satisfactory internal control arrangements but for the past three years at least one meeting of the NSCJA has been inquorate and had to be rescheduled. During a period of change we consider it important that members meet as planned to avoid delays in addressing issues in a timely manner.</li></ul>
 Outlook	<ul style="list-style-type: none"><li>• CJAs will cease to exist on March 2017 following a proposed shadow year when CPPs will take on duties. Under its Transition Plan, NSCJA is engaging with other CJAs and the Scottish Government in planning for a smooth transfer of duties. In the meantime it is working to, and regularly reporting on, its 2015-16 action plan.</li></ul>

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# Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of North Strathclyde Community Justice Authority (NSCJA). The report is divided into sections which reflect our public sector audit model.
2. The Chief Officer, as accountable officer, of NSCJA 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 NSCJA, 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. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at **appendices II and III**, include recommendations for improvements.
6. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues 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 NSCJA understands its risks and has arrangements in place to manage these risks. They should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. 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.
8. 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

<b>Audit opinion</b>	<ul style="list-style-type: none"><li>• We have completed our audit and issued an unqualified independent auditor's report.</li></ul>
<b>Going concern</b>	<ul style="list-style-type: none"><li>• The financial statements were prepared on the going concern basis.</li></ul>
<b>Other information</b>	<ul style="list-style-type: none"><li>• We review and report on other information published with the financial statements, including the management commentary, statement on the system of internal financial control and the remuneration report. There were minor disclosure changes made to these statements as a result of the audit.</li></ul>

## Submission of financial statements for audit

9. We received the unaudited financial statements on 3 June 2015, in accordance with the agreed timetable. The working papers were of a high standard and staff provided good support to the audit team.

## Overview of the scope of the audit of the financial statements

10. 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 provided to management in May 2015.
11. 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.

12. 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.
13. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable

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assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

## Materiality

14. 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).
15. 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.
16. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of NSCJA we set our planning materiality for 2014/15 at £105,000 (1% of gross expenditure). We report all misstatements greater than £1,000. Performance materiality was calculated at £52,000 to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.
17. On receipt of the financial statements we reviewed our materiality levels. The materiality figures remained unchanged from those set during our planning work.

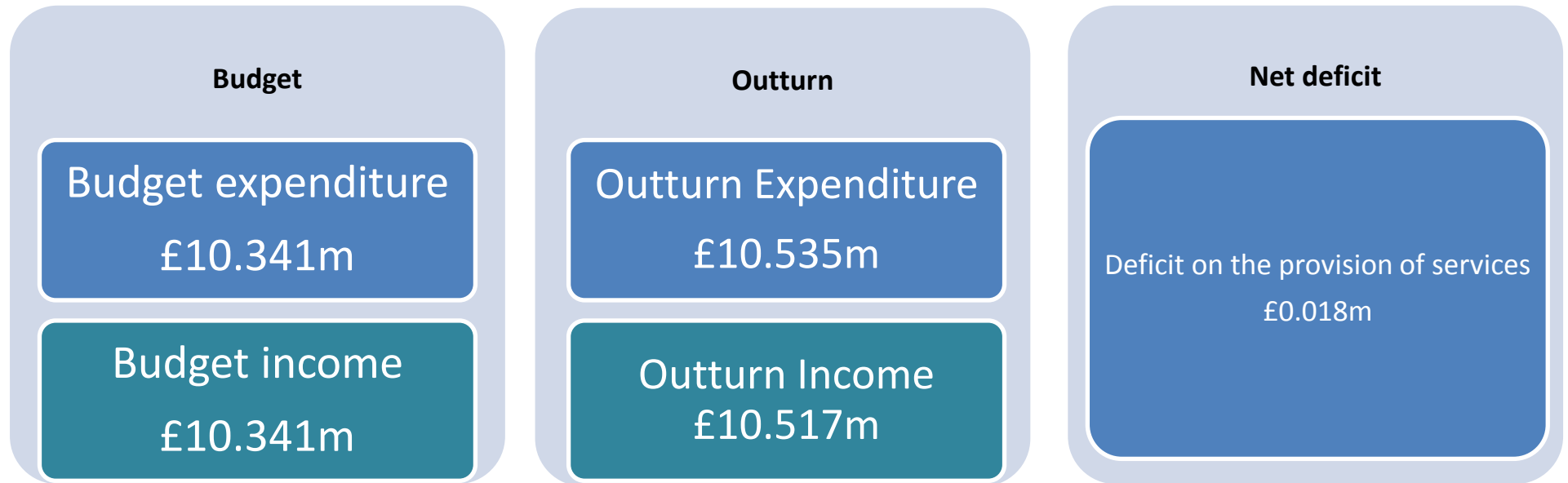
## Evaluation of misstatements

18. 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. There were no monetary errors impacting on the Comprehensive Income and Expenditure Statement.

## Significant findings from the audit

19. 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.
20. There are no matters, other than those set out elsewhere in this report, to which we wish to draw to you attention.

# Financial management and sustainability



## Financial management

21. NSCJA sets an annual budget to meet its commitments for the forthcoming financial year. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

## Financial outcomes

22. In 2014/15 NSCJA incurred an accounting deficit on the provision of services of £18,000 (2013/14 £14,069) as shown in the Comprehensive Income and Expenditure Statement (CIES), The breakeven position as presented in the management commentary is different because it is prior to pension adjustments. As the budget is prepared and monitored against in this way, it is appropriate for the management commentary details to be presented as such.



23. In the CIES, cost of services marginally increased from £10.501m (2013/14) to £10.535m (2014/15). While there was a decrease in the main Scottish Government s27 grant from £10.233m to £10.117m there was an increase in other grant income from the Scottish Government (for 2014/15 it was for fiscal works and women justice services) which was duly disbursed to the constituent authorities.
24. As shown in note 12 to the accounts the total value of grants distributed was £10.306m. The total spend on Section 27 expenditure was £10.424m and the difference is funded by the local authorities.

### Financial management arrangements

25. As auditors, we need to consider whether audited bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
  - financial regulations are comprehensive, current and promoted within NSCJA
  - reports monitoring performance against budgets are accurate and provided regularly to budget holders
  - monitoring reports do not just contain financial data but are linked to information about performance.
26. Revenue budget monitoring reports are regularly provided to NSCJA meetings and include forecast outturn for the year. In December 2014 the Treasurer and Chief Officer had projected a

year-end overspend of £188,053, which decreased to £118,067 by the year-end.

27. Internal audit confirmed that a review and update of NSCJA's financial regulations had been undertaken and that they were approved in June 2014.

### Conclusion on financial management

28. We have concluded that the NSCJA's financial management arrangements are satisfactory.

### Financial sustainability

29. Financial sustainability means that NSCJA has the capacity to meet its current and future plans. Due to the changes for all community justice authorities we are concerned with whether spending is being balanced with income in the period to reorganisation.

### Financial planning

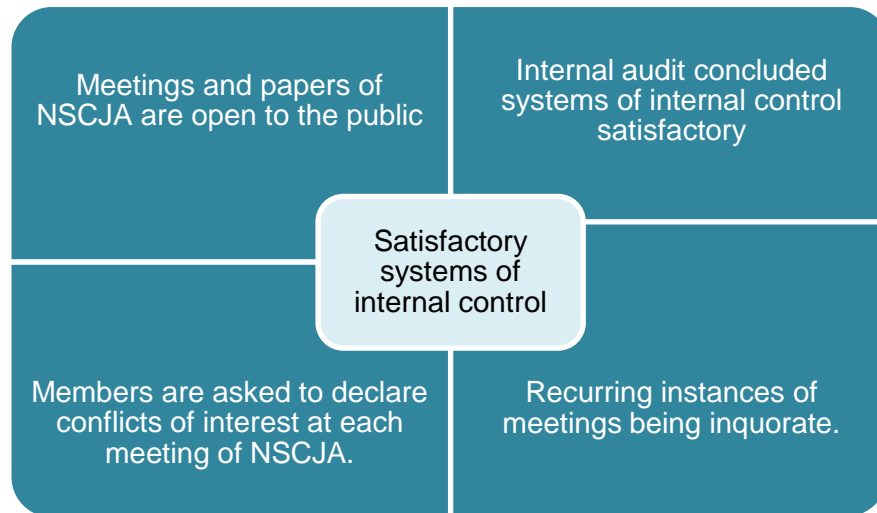
30. In November 2014, the Scottish Government confirmed to NSCJA that section 27 funding for 2015/16 would be £10,000,494; a decrease of £117,469 (1%) from the previous year. Quarter 1 monitoring report shows that an overspend of £183,058 is forecast primarily due to overspends at Argyll, Bute and Dunbartonshire (£137,397) and East Renfrewshire Council (£47,318). As previously noted the section 27 overspends are borne by the individual authorities.

31. NSCJA were initially allocated an administration grant of £224,909 for 2015/16. This is a 1% increase from 2014/15 (£222,682). Additional administration funding of £30,000 was allocated to NSCJA in relation to maternity leave cover for one full time member of staff in 2015/16. Therefore total administration grant funding in 2015/16 is £254,909.
32. The report to NSCJA in September 2015 forecasts that there will be an underspend of £9,095 for the year.

### **Conclusion on financial sustainability**

33. We conclude NSCJA is managing its cost base within administrative grant.

# Governance and transparency



- 34. Members and management of NSCJA 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.
- 35. Citizens should be able to hold audited bodies to account about the services provided. Transparency means that citizens have access to understandable, relevant and timely information about how the an audited body is taking decisions and how it is using its resources.

## NSCJA meetings

- 36. In our Annual Audit Plan we reported that in 2013 and 2014 some meetings had not been quorate. Two meetings held in June of 2013, one in December 2013 and also December 2014, all failed to constitute a quorum.
- 37. For 2015 the meetings planned for March and June were held as planned but the September 2015 meeting was again inquorate. If meetings begin to be routinely rescheduled, particularly during a period of change, there is a risk that members and officers cannot address issues raised in a timely manner, or judgments and decisions are delayed.

### Appendix IV – Action Plan No. 1

## Internal control

- 38. 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.
- 39. With Renfrewshire Council (the council) being the host for NSCJA, all financial transactions of NSCJA are processed through the financial systems of the council and are subject to the same controls and scrutiny of the council including regular reviews of internal audit.

40. In the 2014/15 Internal Audit Annual Report on NSCJA, the Chief Auditor concluded that satisfactory assurances can be placed upon that the system of internal control is operating in a satisfactory manner.

## Internal audit

41. Internal audit provides management of NSCJA with independent assurance on risk management, internal control and corporate governance arrangements. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.
42. Our review of internal audit concluded that they operate in accordance with the Public Sector Internal Audit Standards and have sound documentation standards and reporting procedures in place. We placed reliance on their work on Renfrewshire Council's treasury management and payroll systems.

## Arrangements for the prevention and detection of fraud

43. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities, although it should be noted that no system can eliminate the risk of fraud entirely. In our opinion the

overall arrangements for the prevention of fraud within NSCJA are satisfactory.

## Arrangements for maintaining standards of conduct and the prevention and detection of corruption

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. We have no issues to report and note that NSCJA has in place codes of conduct for employees and members. A standing item exists on agenda of NSCJA meetings where members are asked to declare any interests.

## Transparency

45. When assessing transparency we consider questions such as:
- Are meetings held in public?
  - Are papers and corporate documents available online and there is only limited use of taking papers in private?
  - Are financial statements clearly presented and budget monitoring papers concise and clear?
  - Is a register of interests available on the website?
46. Meetings of NSCJA are held in public and papers available from the Renfrewshire Council website. The NSCJA website also publishes

the NSCJA's Area Plan. We concluded that the financial statements are clear and actual expenditure and income clearly linked to budgeted figures, as described in the commentary.

# Best Value and performance

47. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. NSCJA should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

## Area Plan

48. The work of NSCJA is underpinned by the 2014-2017 Area Plan which covers the three year period from April 2014 – March 2017.
49. NSCJA continue to work to this Area Plan against a backdrop of the current redesigning of community justice services.

## Overview of performance targets in 2014/15

50. Progress reports of the annual action plan are presented at each meeting of NSCJA. The final progress report for the 2014/15 action plan was presented at the March 2015 NSCJA meeting. The action plan aligns the aims and objectives stated in the 2014-17 Area Plan.
51. Of the 37 activities outlined in the plan 30 (81%) were achieved within timescale and 7 (19%) were not achieved but this was often down to initiatives at a national level being postponed e.g. Equally

Safe and Fiscal work roll-out. The activities have been revised, and reduced to 19 points, for the 2015-16 action plan.

## Redesigning the community justice system

52. As we noted in our 2013/14 annual audit report that the criminal justice system in Scotland is currently being undergoing significant changes.
53. In December 2014, the Scottish Government published its response to its consultation 'The Future Model for Community Justice in Scotland'. The redesign of the community justice system is currently being implemented with community planning partnerships being central to the new arrangements. A new national body Community Justice Scotland will be created and the existing community justice authorities will be disestablished.

The timescales which have been identified mean that community planning partnerships will assume responsibility under the new model in transition from 1 April 2016. Full responsibility will be conferred from 1 April 2017. The existing community justice authorities will be disestablished on 31 March 2017.

54. The Community Justice (Scotland) Bill was introduced to Parliament in May 2015 by the Cabinet Secretary for Justice. An initial transition plan was presented to the NSCJA in June 2015. This plan aims to outline a local and national response to assist community planning partnerships in understanding the role they will play in the new model and ensuring a smooth transition to the new arrangements.

55. An indicative timescale is that 2015-16 is the planning year; 2016/17 the transition year and from 1 April 2017 the new model will come fully into effect.

## Outlook

56. Any period of change, alongside pressures on finances, increases the risk of current staff not engaging in the transition process. The

Chief Officer provides regular progress updates to members and through the CJA Conveners' Group NSCJA is providing information on Scottish Government consultation and calls for evidence. NSCJA is reasonably placed at this stage to manage the transition arrangements.

# Appendix I – Significant audit risks

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

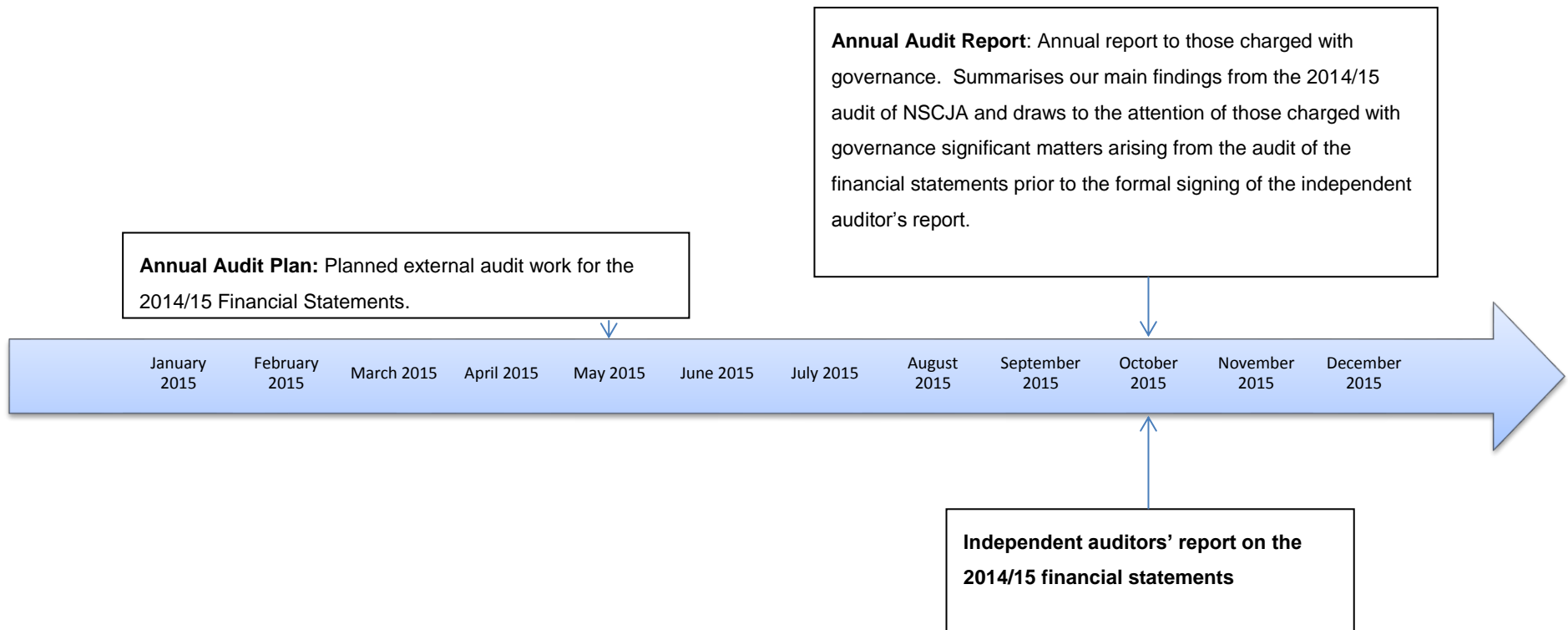
Audit Risk	Assurance procedure	Results and conclusions
<p><b>Redesign of Community Justice Authorities</b></p> <p>CJAs will cease to exist on March 2017 following a proposed shadow year when CPP’s will take on duties.</p> <p><i>There is a risk that NSCJA may not be fully focused on achieving objectives and that staff morale may be affected.</i></p>	<ul style="list-style-type: none"> <li>• Review revised scheme of delegation</li> <li>• NSCJA continue to work to 2014-2017 Area Plan</li> <li>• Chief Officer provides quarterly performance reports to members.</li> <li>• NSCJA working with partner authorities on agreeing future roles/jobs of current staff.</li> <li>• CJA Disestablishment Group and CPP Transitions group in place to ensure that knowledge transferred and to support practical arrangements.</li> <li>• Current staff assisting CPPs to ensure sharing of knowledge and expertise.</li> </ul>	<ul style="list-style-type: none"> <li>• Reviewed the 2014/15 update on progress of objectives of area plan.</li> <li>• Reviewed financial outturn versus budget.</li> <li>• Reviewed updates on progress on transition to NSCJA.</li> </ul>



Audit Risk	Assurance procedure	Results and conclusions
<p><b>Management override of controls</b></p> <p>Management have the ability to override controls.</p> <p>There is an inherent risk that management manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries</li> <li>• Review of accounting estimates</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>	<p>Our testing of journal entries and review of accounting estimates was satisfactory and there were no significant transactions outside the normal course of business.</p>

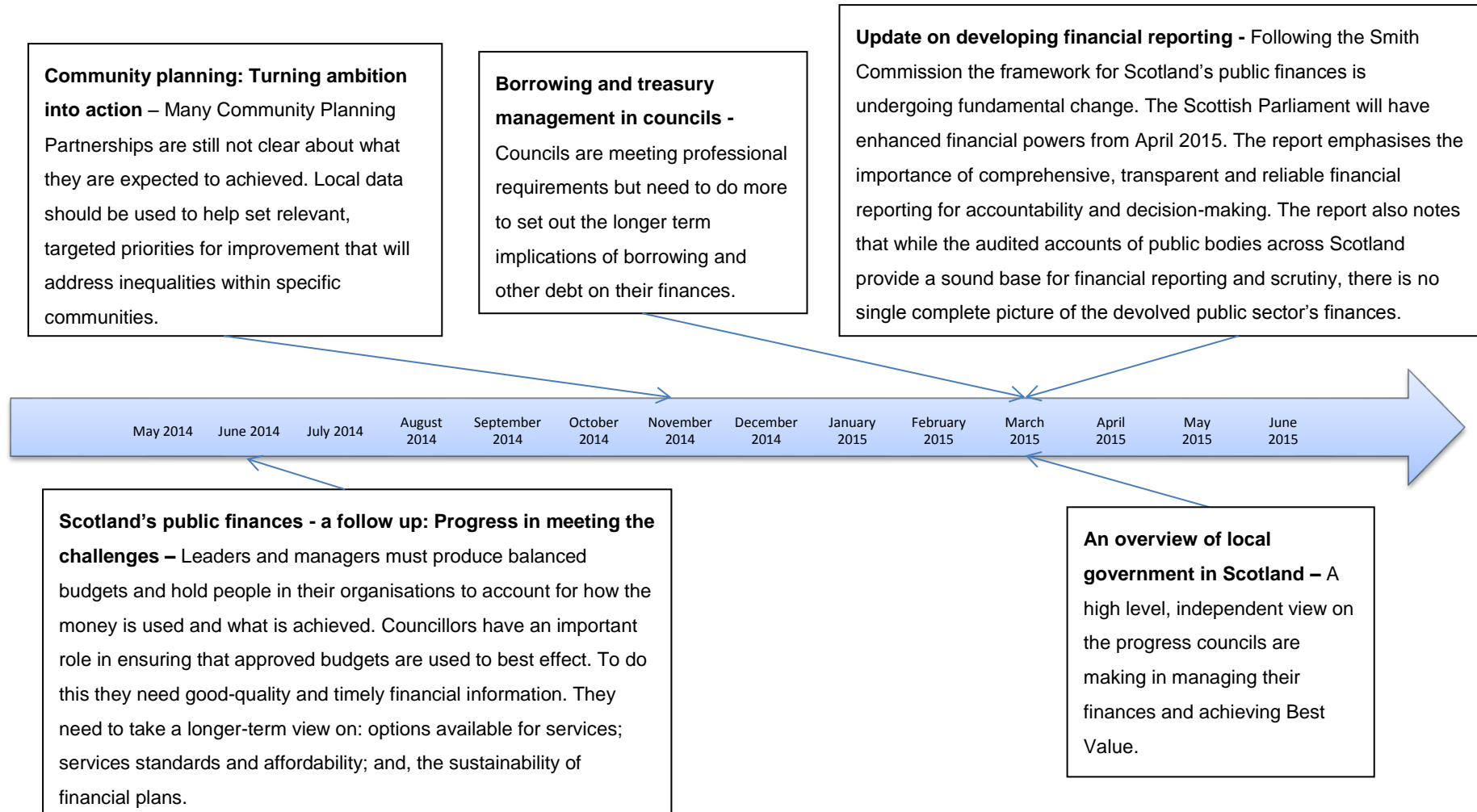
# Appendix II

## Summary of NSCJA local audit reports 2014/15



# Appendix III

## Summary of Audit Scotland national reports 2014/15



# Appendix IV

## Action plan

No./ para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1/37	<p><b>Inquorate meetings</b></p> <p>Meetings scheduled for December 2014 and September 2015 were inquorate.</p> <p><b>Risk</b></p> <p>If meetings begin to be routinely rescheduled, particularly during a period of change, there is a risk that members and officers cannot address issues raised in a timely manner, or judgements and decisions are delayed.</p> <p><b>Recommendation</b></p> <p>Chief Officer and convener will remind all members of the importance of attending all meetings.</p>	During the transition phase the Chief Officer and Convener will remind all members of the importance of attending all meetings.	Chief Officer and Convener	31 December 2015