



South West Scotland

Community Justice Authority

Annual Audit Report on
the 2014/15 audit

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. (www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

The Accounts Commission has appointed Paul Craig as the external auditor of South West Scotland Community Justice Authority for the period 2011/12 to 2015/16.

This report has been prepared for the use of South West Scotland 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 South West Scotland Community Justice Authority. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of 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.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• There was an underspend of £0.089 million against the allocated £9.533 million Section 27 grant.• The £0.226 million administration grant was underspent by £0.003 million.• The Movement in Reserves Statement shows a breakeven position for 2014/15.• The S27 grant award for 2015/16 is £9.658 million. The authority has plans in place to distribute this amongst the constituent bodies.
 <p>Governance and transparency</p>	<ul style="list-style-type: none">• The authority has satisfactory internal control arrangements.• Governance is monitored by the Chief Officer and arrangements were found to be robust.
 <p>Outlook</p>	<ul style="list-style-type: none">• All Community Justice Authorities will be disestablished at 31 March 2017. Arrangement need to be in place to ensure a smooth transfer of services and assets to the new body.• This is against a backdrop of increasing financial pressures for all public sector bodies.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of South West Scotland Community Justice Authority (the Authority). The report is divided into sections which reflect our public sector audit model.
2. The Chief Officer 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. **Appendix I** lists the audit risks that we identified in the annual audit plan we issued in March 2015. It also summarises the assurances provided by management to demonstrate that risks are being addressed and the conclusions of our audit work. **Appendices II** lists the reports we issued to the Authority during the year.
6. **Appendix III** 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 the Authority understands its risks and has arrangements in place to manage these risks. The board 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

Audit opinion	<ul style="list-style-type: none">• We have completed our audit and issued an unqualified independent auditor's report.
Going concern	<ul style="list-style-type: none">• The financial statements were prepared on the going concern basis.
Other information	<ul style="list-style-type: none">• We review and report on other information published with the financial statements, including the Explanatory Foreword, Statement of Responsibility for the Accounts, Remuneration Report and Statement on the System of Internal Financial Control. There were minor disclosure changes made to these statements as a result of the audit.

Submission of financial statements for audit

9. We received the unaudited financial statements on 2 October 2015, two days behind the agreed timetable. The working papers were of a satisfactory 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 March 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 the key audit risks which involved the highest level of judgement and impact on the financial statements and, consequently, on our audit approach. 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 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 the Authority we set our planning materiality for 2014/15 at £0.097 million (1% of gross expenditure). Performance materiality was calculated at £0.072 million 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 £0.001 million.

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

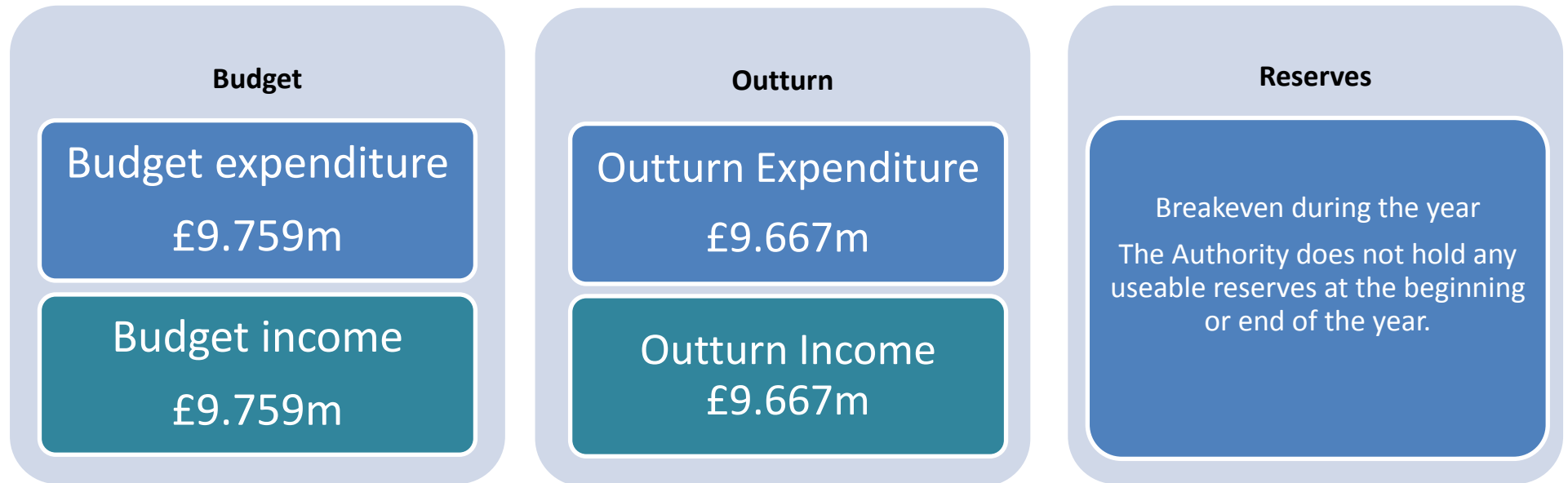
18. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. There were no monetary errors impacting on the Authority's usable reserves balance.

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. During the course of the audit we identified the following issues that, in our view, require to be communicated to you.
21. The unaudited accounts disclosed a breakeven position in both the comprehensive income and expenditure account (CIES) and the movement in reserves statement (MIRS). Administration expenses in the CIES did not reflect the reduction in the holiday pay accrual over the course of the year of £0.004 million. The Code requires that any reduction in this accrual is credited to the CIES and then reversed (by way of a statutory adjustment) in the MIRS. This adjustment has been processed in the audited accounts. This has resulted in the CIES disclosing a surplus of £0.004 million. The statutory adjustment in the MIRS means that the authority still achieved its breakeven position for 2014/15 and there is still a nil usable reserves balance at the year end.
22. The unusable reserves in the unaudited accounts (£0.007 million) did not agree to the balance stated in the balance sheet (£0.001 million). The MIRS has been updated to reflect the appropriate transactions for the year, including those described at paragraph 21 above. This had no impact on the balance sheet.
23. The audited accounts were adjusted for each of the above items in paragraph 21 and 22. There is no impact on the usable reserves balance.

Financial management and sustainability



Financial management

25. The Authority 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

26. In 2014/15 the Authority achieved a breakeven position on the provision of services (2013/14 breakeven) as shown in the MIRS. A surplus of £0.004 million is recognised in the CIES. The surplus arose due to the reduction in the accrual for outstanding holiday pay over the year. This is negated by a statutory adjustment in the MIRS. Funding for the year in the CIES marginally decreased from £9.712 million (2013/14) to £9.667 million (2014/15).

27. Two sources of grant funding are made available to the Authority from the Scottish Government. The first of these is known as section 27 grant funding, which in turn is allocated out to each of the member authorities. The allocation for 2014/15 was £9.533 million (2013/14 £9.517 million), an increase of £0.016 million (0.2%) from the previous year. In 2014/15 there was an underspend of £0.089 million against this funding.
28. The second source of grant funding is for administration costs. The 2014/15 allocation was £0.226 million (2013/14 £0.224 million). In 2014/15 there was an underspend of £0.003 million against this funding.
29. As in the previous year, the Authority was allocated a single section 27 allocation, rather than an allocation across specific budget lines.

Financial management arrangements

30. 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 the Authority
 - 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.
31. Revenue budget monitoring reports are regularly provided to the board meetings of the Authority.

Conclusion on financial management

32. We have concluded that the Authority's financial management arrangements are satisfactory.

Financial sustainability

33. Financial sustainability means that the Authority has the capacity to meet its current and future plans. 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

34. There is no pension liability disclosed on the balance sheet. International Accounting Standard (IAS 19) requires that the net liability for retirement benefits is recognised in the balance sheet and that the cost of retirement benefits is reflected in the net cost of services. However, the Authority discloses only the employer's pension costs incurred during the year and does not consider it to be material or cost effective to account for retirement benefits in accordance with IAS 19 on the basis that the authority employed only three members of staff during the year and the cost of obtaining this information would outweigh any benefit. This accounting treatment by the Authority is consistent with prior years.

Action Point 1

Balances due to Scottish Government and local authorities

35. Like all community justice authorities, the Authority has no specific powers to retain reserves. The Authority does not hold its own bank account. Instead, cash balances are held on behalf of the Authority by the host, North Ayrshire Council.
36. All income received from the Scottish Government has been appropriately accounted for. Retentions still due from the Scottish Government are included in debtors; and balances received or due but still to be paid out to the constituent bodies are included in creditors.

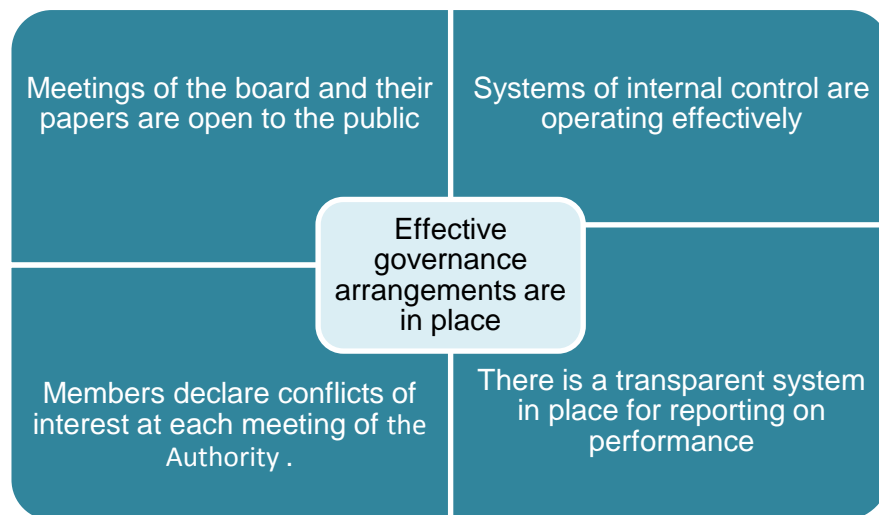
Financial planning

37. In November 2014, the Scottish Government confirmed to the Authority that section 27 funding for 2015/16 would be £9.658 million. This represents a £0.125 million (1.3%) increase from the previous year. The Authority has plans in place to distribute this amongst the constituent bodies. The Authority was allocated an administration grant of £0.228 million for 2015/16. This is a 1% increase from 2014/15 (£0.226 million).

Conclusion on financial sustainability

38. The Authority has an adequate level of funding to meet its immediate future plans.

Governance and transparency



- 39. 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.
- 40. 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 audited body is taking decisions and how it is using its resources.

Internal control

- 41. 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.
- 42. North Ayrshire Council are the host body. All financial transactions of the Authority are processed through the financial systems of the host council and are subject to the same controls and scrutiny of the council, including the work performed by internal audit.
- 43. 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.
- 44. We are satisfied that these arrangements provide a satisfactory level of internal control for the Authority.

Arrangements for the prevention and detection of fraud

- 45. 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 the Authority are satisfactory.

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

46. The Authority has in place codes of conduct for employees and members. A standing item exists on the agenda of board meetings where members declare any relevant interests. The register of interest for each board member has been kept up to date.

Transparency

47. When assessing transparency we consider questions such as:

- Are meetings are 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?

48. Meetings of the Authority are held in public and papers are available from the website. The website also publishes the Authority's Area Plan 2014 – 17 and periodic progress reports.

49. The South West Scotland Community Justice Authority Board meet quarterly and require attendance from councillors from three of the four constituent authorities to reach quorum. At two of the meetings

in 2014 a quorum was not reached as councillors from only two of the four constituent bodies were present. This lack of attendance may affect the level of scrutiny and discussion at meetings and could be interpreted that councillors are not taking an active role in the running of the Authority. From our review of the first three meetings in 2015, a quorum is now being reached.

50. The Authority's financial statements are clear and actual expenditure and income is clearly linked to the allocated budgeted figures.

Best Value and performance

51. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The Authority 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

52. The work of the Authority is underpinned by the 2014-2017 Area Plan which covers the three year period from April 2014 – March 2017. This was approved by the Cabinet Secretary for Justice in June 2014.
53. The plan sets out how the Authority will take forward the duties laid out in the Management of Offenders etc. (Scotland) Act 2005, and its commitment to the Scottish Government's Strategic Objectives and National Outcomes.
54. The aim of the Authority is to make communities safer and to have a consistent and integrated approach to managing offenders both in the community and whilst in custody in order to reduce reoffending.

55. The Authority monitors its progress against the three year Area Plan, with performance being reported against the outcomes framework.
56. The Authority will 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

57. Progress against the six local outcomes contained in the 2014-2017 Area Plan are reported to the Area Plan Implementation Group on a quarterly basis and the CJA Board on an annual basis . The six local outcomes are as follows;
- The use of community approaches to reduce reoffending is promoted and increased.
 - Perpetrators of domestic abuse address their offending behaviour.
 - Community Integration is improved.
 - Families are respected, supported and included.
 - Victim's voices are heard in the criminal justice system.
 - The value of a partnership based approach to reducing reoffending is maximised.
58. The six local outcomes are then broken down into 86 specific, measurable outcomes. Of these 86 smaller indicators, 51 (60%) have been reported as green/satisfactory progress, 21 (24%) are amber/progress slightly behind; and 14 (16%) are red/not satisfied with progress to date.

Redesigning the community justice system

59. We noted in our 2013/14 annual audit report that the criminal justice system in Scotland is currently undergoing significant changes.
60. 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.
61. 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.
62. The Community Justice (Scotland) Bill was introduced to Parliament in May 2015 by the Cabinet Secretary for Justice.
63. An initial transition plan was presented to the board in March 2015. This plan aims to outline a local and national response to assist community planning partnerships (CPPs) in understanding the role they will play in the new model and ensuring a smooth transition to the new arrangements.

Outlook

64. The Authority has taken appropriate steps to date to prepare for the transition and to help ensure proper arrangements are in place. Areas being considered are the timeline for change, accountability, the support of partners in co-operating with the transition arrangements and what the new structure will look like for CPPs.
65. The Authority is on course to ensure the disestablishment and move to the new structure causes minimal disruption to the provision of services.

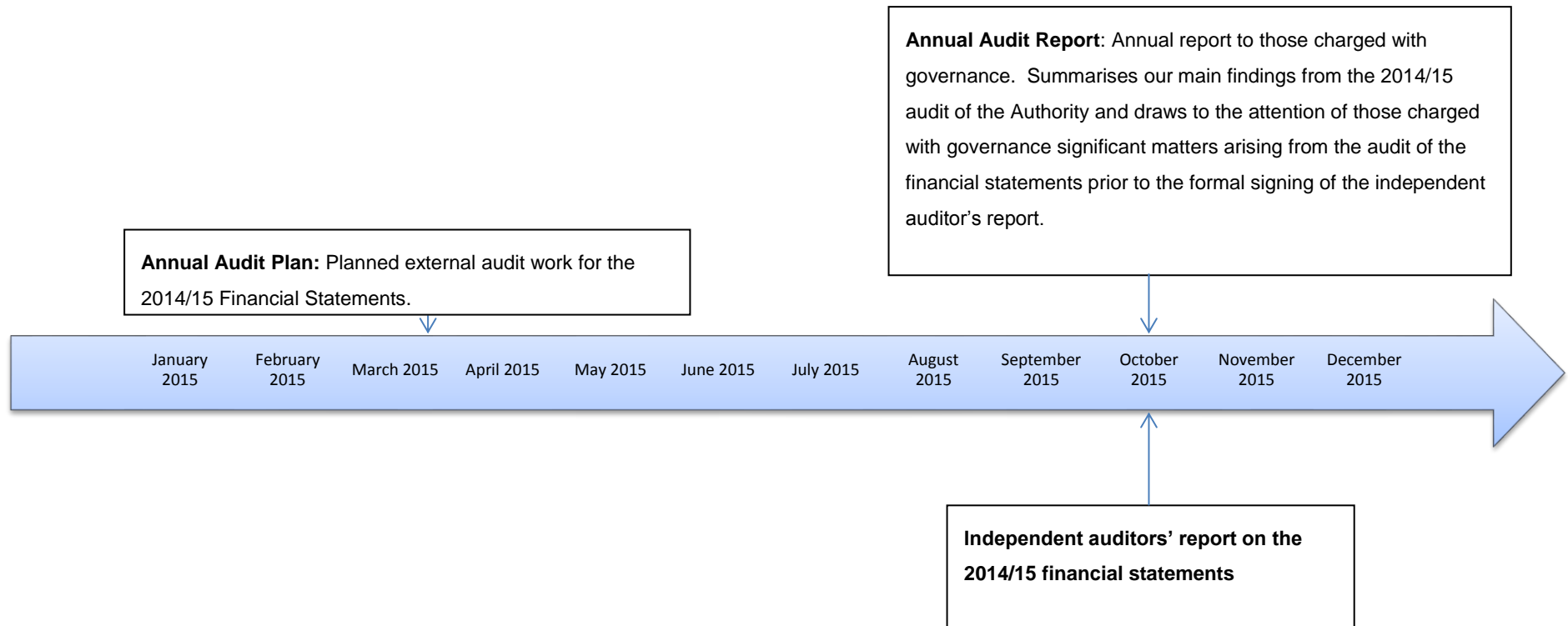
Appendix I – Significant audit risks

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
Risk of material misstatement		
<p>Redesign of Community Justice Authorities:</p> <p>Following the recent announcement by the Scottish Government on the future of the Community Justice Authorities within Scotland, the SWSCJA will cease to exist after 2016/17.</p> <p>Risk:</p> <p><i>There is a risk that the Board may not be fully focused on achieving objectives and that staff morale may be affected.</i></p>	<ul style="list-style-type: none"> • The Local Area Plan 2014-17 sets out the high level transition arrangements. • Monitoring of the Area Plan. • Quarterly Board meetings review the progress of the transition arrangements. 	<ul style="list-style-type: none"> • Reviewed the 2014/15 update on progress of the Local Area Plan objectives. • Reviewed financial outturn versus budget. • Reviewed updates on progress on transition to the Authority.
<p>Non compliance with IAS 19 'Employee benefits':</p> <p>The authority does not include details of the pension liabilities in the accounts in accordance with IAS 19 due to the cost of obtaining this information for authority staff and the likely immateriality of these disclosures.</p> <p>Risk:</p> <p><i>There is a risk that the accounts do not include all the costs and liabilities required by IAS 19 'Employee Benefits'.</i></p>	<ul style="list-style-type: none"> • In previous years the potential impact on the accounts was not significant. • Management agreed to explore the costs involved in obtaining the information required to comply with IAS19 in 2014/15. • The authority will continue to monitor whether there is a potential significant impact of not fully incorporating IAS 19: employee Benefits. 	<ul style="list-style-type: none"> • IAS19 costs and potential future liabilities are not reflected in the financial statements. • This will be reviewed again in 2015/16.

Appendix II – Summary of audit reports for 2014/15

Summary of the Authority local audit reports 2014/15



Appendix III – Action Plan

Action plan

No./ para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1	<p>Non compliance with IAS 19 'Employee benefits'</p> <p>The authority does not include details of the pension liabilities in the accounts in accordance with IAS 19 due to the cost of obtaining this information for authority staff and the likely immateriality of these disclosures.</p> <p>Risk:</p> <p><i>There is a risk that the accounts do not include all the costs and liabilities required by IAS 19 'Employee Benefits'.</i></p>	We will explore the costs involved in obtaining the information required to comply with IAS19 in 2015/16.	Chief Officer	31 March 2016