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# Tayside Community Justice Authority

Annual audit report to the members of Tayside Community  
Justice Authority and the Auditor General for Scotland

Year ended 31 March 2015

29 October 2015

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in connection with this  
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**About this report**

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of the Tayside Community Justice Authority ("the Authority") and is made available to Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the Code"). This specifies a number of objectives for the audit.

In accordance with ISA (UK and Ireland) 260: *Communication with those charged with governance*, this report also summarises our work in relation to the financial statements for the year ended year ended 31 March 2015.

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

Area	Summary observations	Analysis
<b>Strategic overview</b>		
Financial position	For the year ended 31 March 2015 the Authority reported a net cost of services of £8.3 million, which was funded by Scottish Government 'Section 27' and 'CJA administration' grants.	Page 5
<b>Financial statements and accounting</b>		
Audit conclusions	<p>We have issued an unqualified audit opinion on the financial statements. The Authority continues to prepare good quality draft financial statements for audit.</p> <p>There were no audit adjustments made to the draft financial statements presented for audit. There are no unadjusted audit differences.</p>	Page 7
Significant risks	<p>The significant area of risk identified in our audit strategy document was in respect of management override of controls.</p> <p>We have no changes to the risk or our approach to addressing the assumed ISA risk of fraud in management override of controls; we do not have findings to bring to your attention and no control overrides were identified.</p>	Page 8
Accounting policies	<p>There have been no substantive changes to the financial reporting framework as set out in UK GAAP and the Code of Practice, and applicable accounting standards.</p> <p>There have been no changes to accounting policies in 2014-15. All accounting policies have been applied consistently.</p> <p>The financial statements have been prepared on a going concern basis.</p>	Page 9
<b>Governance and narrative reporting</b>		
Corporate governance arrangements	<p>Over-arching and supporting corporate governance arrangements remain primarily unchanged and provide a sound framework for organisational decision-making. We are satisfied that the content of the statement on the system of internal financial control meets the requirements of the Code of Practice, and is consistent with our understanding of the Authority's activities.</p> <p>The remuneration report has been prepared in accordance with relevant guidance.</p>	Page 11
Management reporting	<p>The chief officer, treasurer and remuneration reports were prepared on a consistent basis to the prior year. We are content with the contents of the reports.</p>	Page 12

### Purpose of this report

The Auditor General for Scotland (“the Auditor General”) has appointed KPMG LLP as auditor of Tayside Community Justice Authority (“the Authority”) under the Management of Offenders etc (Scotland) Act 2005 (“the Act”). The period of appointment is 2011-12 to 2015-16, inclusive.

Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the Authority and the Auditor General. The scope and nature of our audit were set out in our audit strategy document which was presented to the Authority at the outset of our audit.

### Responsibilities

Audit Scotland’s *Code of Audit Practice* (“the Code”) sets out the Authority’s responsibilities in respect of:

- preparation of financial statements;
- systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- financial position; and
- Best Value.

This report reflects our overall responsibility to carry out an audit in accordance our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code.

The Code sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance.

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of International Standard on Auditing (UK and Ireland) (‘ISA’) 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This annual audit report to members and our presentation to the audit committee, together with previous reports to the committee throughout the year, discharges the requirements of ISA 260.

# Strategic overview

Our perspective on key business issues and  
the financial position of the Authority

For the year ended 31 March 2015, the Authority reported a net cost of services of £8.3 million, which was funded by the Scottish Government 'Section 27' and 'CJA administration' grants.

### Background

The Authority was established by the Management of Offenders etc (Scotland) Act 2005, the provisions of which came into force between 2006 and 2007. It is comprised of elected members as a strategic partnership between Dundee City, Angus and Perth & Kinross councils and is tasked with reducing reoffending and contributing to a reduction in the fear of crime in local communities. It works in partnership with a broad range of other stakeholders to deliver the Area Plan in the application of grant funding.

### Financial position

#### Comprehensive income and expenditure statement

The Authority received an initial grant allocation of £7.815 million, which was subsequently increased to £8.094 million after confirmation of additional grant allocation in respect of unpaid work opportunities at Ryder Cup, the extension of the pilot programme for the fiscal work orders, and a grant in relation to services for women offenders. In addition, an administration grant of £213,000 was received.

Expenditure was in line with the revised budget following the additional grant funding. There were no significant variances in any expenditure line. The financial statements explain the small areas of over and under spend compared to budget.

#### Balance sheet

The Authority does not have any long term assets. Working capital balances mainly relate to debtor and cash balances held to settle the final grant funding retentions withheld from constituent local authorities until the annual audited statements of expenditure are received.

In line with expectations and the funding position of the Authority, there are no carry forward useable reserves as at 31 March 2015.

	Budget 2014-15 £'000	Actual 2014-15 £'000	Over / (under) spend £'000
Staff costs	155	141	(14)
Property costs	14	13	(1)
Supplies and services	25	25	-
Transport costs	4	3	(1)
Third party payments	4	4	-
Support services	25	25	-
Funds disbursed to constituent local authorities	8,094	8,089	(5)
<b>Gross expenditure</b>	<b>8,321</b>	<b>8,300</b>	<b>(21)</b>
CJA administration grant	(229)	(213)	16
Section 27 grant	(8,094)	(8,089)	5
<b>Total income</b>	<b>(8,323)</b>	<b>(8,302)</b>	<b>21</b>
<b>Net (surplus) / deficit</b>	<b>(2)</b>	<b>(2)</b>	<b>-</b>

	2013-14 £'000	2014-15 £'000	Movement £'000
<b>Current assets</b>			
Short term debtors	200	279	79
Cash and cash equivalents	663	726	63
<b>Less current liabilities</b>			
Sundry creditors	(866)	(1,006)	(140)
<b>Total net assets</b>	<b>(3)</b>	<b>(1)</b>	<b>2</b>
Unusable reserves	(3)	(1)	2
<b>Total reserves</b>	<b>(3)</b>	<b>(1)</b>	<b>2</b>

# Financial statements and accounting

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

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

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

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

### Audit conclusions

We have issued an unqualified opinion on the truth and fairness of the state of the Authority's affairs as at 31 March 2015, and of its expenditure and income for the year then ended. The financial statements have been properly prepared in accordance with the 2014-15 Code of Practice. There are no matters identified on which we are required to report by exception.

In gathering the evidence for our opinion we have:

- performed controls testing and substantive procedures to ensure that key risks to the financial statements have been covered;
- Remained alert to any relevant internal audit reports;
- reviewed estimates and accounting judgements made by management and considered these for appropriateness;
- considered the potential effect of fraud on the financial statements through discussions with senior management and internal audit to gain a better understanding of the work performed in relation to prevention and detection of fraud; and
- obtained confirmation from the auditors of the three constituent councils that funding provided to those councils has been applied for the purposes of the Authority.

### Financial statements preparation

- The unaudited financial statements were authorised for issue by the Treasurer of the Authority on 29 September 2015, and passed to us for audit on 30 September 2015. This was in line with the statutory requirements and the agreed audit timetable.
- Good quality supporting documentation was made available in electronic format to support the unaudited financial statements.
- We consider that management has maintained a robust control environment and no amendments were required to the draft financial statements.
- There are no significant matters in respect of (i) audit differences or (ii) auditor independence and non-audit fees; and we have noted one specific management representation letter point in addition to our standard representations, as reported in appendix one.



The significant areas of risk identified in our audit strategy document were in respect of:

- management override of controls.

We have no changes to the risk or our approach to addressing the assumed ISA risk of fraud in management override of controls; we do not have findings to bring to your attention and no control overrides were identified.

We summarise below the risks of material misstatement as reported within the audit strategy document. We set out the key audit procedures to address those risks and our findings from those procedures, in order that those charged with governance may understand the process by which we arrived at our audit opinion.

Risk	Our response	Audit findings
<p><b>Revenue recognition fraud risk</b></p> <p>Professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is significant.</p>	<p>In our audit strategy, we rebutted the presumed significant risk on the basis as the Authority's income is primarily received from the Scottish Government on an annual basis and we do not regard the risk of fraud from this revenue recognition to be significant.</p>	<p>We vouched the material grant income to the allocation letter received from the Scottish Government on 23 December 2014.</p> <p>We are satisfied that income is appropriately stated in the financial statements.</p>
<p><b>Management override of controls</b></p> <p>Professional standards require us to communicate the fraud risk from management override of controls as significant. Management is typically 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>We did not identified any specific additional risks of management override relating to this audit. Our audit methodology incorporated the risk of management override as a significant risk.</p>	<p>We tested journals posted throughout the year and did not identify any which were outwith our expectations.</p> <p>We also considered high level controls and conducted a mix of substantive and controls testing in respect of significant accounts and did not identify any matters to bring to your attention.</p>

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

There have been no changes to accounting policies in 2014-15. All accounting policies have been applied consistently.

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

Accounting framework and application of accounting policies		
Area	Summary observations	Audit findings
<b>Accounting policies</b>	<ul style="list-style-type: none"> <li>There have been no significant changes in accounting policies in 2014-15.</li> <li>We note that the Authority continues to account for its participation in the Tayside Pension Fund as if it were a defined contribution scheme. As the Authority only has three employees, management does not consider that it is practical or represents value for money to seek to obtain an actuarial valuation of potential pension liabilities which could be directly attributable to the Authority in respect of the Tayside Pension Fund. We continue to recommend that management remains aware of any relevant guidance in respect of accounting for the Authority's participation in the Tayside Pension Fund, and ensuring the Authority's practice is in line with that adopted by other community justice authorities.</li> </ul>	<p>We are satisfied that accounting policies and critical estimates adopted in the preparation of the financial statements remain appropriate. We have not identified indications of management bias.</p> <p>We have requested a specific management representation to confirm that any applicable liability is not material to the financial statements as noted on page 14.</p>
<b>Financial reporting framework</b>	<ul style="list-style-type: none"> <li>The 2014-15 financial statements have been prepared in accordance with the Code of Practice which is based upon International Financial Reporting Standards ("IFRS").</li> <li>During the year there have been no substantive changes in the Code's financial reporting requirements, and consequently there are no material changes to the Council's accounting policies.</li> </ul>	<p>We are satisfied with the preparation of the financial statements in accordance with the reporting framework.</p>
<b>Going concern</b>	<ul style="list-style-type: none"> <li>The authority had net current liabilities of £1,000 at the balance sheet date. Cash at bank totalled £726,000 with short term debtors of £279,000. Sundry creditors of £1 million primarily relate to the final retention payment due to constituent local authorities. The Authority receives annual grant funding which is distributed to authorities and incurs minimal other costs or overheads.</li> <li>Based on this information, the treasurer has confirmed that the Authority has adequate resources to continue in operational existence for the foreseeable future.</li> </ul>	<p>We concur with management's view that the going concern assumption remains appropriate.</p>

# Governance and narrative reporting

Our overall perspective on narrative reporting, including the statement on the system of internal control

**Over-arching and supporting corporate governance arrangements remain primarily unchanged and provide a sound framework for organisational decision-making.**

**We are satisfied that the content of the statement on the system of internal financial control meets the requirements of the Code of Practice and is consistent with our understanding of the Authority's activities.**

**Our testing of the design and operation of financial controls over significant risk points identified no issues.**

Area	Summary observations	Audit findings
Corporate governance and internal control arrangements	<p>Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of corporate governance: openness; integrity; and accountability apply to all bodies.</p> <p>The responsibilities of the Authority and its Treasurer for establishing arrangements for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements are outlined in the statement of responsibilities in the financial statements. The Authority meet at appropriate times during 2014-15 to discharge these responsibilities.</p> <p>The Authority utilises the key financial systems of Dundee City Council under service level agreement. We undertook systems audit work as part of our 2014-15 audit of Dundee City Council, with any findings reported to Council management.</p>	No audit findings relating uniquely to the Authority were identified in our review of key controls or systems.
Statement on the system of internal financial control	<p>The Authority has prepared a statement on the system of internal financial control which outlines the framework of arrangements within which financial control is managed. No significant weaknesses in financial control have been identified, and disclosed within the statement.</p> <p>An assessment of the governance and internal control arrangements in respect of the Section 27 grant within the constituent councils was made by the head of criminal justice services within each council, based on completion of a 25 point checklist. The results were positive, with the exercise continuing to indicate a high level of compliance with good practice.</p>	We are satisfied that the statement meets the requirements of the Code and is consistent with our understanding of the Authority's activities.
Arrangements for maintaining standards of conduct and the prevention and detection of fraud and corruption	The members of the Authority are drawn from the constituent councils, and as such are bound by the respective codes of conduct of those councils. Administration of the financial records of the Authority is undertaken by Dundee City Council staff who are subject to that Council's policies on standards of conduct, fraud and corruption.	We consider that the Authority has appropriate arrangements.
Internal audit	No specific internal audit reviews were conducted related to the Authority during 2014-15.	We will continue to consider reviews relevant to the Authority.

The chief officer, treasurer and remuneration reports were prepared on a consistent basis to the prior year.

We are content with the contents of the reports.

Area	Summary observations	Audit findings
Chief officer's report and treasurer's report	<p>The financial statements form part of the annual accounts of the Authority for the year ended 31 March 2015 which include other narrative reports. We are required to consider the chief officer and treasurer's reports, and provide our opinion on the consistency of these with the financial statements.</p> <p>These have been prepared on the same basis as in the prior year.</p>	<p>We are satisfied that the information contained within the reports is consistent with the financial statements.</p>
Remuneration report	<p>In accordance with Local Authority Accounts (Scotland) Regulations 2014, local authorities are required to present remuneration disclosures. While this does not apply to the Authority, the Scottish Government has encouraged preparation of a remuneration report to enhance transparency on a voluntary basis, since 2011-12. This is confirmed in section 5.1.3 of the management statement/financial memorandum between the Scottish Government Justice Directorate and the Authority.</p> <p>The remuneration report was included within the draft financial statements and supported by good quality information and working papers.</p>	<p>We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the financial statements, as well as the activities of management during the year.</p>

# Appendices

Area	Key content	Reference
<b>Adjusted audit differences</b>  Adjustments made as a result of our audit	There were no audit adjustments required to the unaudited financial statements which impacted on the net assets or the surplus for the year.	-
<b>Unadjusted audit differences</b>	We are required by ISA (UK and Ireland) 260 to communicate all uncorrected misstatements, other than those which are trivial, to you.  There are no unadjusted audit differences.	-
<b>Confirmation of Independence</b>  Letter issued by KPMG to the Authority	We have considered and confirmed our independence as auditor and our quality procedures, together with the objectivity of our Audit Director and audit staff. Other than in respect of our audit, there were no fees payable to us.	Appendix two
<b>Draft management representation letter</b>  Proposed draft of letter to be issued by the Authority to KPMG prior to audit sign-off	In accordance with International Standards on Auditing (UK & Ireland), management is required to provide us with representations on specific matters such as your financial standing, application of accounting policies, and whether the transactions in the financial statements are legal and unaffected by fraud.  As noted on page 9, we have requested the following specific representation in addition to the standard representations required from management:  <i>"based on the available information, and the number of employees of the Authority, in my view the decision not to obtain a full IAS 19 actuarial valuation in respect of the Authority's participation in the Tayside Superannuation Fund does not introduce a material misstatement to the Authority's financial statements."</i>	Page 9
<b>Materiality</b>	We assessed materiality based on our knowledge and understanding of the Authority's risk profile and annual accounts balances. Materiality was determined at £166,000; approximately 2% of total expenditure, and is consistent with the materiality identified in our audit strategy.  We designed our audit procedures to detect errors at a lower level of precision, i.e. £124,000.  We report identified errors greater than £8,000 to those charged with governance.	

**Auditing Standards require us to consider and confirm formally our independence and related matters in our dealings with the Authority.**

**We have appropriate procedures and safeguards in place to enable us to make the formal confirmation in our letter included opposite.**

### **Auditor independence**

Professional ethical standards require us to provide to you at the conclusion of an audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed. This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence.

We have considered the fees paid to us by the Authority and its related entities for professional services provided by us during the reporting period. There were no fees payable other than in respect of our audit.

We are satisfied that our general procedures support our independence and objectivity.

### **General procedures to safeguard independence and objectivity**

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Regular communications
- Internal accountability

- Risk management
- Independent reviews

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the members of the Authority.

### **Confirmation of audit independence**

We confirm that as of 29 October 2015, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Authority and should not be used for any other purpose.

Yours faithfully

KPMG LLP





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