



South West Scotland Community Justice Authority

2015/16 Annual audit
report

Prepared for SWSCJA and the Auditor General
October 2016

Key contacts

Paul Craig, Senior Audit Manager
pcraig@audit-scotland.gov.uk

Fiona Ivison, Professional Trainee
fivison@audit-scotland.gov.uk

Audit Scotland
4th floor (South Suite)
8 Nelson Mandela Place
Glasgow
G2 1BT

Telephone: 0131 625 1500

Website: www.audit-scotland.gov.uk

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/about/).

The Auditor General 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.

The 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.

Contents

Key messages	3
Introduction	4
Audit of the 2015/16 financial statements.....	5
Financial management and sustainability	8
Governance and transparency	11
Best Value.....	13
Appendix I: Significant audit risks	15
Appendix II: Summary of local audit reports 2015/16	17
Appendix III: Action plan.....	18

Key messages

Audit of financial statements

- Unqualified auditor's report on the 2015/16 financial statements.

Financial management and sustainability

- There was an overspend of £0.029 million against the allocated £9.658 million Section 27 grant which will be met by the constituent bodies.
- The £0.228 million administration grant allocation for 2015/16 was overspent by £0.002 million. This is due to the £0.002 million increase in holiday pay accrual which is negated by a statutory adjustment.
- The Movement in Reserves Statement shows a breakeven position in usable reserves for 2015/16.
- The S27 grant award for 2016/17 is £9.654 million. The authority has plans in place to distribute this amongst the constituent bodies.

Governance and transparency

- The authority has satisfactory internal control arrangements.
- Governance is monitored by the Chief Officer and arrangements were found to be robust.

Outlook

- All Community Justice Authorities will be disestablished at 31 March 2017. Arrangements are in place to ensure a smooth transfer of services and assets to the two new bodies that will administer community justice services after this date.

Introduction

1. This report is a summary of our findings arising from the 2015/16 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 South West Scotland Community Justice 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 2016. It also summarises the assurances provided by management to demonstrate that risks are being addressed and the conclusions of our audit work. **Appendix 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 South West Scotland Community Justice 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. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of the authority will be Deloitte LLP. In accordance with agreed protocols we will be liaising with the incoming auditors as part of this transition. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2015/16 financial statements

<p>Audit opinion</p>	<ul style="list-style-type: none"> • We have completed our audit of the authority and issued an unqualified independent auditor’s report.
<p>Going concern</p>	<ul style="list-style-type: none"> • The financial statements of the authority have been prepared on the going concern basis. • The authority will be disestablished on 31 March 2017. Thereafter, there will be new arrangements in place for community justice. This does not impact our view on the appropriateness of the going concern basis for the financial statements.
<p>Other information</p>	<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 26 September 2016. 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 presented to management in March 2016.
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 2015/16 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 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 2015/16 at £0.099 million (1% of gross expenditure). We report all misstatements greater than £0.001 million. Performance materiality was calculated at £0.074 million, 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

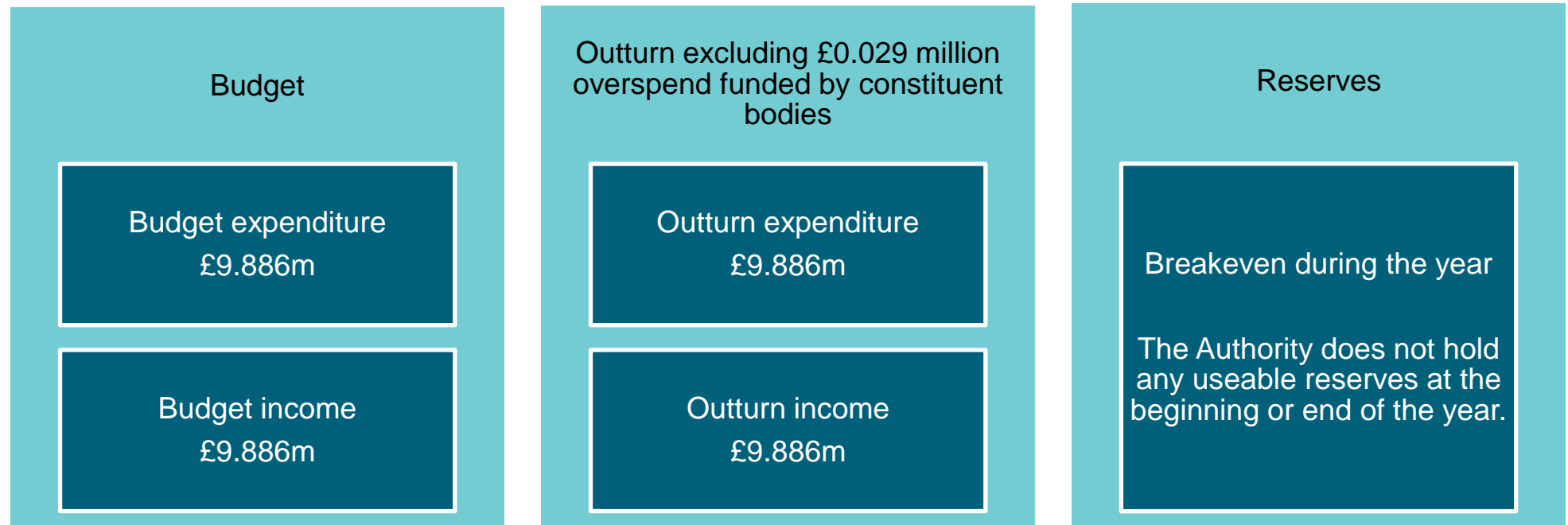
18. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. There were no monetary errors impacting on the authority's usable reserves balance.

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. The following details those issues or audit judgements that, in our view, require to be communicated to those charged with governance in accordance with ISA 260.
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 increase in the holiday pay accrual over the course of the year of £0.002 million. The Code requires that any increase in this accrual is charged 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 deficit of £0.002 million. The statutory adjustment in the MIRS means that the authority still achieved its breakeven position for 2015/16 and there is still a nil usable reserves balance at the year end.
22. There is a longstanding creditor balance of £0.002 million to the Scottish Government included in the annual accounts. This is offset by a memorandum cash balance due from North Ayrshire Council for the same amount. This will require to be either resolved or written off during 2016/17 before the dis-establishment of the authority.

Financial management and sustainability



Financial management

23. 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

24. In 2015/16 the authority achieved a breakeven position on the provision of services (2014/15 breakeven) as shown in the MIRS. A deficit of £0.002 million is recognised in the CIES. The deficit arose due to the increase in the accrual for outstanding holiday pay over the year. This is negated by a statutory adjustment in the MIRS.

25. Expenditure for the year in the CIES increased from £9.667 million in 2014/15 to £9.886 million in 2016/17. This excludes £0.029 million relating to overspends that were funded by the constituent bodies. Consequently, a breakeven position is recognised in the CIES.
26. Two sources of grant funding are made available to the authority from the Scottish Government. The first of these is known as section 27 funding, which in turn is allocated out to each of the member authorities. The allocation for 2015/16 was £9.658m (2014/15 £9.533 million), an increase of £0.125 million (1.3%) from the previous year. £0.063 million of this increase related to the requirement to support the introduction of the new Fiscal Work Orders.
27. The second source of grant funding is for administration costs. The 2015/16 allocation was £0.228 million. (2014/15 £0.226 million). The full administration grant was utilised in year.
28. This was the third year that CJAs received a single section 27 allocation from the Scottish Government, rather than the practice prior to 2013/14 of allocating the grant across individual budget lines.
- 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
30. Revenue budget monitoring reports are regularly provided to the board meetings of the authority.

Conclusion on financial management

31. We have concluded that the authority's financial management arrangements are satisfactory.

Financial sustainability

32. 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

Financial management arrangements

29. 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:

Pension liability

33. 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. This is then mitigated by a statutory adjustment processed in the MIRS.

34. However, the authority discloses only the employer's pension costs incurred during the year and does not 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.
35. During the year, the authority was quoted £2,500 per annum to obtain the information necessary to account for retirement benefits in accordance with IAS19. This reinforced the authority's view that the cost of obtaining this information would outweigh any benefit.

Balances due to Scottish Government and local authorities

36. 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.
37. 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.

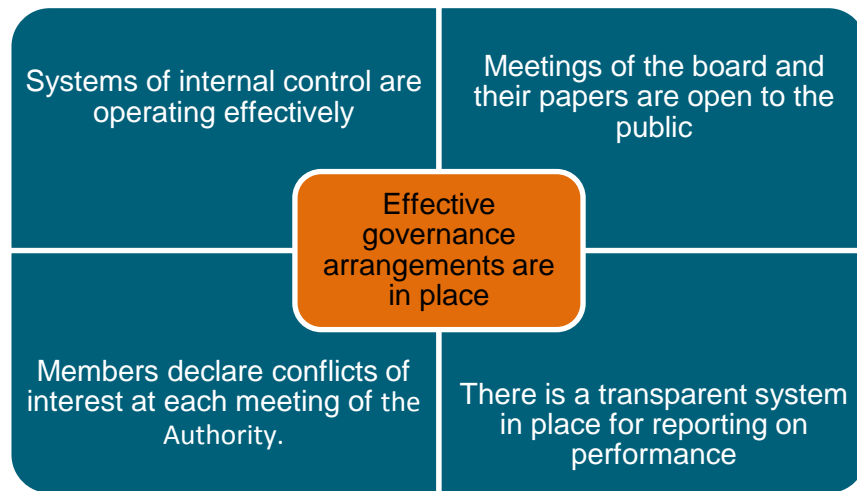
Financial planning

38. In April 2016, the Scottish Government confirmed to the authority that section 27 funding for 2016/17 would be £9.654 million. This represents a £0.004 million reduction (0.04%) from the previous year. The authority was allocated an administration grant of £0.230 million for 2016/17. This is a £0.002 million (0.9%) increase from 2015/16 (£0.228 million). The authority has plans in place to distribute this amongst the constituent bodies.

Conclusion on financial sustainability

39. The authority has an adequate level of funding to meet its commitments until it is disestablished on 31 March 2017.

Governance and transparency



40. 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.
41. Citizens should be able to hold the authority to account about the services it provides. Transparency means that citizens have access to understandable, relevant and timely information about how the authority is taking decisions and how it is using its resources.

Internal control

42. 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.
43. North Ayrshire Council is 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.
44. 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.
45. We are satisfied that these arrangements provide a satisfactory level of internal control for the authority.

Arrangements for the prevention and detection of fraud

46. 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

47. 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

48. 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?
49. 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.
50. 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. Quorum was reached

at all meetings during 2015/16 except the December 2015 meeting. This meant that any decisions taken at this meeting were subject to ratification from absent elected members following the meeting.

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

Best Value

52. 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

53. 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.
54. 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.
55. 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.
56. Annual action plans are prepared in order to monitor the progress made against the Area Plan.
57. The authority continues to work to this Area Plan against a backdrop of the current redesigning of community justice services.

Overview of performance targets in 2015/16

58. 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.
 - Victims voices are heard in the criminal justice system.
 - The value of a partnership based approach to reducing reoffending is maximised.
59. The six local outcomes are then broken down into 86 specific, measurable outcomes. Of these 86 smaller outcomes, 56 (65%) (2014/15: 51 (60%)) have been reported as green/satisfactory progress; 19 (22%) (2014/15: 21 (24%)) are amber/progress slightly behind; and 11 (13%) (2014/15: 14 (16%)) are red/not satisfied with progress to date.

Redesigning the community justice system

60. As part of the redesign of community justice in Scotland, CJAs will be dis-established on 31 March 2017. A new model for community justice is being introduced as outlined in the Community Justice

(Scotland) Act 2016. These include a new national body, Community Justice Scotland, and a set of statutory duties on community justice partners to work together locally to improve community justice outcomes.

61. The authority, its constituent bodies, and the local community planning partnership boards have carried out consultations and considered options since 2015 on how best to meet the requirements of the Community Justice (Scotland) Act 2016.
62. In South West Scotland, two new partnerships will discharge these duties. These are: Community Justice Ayrshire (a pan-Ayrshire arrangement between the three Ayrshire Community Planning Partnerships); and the Dumfries and Galloway Community Justice Partnership. The existing SWSCJA team will become the Community Justice Ayrshire support team from 1 April 2017. A new Community Justice Manager post has been created in Dumfries and Galloway to support their new arrangements.
63. Shadow arrangements are in place during 2016/17. This includes joint quarterly meetings between the SWSCJA Board and Community Justice Ayrshire Shadow Board until the authority is disestablished. The agenda is set to enable Dumfries and Galloway's participation in these arrangements prior to the transfer of responsibilities.
64. In order to assist with the shadow year, the Scottish Government has granted transitional funding of £50,000 per Community Planning Partnership (CPP) for each of the three years 2015-2018. The first tranche of this funding for 2015-16 was released in February 2016.

Outlook

65. The authority has taken appropriate steps to date to prepare for the transition and to help ensure proper arrangements are in place.
66. SWSCJA is involved in supporting a wide range of local and national transition activities throughout this current 'shadow' year of 2016-17. This includes planning for the 2016-17 Annual Accounts, which will be prepared by the host local authority – North Ayrshire Council.
67. The Chief Officer's responsibility, as accountable officer for Section 27 funding, will be transferred to the Director of Finance of North Ayrshire Council on 31 March 2017.
68. A Statement of Measures is currently being agreed between SWSCJA and North Ayrshire Council in relation to planning for this transfer of financial responsibilities. This will be submitted to the Scottish Government by November 2016.
69. The authority is on course to ensure the disestablishment and move to the new structure causes minimal disruption to the provision of services.

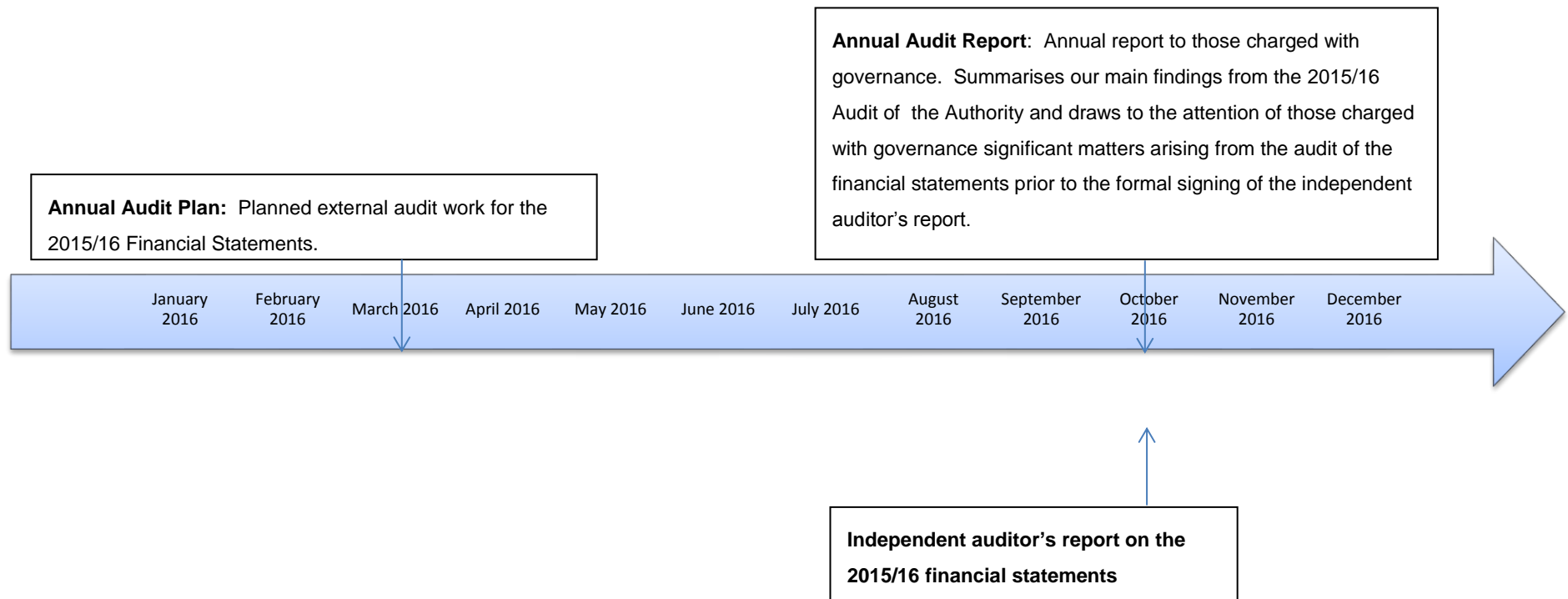
Appendix I: Significant audit risks

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
<p>Non compliance with IAS 19 'Employee benefits':</p> <p>SWSCJA 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. It may become necessary to establish these liabilities whenever staff transfer to the new partnership arrangements after 2016/17.</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"> • The authority will continue to monitor whether there is a potential significant impact of not fully incorporating IAS 19: employee Benefits. • The authority will explore the costs involved in obtaining the information required to comply with IAS19 in 2015/16. 	<ul style="list-style-type: none"> • This was pursued by the authority in 2015/16. Strathclyde Pension Fund advised that the cost of providing the requested IAS19 information would be £2,500 plus VAT (which would be an annual charge). It has been agreed that this is not a good use of the limited funds. <p><i>The cost of obtaining this information is prohibitive as it accounts for over 1% of the administration budget. The mitigating statutory adjustment means that any potential IAS19 charge or credit would have no impact on the value of usable reserves, which would remain as NIL.</i></p>
<p>Redesign of Community Justice Authorities:</p> <p>Following the announcement by the Scottish Government on the future of the Community</p>	<ul style="list-style-type: none"> • The Local Area Plan 2014-17 sets out the high level transition arrangements. • Monitoring of the Local Area Plan by the Board and periodic progress reports. 	<ul style="list-style-type: none"> • Reviewed the 2015/16 update on progress of the Local Area Plan objectives. • Reviewed financial outturn versus budget.

Audit Risk	Assurance procedure	Results and conclusions
<p>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, staff morale may be affected, and governance during the period leading up to the handover to the new bodies may not be effective.</i></p>	<ul style="list-style-type: none"> • Quarterly Board meetings review progress of the transition arrangements. • Transition plans for each of the four bodies within SWSCJA were approved and issued to the Scottish Government by the agreed deadline of 31 January 2016. This assists community planning partnerships in understanding the role they will play in the new model and ensuring a smooth transition to the new arrangements. • Establishment of a Community Justice Ayrshire Board in the shadow year to preserve good governance arrangements during the transition year and thereafter. 	<ul style="list-style-type: none"> • Reviewed transition plan, transition arrangements and shadow arrangements. <p><i>There are robust plans in place for the handover to the new bodies. The new bodies have been operating in a shadow environment during 2016/17 and are on course to take over on 31 March 2017 when the authority will be disestablished.</i></p>

Appendix II: Summary of South West Scotland Community Justice Authority local audit reports 2015/16



Appendix IV: Action plan

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1. 70434	60-64	<p>CJA dis-establishment</p> <p>Although plans are well in place regarding the transition process to the new community justice bodies, there remains a risk regarding the complete disbursement of finances (year end debtors, creditors, etc.) at 31 March 2017. Discussions require to continue with the constituent bodies to ensure the smooth transition for financial responsibilities and to ensure that all balances are spent on approved activities or returned to the constituent bodies or the Scottish Government as appropriate.</p> <p>Recommendation</p> <p>The statement of measures regarding financial responsibilities which is required to be submitted to the Scottish Government by November 2016 needs to be supported by robust financial procedures for disbursing all balances that exist at March 2017.</p>	<p>A detailed Statement of Measures will be agreed between SWSCJA and North Ayrshire Council as the host authority by November 2016. This information will be shared with all constituent bodies. The Accountable Officer role will formally transfer from the SWSCJA Chief Officer to the North Ayrshire Council Director of Finance on 31 March 2017.</p>	<p>SWSCJA Chief Officer/ North Ayrshire Council Director of Finance – Statement of Measures agreed by November 2016; transfer of role 31 March 2017.</p>