

Lanarkshire Community Justice Authority

2016/17 Annual Audit Report



 AUDIT SCOTLAND

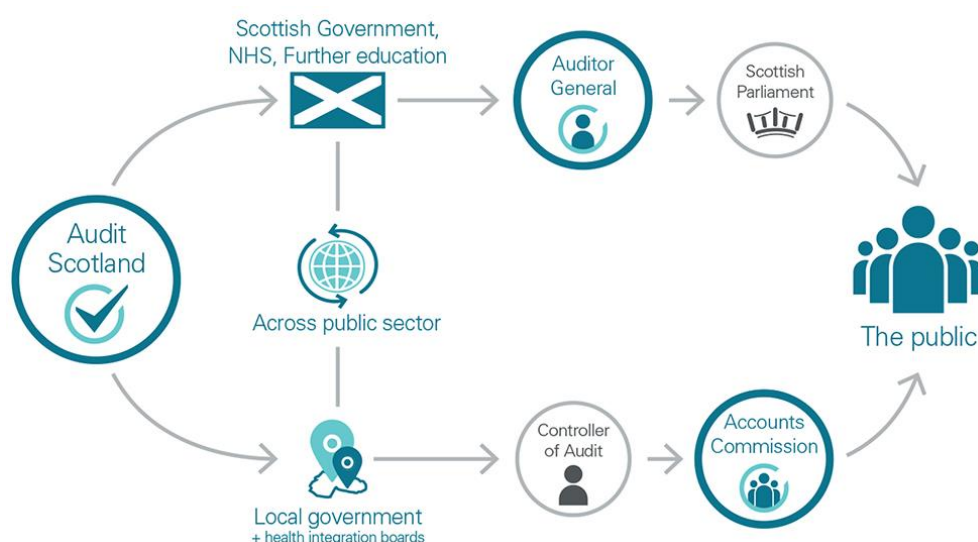
Prepared for the Accountable Officer of Lanarkshire Community Justice Authority and the Auditor
General for Scotland

30 October 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

Audit of the 2016/17 financial statements

- 1** The financial statements of Lanarkshire Community Justice Authority for 2016/17 give a true and fair view of the state of its affairs and of its income and expenditure for the year.
- 2** We have issued an unqualified Independent Auditor's Report on the Lanarkshire Annual Accounts for 2016/17.

Other aspects of the closing audit

- 3** The Authority effectively managed its 2016/17 budget.
- 4** Internal controls operated effectively during 2016/17.
- 5** Appropriate governance arrangements were in place during the year.

Introduction

1. The Community Justice (Scotland) Act 2016 came into effect on 1 April 2017. Community justice authorities were dissolved as of that date.
2. The 2016/17 annual accounts will be the last set of financial statements prepared for the Lanarkshire Community Justice Authority (the Authority).
3. Prior to 31 March 2017 the Authority's Chief Officer was the Accountable Officer. Following dissolution the responsibilities of the Accountable Officer and approval of the Annual Accounts were delegated to the Executive Director of Finance and Corporate Resources of South Lanarkshire Council.
4. The scope of our audit was set out in our Annual Audit Plan. This report sets out our findings from:
 - the audit of the Annual Accounts.
5. The main elements of our audit work in 2016/17 were:
 - an assessment of the Authority's arrangements for recording financial information and its governance arrangements
 - an audit of the Authority's 2016/17 Annual Accounts.
6. The management of the Authority's is responsible for, inter alia:
 - preparing financial statements which give a true and fair view
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
7. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
8. It is the auditor's responsibility to express an opinion on the Annual Accounts prepared by management; this does not relieve management of the responsibility for the preparation of the Annual Accounts.
9. As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and remains unchanged.
10. This report is addressed to both the Accountable Officer of Lanarkshire Community Justice Authority and the Auditor General and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.
11. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Part 1

Audit of 2016/17 financial statements



Main judgements

The financial statements of Lanarkshire Community Justice Authority for 2016/17 give a true and fair view of the state of its affairs and of its income and expenditure for the year.

We have issued an unqualified Independent Auditor's Report on the Lanarkshire Annual Accounts for 2016/17.

Unqualified audit opinions

12. The Authority's Annual Accounts for the year ended 31 March 2017 was approved by the Accountable Officer on 30 October 2017.

13. We reported, in our Independent Auditor's Report:

- an unqualified opinion on the financial statements
- an unqualified opinion on the regularity of expenditure and income, and
- an unqualified audit opinion on the auditable part of the Remuneration Report, the Management Commentary and the Statement on Governance and the System of Internal Financial Control.

14. We also concluded that there were no matters upon which we are required to report to the Auditor General by exception.

Submission of annual report and accounts for audit

15. We received the unaudited Annual Accounts on 4 July 2017, in line with our agreed audit timetable. The Annual Accounts were prepared to the same standard as in previous years.

16. The working papers provided with the unaudited Annual Accounts were of a good standard and South Lanarkshire finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

Risk of material misstatement

17. [Appendix 1](#) (page 10) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team.

The Authority's Annual Accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Materiality

18. 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 perceptions and decisions of users of the financial statements. The assessment of what is material is a matter of professional judgement. A misstatement or omission, which would not normally be regarded as material by value, may be important for other reasons (for example, an item contrary to law).

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£115,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of planning materiality.	£57,000
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. We consider that an appropriate figure of interest to members would be	£100,000

Source: Audit Scotland

19. Our initial assessment of materiality for the financial statements was undertaken during the planning phase of the audit. We assess the materiality of uncorrected misstatements, both individually and collectively in forming our opinions on the financial statements.

20. On receipt of the Annual Accounts and following completion of audit testing we reviewed our original materiality calculations and concluded that they remained appropriate. Our final materiality levels are summarised at [Exhibit 2](#).

Evaluation of misstatements

21. There were no material adjustments to the unaudited financial statements arising from our audit.

Significant findings from the audit

22. International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to you. In our view, there are no significant findings to be communicated to those charged with governance, in accordance with ISA 260.

Part 2

Other aspects of the closing audit



Main judgements

The Authority effectively managed its 2016/17 budget.

Internal controls operated effectively during 2016/17.

Appropriate governance arrangements were in place during the year.

Financial performance in 2016/17

23. In 2016/17, the Authority's total expenditure was £12.577 million. This was met mainly from grant funding (Section 27 criminal justice grant, administration grant and national grant). After making appropriate adjustments between the accounting and funding basis for pension costs the Authority reported a breakeven position for 2016/17.

24. Responsibility for meeting the costs of the unfunded pension liability at 31 March 2017 (£0.309 million) will be borne by the Scottish Government.

Internal controls

25. South Lanarkshire Council, as host authority, provides support in some key areas of business, particularly in finance and information technology.

26. As part of our audit, we reviewed the high level controls in a number of the systems used by South Lanarkshire Council for the processing and recording of transactions and the preparation of the financial statements of Lanarkshire Community Justice Authority.

27. Internal audit is provided by the host authority, South Lanarkshire Council. Internal Audit concluded that reasonable assurance could be taken on the governance and internal control environment operating during the financial year.

28. Our overall conclusion was that the key controls within the Council's main financial systems were operating satisfactorily, and no significant risks were identified.

Budgetary monitoring and control

29. We concluded that the Authority had satisfactory budgetary monitoring and control arrangements in place during 2016/17 that allowed members and officers to carry out effective scrutiny.

Governance arrangements

30. The Authority's governance arrangements were well established. The Authority met three times during 2016/17 and the meetings were supported by reports from officers.

31. Based on our planning and interim audit work and we have concluded that the Authority had appropriate and adequate governance arrangements in place that supported good governance and accountability throughout 2016/17.

Transparency

32. Board meetings were open to the public, with agendas and minutes available on the Authority's website along with other key documents and publications. However, the Authority did not publish an annual report for 2016/17.

Prevention and detection of fraud and irregularity

33. We assessed the Authority's arrangements for the prevention and detection of fraud and concluded that adequate arrangements in place for fraud detection and prevention during 2016/17.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

34. We reviewed the Authority's arrangements for maintaining standards of conduct and concluded that the Authority had appropriate arrangements in place for the prevention and detection of bribery corruption.

Appendix 1

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls.</p>	<p>Review of journal entries.</p> <p>Testing of accruals and prepayments.</p> <p>Review of audit opinion on North Lanarkshire Council 2016/17 criminal justice grant claim.</p>	<p>Satisfactory results were obtained for all assurance procedures. No evidence of management override of controls was found.</p>
<p>2 Risk of fraud over expenditure</p> <p>The Code of Audit Practice requires us to consider the risk of fraud over expenditure as part of our audit.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p> <p>Review of audit opinion on North Lanarkshire Council 2016/17 criminal justice grant claim.</p>	<p>Satisfactory results were obtained for all assurance procedures. No instances of fraud or other irregularity were identified.</p>
<p>3 Disestablishment of LCJA</p> <p>All CJAs will be disestablished on 31 March 2017 and responsibility for community justice services will transfer to Community Planning Partnerships. This has a number of impacts on the financial statements of LCJA.</p> <p>Transactions related to the closure (such as severance costs and the transfer of outstanding balances) are outside the normal course of business and therefore have a</p>	<p>Focused testing of transactions relating to the closure.</p> <p>Review of the arrangements in place for preparation of the Annual Accounts.</p>	<p>Satisfactory results were obtained for all assurance procedures. Transactions related to the disestablishment were reviewed and tested as necessary. No issues were identified.</p> <p>The Annual Accounts were prepared to the same standard as that of previous years. Responsibilities of the Chief Officer and for approval of the Annual Accounts were delegated to the Executive Director of Finance and Corporate Resource of South Lanarkshire Council after</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>greater risk of misstatement.</p> <p>The accounts will be prepared by staff at South Lanarkshire Council, but the LCJA Chief Officer will no longer be in post and the Joint Committee will not meet again. The loss of the operational knowledge may impact the quality of the narrative sections of the accounts.</p>		31 March 20167.

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p>4 Wider community justice objectives</p> <p>The responsibility for the delivery of community justice services will be transferred to Community Planning Partnerships after the disestablishment of the CJAs on 31 March 2017.</p> <p>There is a risk that the transition to the new arrangements will impact on the delivery of community justice services.</p>	Review of handover process.	No issues were identified with the handover arrangements.
<p>5 Scrutiny of 2016/17 financial statements</p> <p>Following the disestablishment of the LCJA, the Director of Finance at South Lanarkshire Council will assume the role of Accountable Officer for the 2016/17 financial statements. In this final year of CJA accounts, it is also the expectation that auditors will consider the Accountable Officer to be 'those charged with governance', as defined by ISA 260, due to the absence of a CJA committee. There is a risk that this will impact upon the level of scrutiny exercised on the 2016/17 financial statements.</p>	<p>Appropriateness of arrangements will be reviewed during the course of the audit.</p> <p>Issues from audit will be reported directly to Scottish Government if deemed necessary.</p>	No reportable issues identified.

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