



Scott-Moncrieff  
business advisers and accountants

# Lothian and Borders Community Justice Authority

2016/17 Annual Audit Report to Lothian and  
Borders Community Justice Authority and the  
Auditor General for Scotland

November 2017

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# Summary

## Annual accounts

Lothian and Borders Community Justice Authority (LBCJA) annual accounts for the year ended 31 March 2017 were authorised for issue on 1 November 2017.

Within our independent auditor's report, we report unqualified opinions on the financial statements, the regularity of transactions and on other prescribed matters. We also report that there are no matters that we are required to report on by exception.

Within our independent auditor's report we also draw attention to two matters in respect of the preparation of the annual accounts on a going concern basis and the lack of a prior year IAS 19 defined benefit pension disclosure. Our opinion is not modified in respect of these matters.

## Governance statement

We are satisfied that the Annual Governance Statement is consistent with the financial statements.

Adequate systems were in place during the financial year to record, process, summarise and report financial and other relevant data. We have not identified any material weaknesses or governance issues in LBCJA's accounting and internal control systems.

## Conclusion

This report concludes our audit for 2016/17. We performed our audit in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK and Ireland) and Ethical Standards.

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- LBCJA was disestablished as at 31 March 2017 under the provisions of the Community Justice (Scotland) Act 2016.
- A £1.217million deficit was reported in 2016/17 against a revenue budget of £15.912million. This was due to additional staff costs incurred through the disestablishment of staff costs. The Scottish Government has committed to meeting these costs on behalf of CJAs.
- No capital expenditure was incurred during the year.

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# Introduction

# Introduction

1. This report summarises the findings from our 2016/17 audit of Lothian and Borders Community Justice Authority (“LBCJA”). We outlined the scope of our audit in our External Audit Plan, which we presented to LBCJA in March 2017.
2. Within our External Audit Plan, we outlined that the core elements of our audit work in 2016/17 were:
  - An audit of LBCJA's 2016/17 annual accounts;
  - Audit work to allow conclusions to be made on the appropriateness of the disclosures in the Governance Statement; and
  - Consideration of the financial sustainability of LBCJA and the services that it delivers over the medium and longer term.
3. As at 31 March 2017, the six Community Justice Authorities in Scotland were disestablished under the provisions of the Criminal Justice (Scotland) Act 2016. As such, our work in 2016/17 was restricted to the audit of the annual accounts and audit work on the appropriateness of the disclosures in the Governance Statement. We have not considered the financial sustainability of LBCJA.
4. LBCJA is responsible for preparing annual accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses and risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual accounts 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.
5. The Chief Officer of LBCJA left the organisation upon its disestablishment on 31 March 2017. As the lead Local Authority of LBCJA, accountable officer responsibilities passed to the Head of Finance at City of Edinburgh Council.
6. We have discussed and agreed the content of this report with the Head of Finance at City of Edinburgh Council. We would like to thank all management and staff for their co-operation and assistance during our audit.
7. This report is addressed to both LBCJA and the Auditor General for Scotland and will be published on Audit Scotland’s website. [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

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# Annual accounts

# Annual accounts

## Introduction

8. LBCJA's annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. We outline the respective responsibilities of LBCJA and the auditor in relation to the annual accounts in Appendix 1 to this report.
9. In this section we summarise the issues arising from our audit of the 2016/17 annual accounts.

## Overall conclusion

### Unqualified audit opinions

10. The annual accounts for the year ended 31 March 2017 were authorised for issue on 1 November 2017. We have reported, within our independent auditor's report:
  - an unqualified opinion on the financial statements;
  - an unqualified opinion on regularity; and
  - an unqualified opinion on other prescribed matters.
11. Within our independent auditor's report we draw attention to two matters:
  - The financial statements have been prepared on a going concern basis following the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (paragraph 3.4.2.23). The functions of LBCJA however passed to Community Justice Scotland as at 1 April 2017 at which time the CJA was disestablished. All employees of the CJA

had ceased employment by 31 March 2017.

- The lack of a prior year IAS 19 defined benefit pension disclosure. In previous years the CJA accounted for their membership of the Scottish Borders Council Pension Fund as if it were a defined contribution scheme. Relevant information was not available for disclosure of the 2015/16 pension position.

12. Our opinion was not modified in respect of these matters.

### Good administrative processes were in place

13. We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable.

### Our assessment of risks of material misstatement

14. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. We designed our audit procedures relating to these matters in the context of our audit of the annual accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual accounts is not modified with respect to any of the risks described in exhibit 1 below.

## Exhibit 1 – Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

### 1. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

*Extract from the External Audit Plan*



15. We have not identified any indications of management override in the year. We have

## Exhibit 1 – Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

reviewed the LBCJA's accounting records, obtained evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed the journal entries processed in the period and around the year-end.

### 2. Revenue recognition

Under ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that LBCJA could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

*Extract from the External Audit Plan*



16. LBCJA does not undertake any income generating activities. Section 27 and administrative grant funding from the Scottish Government is the only source of income. We do not believe the risk of fraud in revenue recognition is therefore applicable to the annual accounts and have therefore rebutted this risk.

### 3. Dis-establishment of CJAs

The Community Justice (Scotland) Act 2016 will see the dis-establishment of all six Community Justice Authorities on 31 March 2017 as part of the redesign of the model for community justice. There is a risk that transactions around the year end are not appropriately included within the annual accounts and that all relevant disclosures are not made.

*Extract from the External Audit Plan*



17. Prior to the year end we liaised with LBCJA management to identify any areas for potential misstatements and agreed upon accounting treatment to be adopted. Post year end, we performed relevant audit testing over all material areas of the annual accounts in order to ensure that all necessary disclosures were made.
18. We identified that disestablishment staff costs, comprising both severance costs and cessation payments to the pension scheme had not been recognised within the draft annual accounts along with relevant disclosures. Management adjusted for this, recognising all applicable staff costs within the audited annual accounts.

## Our application of materiality

19. Materiality is an expression of the relative significance of a matter in the context of the annual accounts as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.
20. Our initial assessment of materiality for the annual accounts was £228,000. This assessment was revised to £200,000 following

receipt of the draft annual accounts. Our assessment of materiality equates to approximately 1.3% of LBCJA's net operating expenditure. Achieving a breakeven position is a key target for LBCJA and one of the principal considerations for the users of the annual accounts when assessing financial performance.

21. We set a level of performance materiality for each area of work based on a risk assessment for the area. We have performed audit procedures on all transactions, or groups of transactions, and balances that exceed our



performance materiality. This means that we performed a greater level of testing on the areas deemed to be of significant risk of material misstatement.

Area risk assessment	Weighting	Performance materiality
High	45%	£90,000
Medium	55%	£110,000
Low	65%	£130,000

22. We agreed to report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements;
  - Uncorrected misstatements over £5,000 (2.5% of overall materiality) and
  - Misstatements below £5,000 that we believe warrant reporting on qualitative grounds.

### Audit differences

23. Through our audit work we identified one material adjustment to the annual accounts. The CJA had not recognised staff costs incurred through disestablishment within the draft annual accounts. These costs included cessation payments to the Scottish Borders Council Pension Fund of £1.173million and a further £0.044million in severance costs.
24. We are pleased to report that this adjustment has been made and that all relevant staff costs are reflected in the final annual accounts.

### Letter of representation

25. We requested that a signed representation letter be presented to us at the date of signing the annual accounts. This letter is signed by the Head of Finance, City of Edinburgh Council.

### An overview of the scope of our audit

26. We detailed the scope of our audit in our External Audit Plan. We presented our plan to LBCJA in March 2017. Our plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to LBCJA. This

ensures that our audit focuses on the areas of highest risk.

27. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.
28. At the planning stage we identified the significant risks that had the greatest effect on our audit. We then designed audit procedures to mitigate these risks. We base our standard audit approach on performing a review of the key accounting systems in place, substantive tests and detailed analytical review.
29. The audit team completed tailored audit procedures, including those designed to address significant risks. The audit management team reviewed the results. In performing our work, we have applied the concept of materiality as described earlier in this report.

### Systems of internal control

30. LBCJA has adequate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any material weaknesses or governance issues in LBCJA's accounting and internal control systems.

### Internal audit

31. LBCJA's internal audit function is provided by City of Edinburgh Council. We have taken cognisance of the work of internal audit in forming our opinion on the appropriateness of the disclosures in the governance statement.

### Governance statement

32. In previous years LBCJA did not include a Governance Statement within the financial statements. An Annual Governance Statement has been incorporated into the 2016/17 annual accounts. We are satisfied that the 2016/17 Annual Governance Statement is consistent with the financial statements.

### Remuneration report

33. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared.

### Going concern

34. The annual accounts have been prepared on a going concern basis despite disestablishment of

CJAs on 31 March 2017. Functions of the CJA have been transferred to Community Justice Scotland and as such preparation of the annual accounts on a going concern basis is deemed appropriate. We have drawn attention to this in our independent auditor's report (paragraph 10). Our opinion was not modified in respect of this matter.

materiality of the information provided by the annual accounts. Our findings are summarised below:

## Regularity

35. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual accounts. We did not identify any instances of irregular activity.

## Qualitative aspects of accounting practices and financial reporting

36. We have considered the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We consider the accounting policies, which are disclosed in the annual accounts, to be appropriate to LBCJA. We however note the emphasis of matter as disclosed in paragraph 11 with regard to the accounting treatment of LBCJA's participation in a defined benefit pension scheme.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We consider the accounting estimates and judgements used by management in preparing the annual accounts to be appropriate.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts.
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	The annual accounts have been materially affected through the inclusion of staff disestablishment costs during the period. This has resulted in an overall deficit position of £1.217million.
Apparent misstatements in the explanatory foreword or material inconsistencies with the financial statements.	The explanatory foreword contains no material misstatements or inconsistencies with the financial statements.
Any annual accounts disclosures to bring to your attention.	There are no annual accounts disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or annual accounts disclosure.	While some disclosure and presentational adjustments were made through the audit process, there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no difficulties encountered during the audit.

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## Appendices

# Appendix 1: Respective responsibilities of LBCJA and the Auditor

## Responsibility for the preparation of the annual accounts

It is the responsibility of LBCJA and the Head of Finance at City of Edinburgh Council to prepare annual accounts in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code). In preparing the annual accounts, LBCJA and the Head of Finance are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- comply with legislation;
- comply with the Code of Practice, except where stated in the Policies and Notes to the Accounts.

The Head of Finance is also responsible for

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Auditor responsibilities

We audit the annual accounts and give an opinion on whether:

- the financial statements give a true and fair view in accordance with Management of Offenders etc. (Scotland) Act 2005 (Members' Remuneration and Supplementary Provisions) Order 2008 of the state of LBCJA's affairs as at 31 March 2017 and of its income and expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by 2016/17 Code;
- the financial statements have been prepared in accordance with the requirements of the Management of Offenders etc. (Scotland) Act 2005 (Members' Remuneration and Supplementary Provisions) Order 2008.

- in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- the auditable part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014;
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

We are also required to report by exception if, in our opinion

- adequate accounting records have not been kept; or
- the financial statements and the auditable part of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit;

## Independence

We are required by International Standards on Auditing to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that we have complied with the Financial Reporting Council's Ethical Standard. In our professional judgement the audit process has been independent and our objectivity has not been compromised. In particular, there have been no relationships between Scott-Moncrieff and LBCJA or senior management that may reasonably be thought to bear on our objectivity and independence.



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