

North Strathclyde Community Justice Authority

2016/17 Annual Audit Report



 AUDIT SCOTLAND

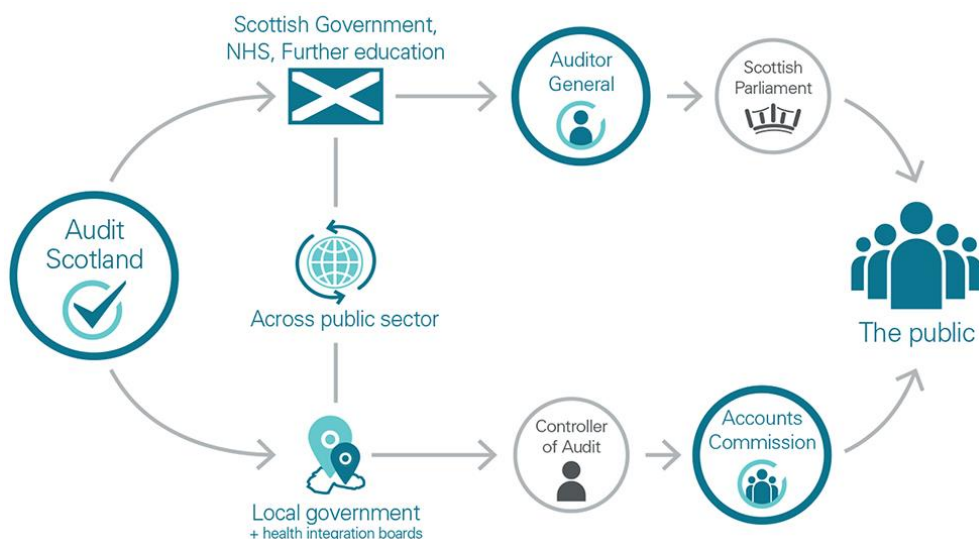
To Members of the North Strathclyde Community Justice Authority and the Controller of Audit

25 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

Our vision is to be a world-class audit organisation that improves the use of public money.

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 annual accounts

- 1 Our audit opinions were all unqualified. These covered the financial statements, management commentary, remuneration report and the statement on the system of internal financial control.

Financial management

- 2 A deficit of £0.025 million was incurred in 2016/17 which includes an accounting adjustment for pensions. Excluding this accounting adjustment, the in-year position is breakeven.

Financial sustainability

- 3 The Justice Authority was disestablished on 31 March 2017. The Director of Finance and Resources at Renfrewshire Council, as the administering authority, has been given authority by the Scottish Government to authorise the accounts as the Accountable Officer as the Chief Officer is no longer employed.

Governance and transparency

- 4 The Justice Authority had appropriate governance arrangements in place to support the scrutiny of decision making.

Introduction

1. This report is a summary of the findings arising from the 2016/17 audit of North Strathclyde Community Justice Authority (NSCJA).

2. The scope of the audit was set out in our Annual Audit Plan issued to the Accountable Officer in February 2017. This report comprises:

- an audit of the annual report and accounts
- consideration of the four dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 1 \(page 5\)](#).

Exhibit 1

Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2016/17 have been:

- an interim audit of Renfrewshire Council's main financial systems and governance arrangements which are used by NSCJA
- an audit of NSCJA's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions.

4. NSCJA is responsible for preparing the annual report and accounts that show a true and fair view in accordance with the Local Authority Accounts (Scotland) Regulations 2014. It is also responsible for establishing effective governance arrangements and ensuring financial management is effective.

- 5.** Our responsibilities as independent auditor are established by the Local Government in Scotland Act 1973 and the [Code of Audit Practice 2016](#) guided by the auditing profession's ethical guidance.
- 6.** As public sector auditors we provide an independent auditor's report on the annual report and accounts. We also review and report on the arrangements within NSCJA to manage its performance and use of resources such as money, staff and assets. Additionally, we consider NSCJA's best value arrangements. In doing this, we aim to support improvement and accountability.
- 7.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
- 8.** This report raises matters from the audit of the annual report and accounts, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
- 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 as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- 10.** This report is addressed to both the Joint Committee and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
- 11.** We would like to thank all management and staff who have been involved in our work for their co-operational and assistance during the audit.

Part 1

Audit of 2016/17 annual report and accounts



Main judgements

Unqualified audit opinions on NSCJA's annual report and accounts.

Unqualified audit opinions

12. The annual report and accounts for the year ended 31 March 2017 were approved by the Director of Finance and Resources at Renfrewshire Council, as Accountable Officer, on 26 October 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- unqualified opinions on the management commentary, remuneration report and statement on the system of internal financial control.

13. Additionally, we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

Submission of NSCJA's annual report and accounts for audit

14. We received the unaudited annual report and accounts on 6 July, in line with the audit timetable set out in our 2016/17 Annual Audit Plan.

15. The working papers provided with the unaudited report and accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the final accounts process ran smoothly.

Risk of material misstatement

16. [Appendix 1 \(page 13\)](#) 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. Also, included within the appendix are wider audit dimension risks, how we addressed these and our conclusions.

Materiality

17. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved (i.e. true and fair view). The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

18. Our initial assessment of materiality for the annual report and accounts was undertaken during the planning phase of the audit and is summarised in [Exhibit 2](#)

The Justice Authority's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of its resources.

(page 8). Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

19. On receipt of the annual report and accounts and following completion of audit testing we reviewed our original materiality calculations and increased these as detailed below.

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 per cent of gross expenditure for the year ended 31 March 2017.	£107,000
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 75 per cent of overall materiality.	£80,000
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount.	£1,000

Source: Audit Scotland

How we evaluate misstatements

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

Significant findings

21. International Standard on Auditing 260 (UK & Ireland) requires us to communicate to you significant findings from the audit. There are no significant findings to bring to your attention.

Going concern

22. NSCJA was formally disestablished on 31 March 2017.

Objections

23. The Local Authority Accounts (Scotland) Regulations 2014 require a local government bodies to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. NSCJA complied with the regulations.

Part 2

Financial management



Main judgements

A deficit of £0.025 million was incurred in 2016/17 which includes an accounting adjustment for pensions. Excluding this accounting adjustment, the in-year position is breakeven.

Financial performance in 2016/17

24. NSCJA receives funding from the Scottish Government through an administration grant and section 27 Social Work (Scotland) Act 1968 grant. The Scottish Government confirmed an administration grant of £0.227 million and the section 27 grant of £9.863 million in March 2016. As a result, total budgeted income and expenditure was £10.090 million resulting in a breakeven budgeted position.

25. Actual outturn for the year was total expenditure of £10.790 million and total income of £10.765 million. This resulted in a deficit of £0.025 million for the year, including an accounting adjustment for pensions. Excluding this accounting adjustment, the in-year position is a breakeven.

26. The largest source of income was the section 27 grant of £10.257 million. There was additional section 27 funding of £0.394 million allocated by the Scottish Government in June 2016. This resulted in £10.257 million income from the section 27 grant. Other sources of income included the administration grant of £0.221 million and additional income of £0.291 million from the Scottish Government for Intensive Support Package, Development of Bail Supervision and Diversion Services and Custody for Women funding.

27. The break even position reported in the Management Commentary is different to the deficit of £0.025 million reported in the Comprehensive Income and Expenditure Statement (CIES). This is due to accounting adjustments required for pension costs and the employee leave accrual. As the budget is prepared and monitored in this way, it is appropriate for it to be detailed in the Management Commentary in this way.

Internal controls

28. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that NSCJA has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

29. The systems in place at NSCJA are hosted by Renfrewshire Council and were assessed as part of the Renfrewshire Council audit. As part of the Renfrewshire Council audit we concluded that the key controls were operating effectively, although there were areas where improvements could be made. Overall, no significant control weaknesses were identified which could affect the Council's, and

by extension NSCJA's, ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Prevention and detection of fraud

30. We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. We reviewed NSCJA's arrangements including policies and codes of conduct for staff and elected members, whistleblowing, and fraud prevention.

31. Based on the evidence reviewed by us, we concluded that the NSCJA has adequate arrangements in place for the prevention and detection of fraud.

Part 3

Financial sustainability



Main judgements

The Justice Authority was disestablished on 31 March 2017. The Director of Finance and Resources at Renfrewshire Council, as the administering authority, has been given authority by the Scottish Government to authorise the accounts as the Accountable Officer as the Chief Officer is no longer employed.

Financial planning

32. The Justice Authority was disestablished on 31 March 2017. The Director of Finance and Resources at Renfrewshire Council, as the administering authority, has been given authority by the Scottish Government to authorise the accounts as the Accountable Officer as the Chief Officer is no longer employed.

Reserves

33. NSCJA has no specific powers to retain reserves to meet future requirements and technically the amounts held are due to local authorities. These balances are used to support medium-term financial planning and address any unforeseen costs.

34. Any cash balances previously held by NSCJA were matched by creditor balances. However the 2016/17 accounts show a zero balance as at the date of dis-establishment. The net liability position of the NSCJA reflects only the pension reserve. This assessment of the pension liability provides only a snapshot as at 31 March 2017. The appointed actuaries remain of the view that the asset holdings of the Strathclyde Pension Scheme and the contributions from employees and employers provide sufficient security and income to meet future pension liabilities.

Part 4

Governance and transparency



Main Judgements

The Joint Committee had appropriate governance arrangements in place to support the scrutiny of decision making.

Governance arrangements

35. Members and management of NSCJA 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. We concluded that NSCJA had effective governance arrangements which provide an appropriate framework for organisational decision-making.

Management commentary, statement of the system of internal financial control and remuneration report

36. Guidance note 4 Management Commentary/Financial Memorandum published by the Scottish Government requires Community Justice Authorities (CJAs) to prepare annual accounts in accordance with the guidance and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. CJAs are required to prepare and publish, along with their financial statements, a management commentary and a statement on the system of internal financial control. There is no formal requirement for a remuneration report but the Scottish Government have suggested the inclusion of one as best practice. The management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.

37. Based on our knowledge and work performed, we concluded that the management commentary, statement on the system of internal financial control and remuneration report are consistent with the financial statements.

Internal audit

38. Internal audit provides senior management and elected members with independent assurance on NSCJA's overall risk management, internal control and corporate governance processes.

39. The internal audit function is carried out by Renfrewshire Council's internal audit team. We carried out a review of the adequacy of Renfrewshire Council's internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS). However, there were areas where we identified recommendations for improvement.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

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 opinion on the financial statements.

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 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 the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of significant management estimates and evaluation of the impact of any variability in key assumptions.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Our audit procedures did not uncover evidence of management override of controls.</p>
<p>2 Risk of fraud over income and expenditure</p> <p>CMPA has a number of funding sources which includes income generation. The extent of income means that, in accordance with ISA 240, there is an inherent risk of fraud that requires an audit response. Income generation also results in cash which presents an increased risk of fraud.</p> <p>The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure.</p>	<p>Analytical procedures over areas of expenditure.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p>	<p>Our audit procedures did not uncover any evidence of fraud over income or expenditure.</p>
<p>3 Closure of NSCJA</p> <p>All CJAs will close 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 NSCJA.</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>Focussed testing of transactions relating to the closure.</p> <p>Review of the arrangements in place for preparation of the annual accounts.</p>	<p>Our audit procedures did not identify any issues in respect of the closure of NSCJA.</p>





















Audit risk	Assurance procedure	Results and conclusions
<p>greater risk of misstatement.</p> <p>The accounts will be prepared by staff at Renfrewshire Council, but the NSCJA 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>		
<p>4 Revised format of financial statements</p> <p>The 2016/17 Code of Practice on Local Authority Accounting (the Code) makes changes to the structure of the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MIRS). This will require the restatement of prior year comparatives and presents a risk of misstatement in the financial statements.</p>	<p>Review of structure of CIES and MIRS.</p> <p>Detailed analysis of account code mapping for CIES.</p> <p>Review of prior year comparatives and restatements.</p>	<p>Our audit procedures did not identify any errors in the structure of the CIES or MIRS and all account codes had been mapped across correctly.</p>
<p>5 New expenditure and funding analysis</p> <p>The Code sets out a new requirement for an expenditure and funding analysis. This will provide a reconciliation of the statutory adjustments between NSCJA's financial performance on a funding basis and the surplus or deficit on the provision of services in the CIES. This presents an increased risk of misstatement as the analysis may not be in line with the requirements of the Code. There is also an increased risk of inconsistencies between the analysis and the financial statements.</p>	<p>Detailed testing of expenditure and funding analysis.</p> <p>Review of prior year comparatives and restatements.</p> <p>Review of consistency between expenditure and funding analysis and information contained elsewhere within the annual accounts.</p>	<p>Our audit procedures did not identify any errors within the Expenditure Funding Analysis statement and all information was consistent with information contained elsewhere within the annual accounts.</p>
<p>6 Changes to governance disclosures</p> <p>The Code makes changes to the requirements of the governance statement. This will require additional information to be disclosed to ensure all requirements of the Code are met. This presents a risk that the governance disclosures may not be complete.</p>	<p>Review of governance statement content.</p> <p>Testing of governance disclosures.</p>	<p>NSCJA does not produce a governance statement. A statement on the system of internal financial control is produced. As the NSCJA was disestablished as at 31 March 2017 no further action is required.</p>

Audit risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>7 Impact of the closure of NSCJA on wider community justice objectives</p> <p>The responsibility for the delivery of community justice services will be transferred to Community Planning Partnerships after the closure of the CJAs on 31 March 2017. There is a risk that there will be an impact on the delivery of these services as a result of the transfer process.</p>	<p>Review of the local resilience plan.</p> <p>Review of the closure plan content.</p>	<p>Our audit procedures did not identify any impact on service delivery up until 31 March 2017.</p>

Appendix 2

Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update
			 Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review
			 Managing new financial powers: an update

Local government relevant reports

[*The National Fraud Initiative in Scotland - June 2016*](#)

[*How councils work - Roles and working relationships in councils - November 2016*](#)

[*Local government in Scotland: Financial overview 2015/16 - November 2017*](#)

[*Local government in Scotland: Performance and challenges 2017 - March 2017*](#)

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