

Northern Community Justice Authority

2016/17 Annual Audit Report



 AUDIT SCOTLAND

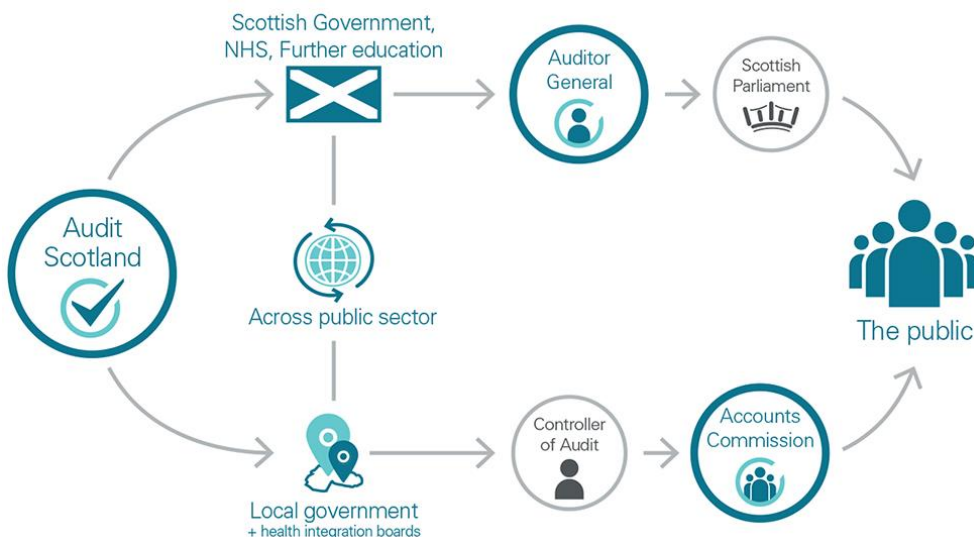
Prepared for the Accountable Officer for the Northern Community Justice Authority and the Auditor
General for Scotland

27 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

2016/17 annual accounts

- 1** Our audit opinions were all unqualified. These covered the financial statements, management commentary, remuneration report and the annual governance statement.
- 2** The expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

Financial management and sustainability

- 3** The authority achieved a small underspend, which was largely consistent with the revised budgeted position.
- 4** 2016/17 was the final year of operation of the Northern Community Justice Authority. The 2016/17 outturn position included settlement of all of the authority's liabilities, for example, the pension liability and staff exit packages. These final expenses were funded by the Scottish Government.

Governance

- 5** There were satisfactory internal financial controls in place during 2016/17.
- 6** The authority met the requirements of the Scottish Government's dis-establishment guidance.
- 7** Effective performance management arrangements operated during the year enabling the authority to submit its final annual performance report in January 2017.

Introduction

- 1.** This report is a summary of our findings arising from the 2016/17 audit of the Northern Community Justice Authority (NCJA). This is the final audit of the authority as the Community Justice (Scotland) Bill resulted in the dis-establishment of all seven community justice authorities from 1 April 2017. Functions were transferred to Community Justice Scotland at a national level and the local community planning partnerships at a local level.
- 2.** The scope of our audit was set out in our Annual Audit Plan in February 2017. The main elements of the 2016/17 audit therefore included:

 - assurances to support our opinion on the annual accounts
 - consideration of the appropriateness of the disclosures in the annual governance statement
 - a review of financial sustainability.
- 3.** In line with Scottish Government guidance, the Chief Officer discharged his accountable officer duties to the Executive Manager – Finance of Shetland Islands Council who was the treasurer for the NCJA. Guidance also set out that the head of finance of the lead partner authority (in this case the Executive Manager – Finance) would assume responsibility for the preparation of the annual accounts, and be regarded as the person charged with governance for the purposes of approving the accounts.
- 4.** Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice \(2016\)](#), and supplementary guidance, and are guided by the auditing profession's ethical guidance. The Code and supplementary guidance also provide details of management's responsibilities with regard to the accounts.
- 5.** These responsibilities include giving independent opinions on the financial statements, the remuneration report, the management commentary and the annual governance statement.
- 6.** Communication in this report of matters arising from the audit of the annual accounts or of risks or of weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
- 7.** 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 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.
- 8.** This report is addressed to both the Accountable Officer and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
- 9.** We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

Part 1

Audit of 2016/17 annual accounts



Main judgement

We provided unqualified audit opinions on the accounts. These covered the financial statements, management commentary, remuneration report and the annual governance statement.

The expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

Unqualified audit opinions

10. The annual accounts for the year ended 31 March 2017 were approved for issue by the Accountable Officer on 27 October 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- an unqualified opinion on the regularity of transactions
- unqualified opinions on the remuneration report, management commentary and the annual governance statement.

11. Additionally, we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

The annual accounts are the principal means of accounting for the stewardship of resources.

Submission of annual accounts for audit

12. We received the unaudited financial statements on 14 September 2017 in line with our agreed audit timetable.

13. The accounts were prepared for the Accountable Officer by finance staff at Aberdeen City Council under a service level agreement.

Risks of material misstatement

14. [Appendix 1](#) provides a description of those assessed risks of material misstatement that were identified during the planning process, how we addressed them and conclusions. Also included within the appendix are wider dimension risks.

Materiality

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

16. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and was reviewed on receipt of the unaudited accounts. Our materiality values are summarised in [Exhibit 2](#). Specifically with regard to the annual accounts, we assess the materiality of uncorrected misstatements, both individually and collectively.

Exhibit 2

Materiality values

Materiality level	Section 27 Grant Expenditure	Admin costs
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.	£127,890	£5,560
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 70% of planning materiality.	£89,500	£3,890
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£ 6,000	£ 300

Significant findings

International Standard on Auditing (UK and Ireland) 260 requires us to communicate to you significant findings from the audit. We can confirm that there were no significant findings identified from the audit requiring an adjustment to the figures included in the financial statements.

Management commentary, annual governance statement and remuneration report

17. The [Code of Audit Practice 2016](#) requires bodies to prepare and publish, along with their financial statements, an annual governance statement, management commentary and a remuneration report that are consistent with the disclosures made in the financial statements.

18. From 2016/17, in giving an unqualified audit opinion, we are also confirming that these statements have been prepared in accordance with relevant regulations and/or guidance. The governance statement was amended as part of the audit to reflect the authority's dis-establishment responsibilities.

Part 2

Financial management and sustainability



Main judgement

The authority achieved a small surplus on the provision of services, an outturn position which was largely consistent with the budget.

2016/17 was the final year of operation of the Northern Community Justice Authority (NCJA). The 2016/17 outturn position included settlement of all of the authority's liabilities, including the pension liability and staff exit packages. As expected, these final expenses were funded by the Scottish Government.

Financial outcome

19. In 2016/17, the authority's surplus on the provision of services was £73k following crystallisation of the authority's pension liability. At 31 March 2016, the authority had a net liability position of £73k arising from the difference between expected future pension payments and the underlying value of the pension fund assets available to meet these costs. During the year the fund's appointed actuary provided a termination valuation which is the final amount due to the pension fund to ensure that the authority's deferred pension costs will be fully funded in the future. The termination cost and associated reimbursement funding from the Scottish Government are reflected in the annual accounts.

20. The authority spent £13.3m on the provision of public services having recovered £54k from Aberdeen City Council in respect of an employee on secondment. Net cost of service expenditure was met mainly by Scottish Government funding of £13.4m through section 27 criminal justice grant and an administration grant.

21. Financial year 2016/17 was the final year of operation for the authority. As a result there were a number of one off expenses including the settlement of the pension liability and exit packages for employees. In accordance with agreed arrangements, the Scottish Government provided additional funding to meet these final costs.

Financial management

22. Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. It was the authority's responsibility to ensure that its financial affairs were conducted in a proper manner.

Financial sustainability looks forward to the medium and longer term to consider the way in which services should be delivered.

23. 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:

- the Treasurer has sufficient status to be able to deliver good financial management
- financial regulations and standing orders are comprehensive, current and promoted within the authority
- reports monitoring performance against budgets are accurate and provided regularly to budget holders.

24. The NCJA's outturn position was broadly consistent with the revised budget position, with no significant or unexpected variances at the year end. The authority's financial transactions were processed through Aberdeen City Council's systems. Appropriate monitoring reports were regularly submitted to the board for scrutiny. In addition, a service level agreement with Aberdeen City Council set out that the authority would comply with the council's financial standing orders and financial regulations where appropriate.

25. Overall, we concluded that the financial management arrangements within the authority were satisfactory.

Financial sustainability

26. Following dis-establishment there are no financial sustainability implications to be considered. Under the oversight of the new national body, Community Justice Scotland, each local authority will now receive direct Section 27 funding.

27. In December 2016, the Scottish Government wrote to council chief executives to advise of the revised funding methodology and proposed 2017/18 allocations. Some authorities gain and some lose under the new methodology and consequently, funding changes will be phased in over a 5 year period to give authorities the opportunity to manage the impact of the changes and ensure that robust financial monitoring arrangements are put in place for community justice services.

Part 3

Governance



Main judgement

There were satisfactory internal financial controls in place during 2016/17.

The authority met the requirements of the Scottish Government's dis-establishment guidance.

Effective performance management arrangements operated during the year.

Governance arrangements

28. The NCJA board consisted of 7 members – a councillor from each of the partner local authorities. In 2016/17, the board met on a quarterly basis and the final board meeting was held on 24 February 2017. We reviewed the minutes of the board to assess its effectiveness and observed the final meeting for a greater insight into proceedings.

29. The Community Justice (Scotland) Act 2016 saw the dis-establishment of the NCJA, along with the 7 other community justice authorities, as of 31 March 2017. During 2016/17, in preparation for dis-establishment, authorities were required to develop and implement plans and monitor ongoing associated risks. At the final meeting of the NCJA board in February 2017, an updated risk register and completed dis-establishment and resilience plans and data management plans were considered. We were satisfied that the authority had met the requirements set out in guidance.

30. As indicated in our Annual Audit Plan, the accounts have been prepared after the dis-establishment of the authority on 31 March 2017. At that point the former chief officer of the authority retired and transferred accountable officer responsibilities to the Executive Manager – Finance (Shetland Islands Council) who was the treasurer for the NCJA. In line with Scottish Government guidance, the head of finance of the lead partner authority (in this case the executive manager) assumed responsibility for the preparation of the annual accounts, and is regarded as the person charged with governance. This transition was facilitated by a service level agreement between the NCJA chief officer and the Executive Manager – Finance agreed in November 2016.

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

Internal Controls

31. 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.

32. The authority's annual governance statement states that reasonable assurance can be placed upon the adequacy and effectiveness of the authority's internal financial control system. This statement complies with accounting requirements and is consistent with findings of our audit.

33. The authority used the financial systems of Aberdeen City Council for the preparation of the annual accounts. We have drawn assurance from the annual reports of both the internal and external auditors for Aberdeen City Council.

34. The external auditor reported that systems of internal control operated effectively throughout the year. In addition, the chief internal auditor provided 'reasonable assurance' on the adequacy and effectiveness of the internal control system.

Prevention and detection of fraud and irregularity

35. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place.

36. The authority does not have its own arrangements for the prevention and detection of fraud and corruption, but complies with the relevant policies of Aberdeen City Council. We reviewed the authority's policies and procedures and concluded that they were satisfactory for the purposes of the NCJA. While we are not aware of any specific issues that we need to highlight in this report, it should be noted that no system can eliminate risk of fraud entirely.

Performance management

37. Under the terms of the Management of Offenders etc (Scotland) Act 2005, the authority was required to report annually on its activities and performance to demonstrate progress against its main strategic objectives. The final annual performance report was approved by the board in December 2016 and submitted to the Scottish Government in January 2017. The following significant achievements were reported:

- one year reconviction rates have continued their downwards trend having fallen for the sixth year in succession and at 25.1% is now the lowest in Scotland
- whilst the numbers of crimes being recorded show significant reductions, this was not reflected in the numbers of persons in custody except for young offenders. Over time, it is hoped that the significant reduction in young offenders in custody will be reflected in the overall prison population
- partnership working during 2016/17 focused on the transition to the new Community Justice model and contributing to national working groups.

38. Overall, the authority had appropriate systems and processes in place to monitor performance and demonstrate continuous improvement.

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 accounts and those relating to 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 in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<ul style="list-style-type: none"> Samples of journals and accruals/prepayments were reviewed. No issues were identified.
<p>2 Discharge of responsibilities</p> <p>The role of the accountable officer will transfer from the Authority's Chief Officer to the Executive Manager – Finance, Shetland Islands Council as the Authority's lead from 1 April 2017. There is a risk the Executive Manager – Finance does not have sufficient assurances in order to discharge these responsibilities in relation to the financial statements.</p>	<ul style="list-style-type: none"> Continuity of council officers involved in the preparation of financial statements. The draft Annual Report on 2016/17 performance was considered by the Board in December 2016 and following publication in January 2017, was available on Aberdeenshire Council's website. The concluding agenda for the authority's meeting on 24 February 2017 included an updated risk register, dis-establishment and resilience plan, data management and a financial monitoring report. 	<ul style="list-style-type: none"> Continuity of staff involved in the accounts preparation process ensured that the financial statements were delivered to a similar timetable as previous years. The accounts and accompanying working papers were of a good standard. Dis-establishment action plan largely delivered by 31 March 2017.
<p>3 Risk of fraud over expenditure</p> <p>ISA 240 and the Code of Audit Practice require auditors to consider the risk of fraud over certain types of public sector expenditure.</p>	<ul style="list-style-type: none"> Internal controls for the authority's systems operate effectively. There is effective budgetary control by management. Assurance has been taken from the auditors of the partner bodies, who certify 	<ul style="list-style-type: none"> No issues were identified in respect of the internal control systems. Budget management was found to be effective. No material issues identified by partner bodies' auditors in respect of partner body grant

Audit risk	Assurance procedure	Results and conclusions
<p>The presumed risk of fraud over expenditure is relevant due to the extent of the authority's expenditure in delivering services.</p>	<p>the respective grant claims.</p>	<p>claims.</p>
<p>4 Severance and residual costs</p> <p>As this is the final year of operation, there are additional close down costs such as severance and residual costs. While arrangements have been put in place in terms of additional funding, there is a risk that the authority's costs are not properly identified and accounted for.</p>	<ul style="list-style-type: none"> • Approved severance scheme cases and associated funding. • Early identification and monitoring of additional costs. 	<ul style="list-style-type: none"> • All severance payments were agreed to correspondence from the Scottish Government. • The termination valuation in respect of the outstanding pension liability was provided by the pension fund actuary and accrued in the accounts together with reimbursement funding from the Scottish Government.
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p>5 Discharge of responsibilities</p> <p>The Chief Officer and the Executive Manager – Finance are required to have an agreement in place surrounding the discharge of responsibilities upon dis-establishment of the authority. There is a risk that the agreement is not in place or does not meet the necessary requirements to facilitate the annual accounts process for 2016/17.</p>	<ul style="list-style-type: none"> • Transfer agreement for financial services between the NCJA and Shetland Islands Council 	<ul style="list-style-type: none"> • Appropriate agreements in place and accountable officer responsibilities were transferred as required.
<p>6 Cessation of Northern CJA</p> <p>With the cessation of the NCJA there is a risk that reduced engagement of partners during the period of transition adversely impacted on service delivery.</p>	<ul style="list-style-type: none"> • Annual Report 2016/17 • Development of community justice planning partnerships will enable a smooth transition. 	<ul style="list-style-type: none"> • The final board meeting received the authority's annual report and concluding positions on the dis-establishment plans. No significant concerns were identified.

Aberdeenshire Northern Community Justice Authority

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