



## Final report to the Authority and the Auditor General for Scotland on the 2016/17 audit

30 October 2017

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# Director introduction

## The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

As set out in our plan, due to the relative size and scale of the functions delivered by the Authority, we concluded that the full wider scope audit was not appropriate. In accordance with paragraph 53 of the Code, our work in this area was restricted to concluding on the appropriateness of the disclosures in the governance statement.

As the CJA has been formally disbanded at 31 March 2017 with functions transferred to other public sector bodies, there is no requirement to consider the longer term financial sustainability.

I have pleasure in presenting our final report for the 2017 audit.

As detailed in our plan presented to the Authority in March 2017, the new Code of Audit Practice, which came into force for the 2016/17 audits sets out our responsibilities under core audit and wider scope requirements. A reminder of the requirements is set out below.

- *Opinion on the financial statements and regularity*
- *National performance audits and Best Value audits*



- *Opinion on management commentaries, remuneration reports and governance statements*

- *Public reporting and audit findings*
- *Wider scope reporting*

# Director introduction (continued)

## The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

### Statutory audit

#### **Conclusions from our testing**

The significant risks, as identified in our audit plan, related to:

- Income recognition; and
- Management override of controls.

A summary of our work on the significant risks is provided in the dashboard on page 7.

We have identified no audit adjustments during our audit.

We have issued an unmodified audit opinion.

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#### **Status of the audit**

We can confirm that all outstanding matters have been completed and the audit is now complete.

# Director introduction (continued)

## The key messages in this report (continued)

### Best Practice

#### Overall conclusion

Although the CJA was hosted by North Ayrshire Council and was required to follow the accounting principles within the Code of Practice on local authority accounting in the UK, it is a central government body audited under the Public Finance and Accountability (Scotland) Act 2000. The Local Government regulations in relation to production of a management commentary and annual governance statement do not therefore apply. The minimum requirement is for an Explanatory Foreword and a Statement on the Systems of Internal Financial Control (SSIFC).

As a new requirement in 2016/17, we are required to provide an opinion on whether:

- information given in the explanatory foreword is consistent with the financial statements;
- the SSIFC is consistent with the financial statements; and
- the SSIFC has been prepared in accordance with proper practice.

We can confirm that all audit procedures have been completed and we have issued unmodified opinions on the above.

In addition to the opinion, we have read the explanatory foreword and confirmed that the information contained is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.

We have also audited the auditable parts of the remuneration report and confirmed that it has been prepared in accordance with the Regulation 8(2) of The Local Authority Accounts (Scotland) Regulation 2014.

### Adds Value

#### Wider scope requirements

As the CJA has been formally disbanded at 31 March 2017 with functions transferred to other public sector bodies, there is no requirement to consider the longer term financial sustainability.

We have confirmed that the SSIFC is in compliance with the Code and is consistent with our knowledge gained during the audit. We are not aware of any significant events between 31 March 2017 and the date of authorisation which have not been included in the SSIFC.

# Our audit explained

## Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered the appropriateness of the disclosures in the SSIFC.

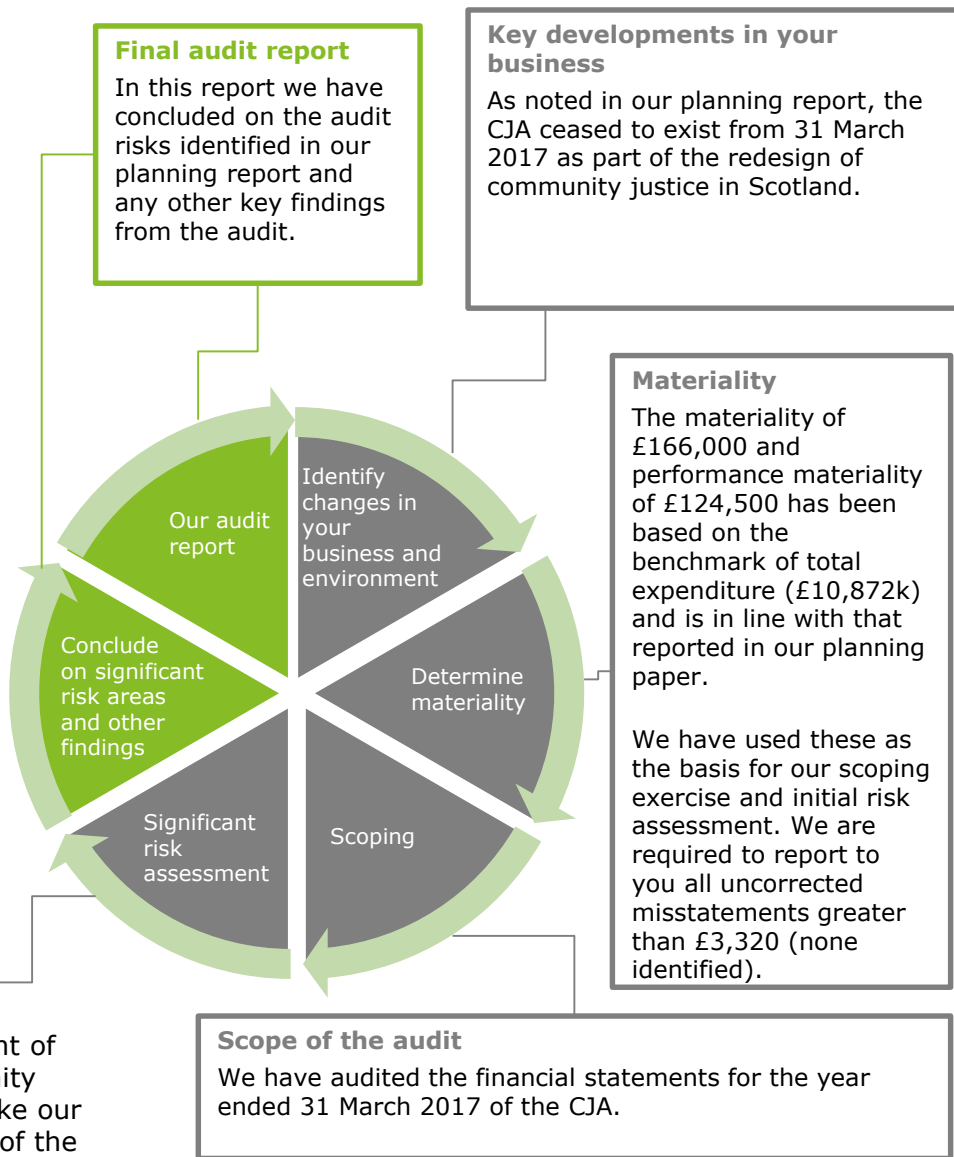
As the CJA has been formally disbanded at 31 March 2017 with functions transferred to other public sector bodies, there is no requirement to consider the longer term financial sustainability.

## Significant risks

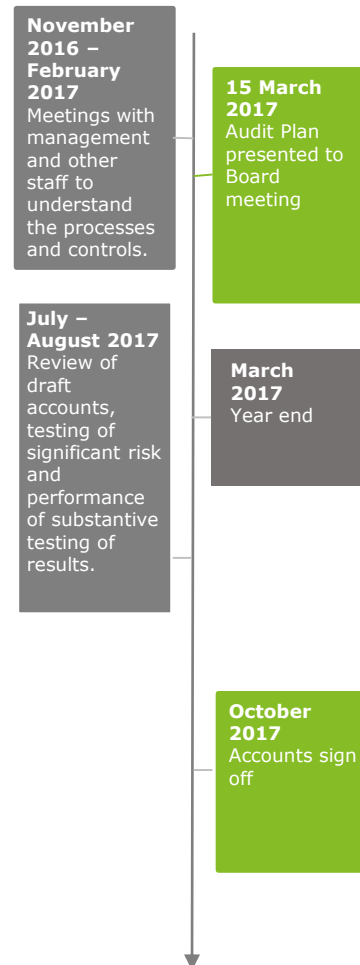
Our risk assessment process is a continuous cycle throughout the year. Page 9 provides a summary of our risk assessment of your significant risks.

## Quality and Independence







We confirm we are independent of South West Scotland Community Justice Authority (CJA). We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.



## Timeline 2017



# Significant risks Dashboard

| Risk                                | Material                                                                          | Fraud risk                                                                        | Planned approach to controls testing | Controls testing conclusion | Consistency of judgements with Deloitte's expectations                              | Comments             | Slide no. |
|-------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|--------------------------------------|-----------------------------|-------------------------------------------------------------------------------------|----------------------|-----------|
| Completeness and accuracy of income |  |  | D+I                                  | Satisfactory                |  | No issues identified | 8         |
| Management override of controls     |  |  | D+I                                  | Satisfactory                |  | No issues identified | 9         |



Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

**D+I:** Testing of the design and implementation of key controls

# Significant risks (continued)

## Completeness and Accuracy of Income

### Risk identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

The main component of income for the CJA is Section 27 grant funding from the Scottish Government which is then distributed to the four partner Councils. The significant risk is pinpointed around the completeness of the requisitions given the significance of these to the organisation and the reconciliation of that income received by North Ayrshire Council acting as host authority on behalf of the SWS CJA.

### Our Audit Approach

We have performed the following:

- tested the income to ensure that the correct contributions have been input and received in accordance with that agreed as part of budget process;
- test the reconciliations performed by the CJA at 31 March 2017 to confirm all income is correctly recorded in the ledger;
- confirm that the reconciliations performed during 2016-17 have been reviewed on a regular basis; and
- assess management's controls around recognition of income.

|                               | S27 Grant<br>£'000 | Women's<br>Justice<br>Centre<br>Funding<br>£'000 |
|-------------------------------|--------------------|--------------------------------------------------|
| Dumfries and Galloway Council | 2,523              | 0                                                |
| North Ayrshire Council        | 3,819              | 187                                              |
| East Ayrshire Council         | 2,172              | 0                                                |
| South Ayrshire Council        | 1,600              | 0                                                |
| <b>Total</b>                  | <b>10,114</b>      | <b>187</b>                                       |

### Deloitte view

We have concluded that income has been recognised correctly in accordance of the requirements of the Local Authority Code of Audit Practice.



# Significant risks (continued)

## Management override of controls

### Risk identified

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.



### Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- Budgeted against actual income and expenditure was monitored closely throughout the year; and
- senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

### Deloitte view

- We have not identified any significant bias in the key judgements made by management.
- The control environment is appropriate for the size and complexity of the Authority.

### Journals

We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest.

### Accounting estimates

Our retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements completed with no issues noted.

### Significant transactions

We did not identify any significant transactions outside the normal course of business or transactions where the business rationale was not clear.

# Your annual report

We welcome this opportunity to set out for the Authority our observations on the annual report. We are required to provide an opinion on the remuneration report, the SSIFC and the explanatory foreword.

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|                      | Draft Annual Report                                                                                                                                                                                                                                                                                                                                                     | Deloitte response                                                                                                                                                                                                                      |
|----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Explanatory Foreword | The explanatory foreword comments on financial performance, strategy and performance review and targets.                                                                                                                                                                                                                                                                | We have read the explanatory foreword and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. |
| Remuneration Report  | The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of Senior Councillors and Senior Employees of the Council.                                                                                                                                                                          | We have audited the disclosures of remuneration and pension benefit and pay bands and confirmed that they have been properly prepared in accordance with the regulations.                                                              |
| SSIFC                | The SSIFC reports that the Executive Director (Finance and Corporate Support) has relied upon the statements of internal financial control within the accounts of the constituent authorities and the reports issued by the internal and external auditors within each of these authorities. The statement concludes that the systems of internal control are adequate. | We have assessed whether the information given in the SSIFC is consistent with the financial statements and has been prepared in accordance with the Code. No exceptions noted.                                                        |

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# Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

## What we report

Our report is designed to help the Authority discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK and Ireland) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

## What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Authority.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

## The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan and the supplementary "Briefing on audit matters" circulated to you with the planning report.

This report has been prepared for the Authority, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.



**Deloitte LLP**

Glasgow

30 October 2017

# Appendices



# Audit adjustments

## Corrected misstatements

- No corrected misstatements have been identified from our audit work performed.

## Uncorrected misstatements

- No uncorrected misstatements have been identified from our audit work performed.

## Disclosure misstatements

- Auditing standards require us to highlight significant disclosure misstatements to enable the Authority to evaluate the impact of those matters on the financial statements. We have noted no material disclosure deficiencies in the course of our audit work.

# Fraud responsibilities and representations

## Responsibilities explained



### Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



### Required representations:

We have asked the Authority to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the Authority to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



### Audit work performed:

In our planning we identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements

We have reviewed the paper prepared by management for the Authority on the process for identifying, evaluating and managing the system of internal financial control.

### Deloitte view:

From our year-end audit procedures and discussions with management we have noted no cause for concern around the fraud arrangements in place.



# Independence and fees

As part of our obligations under International Standards on Auditing (UK and Ireland) we are required to report to you on the matters listed below:

|                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Independence confirmation</b> | We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Fees</b>                      | <p>The audit fee for 2016/17 is £5,030 as detailed in our Audit Plan.</p> <p>No non-audit fees have been charged by Deloitte in the period.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Non-audit services</b>        | In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.                                                         |
| <b>Relationships</b>             | <p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p> |





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