

# Tayside Community Justice Authority

2016/17 Annual Audit Report



 AUDIT SCOTLAND

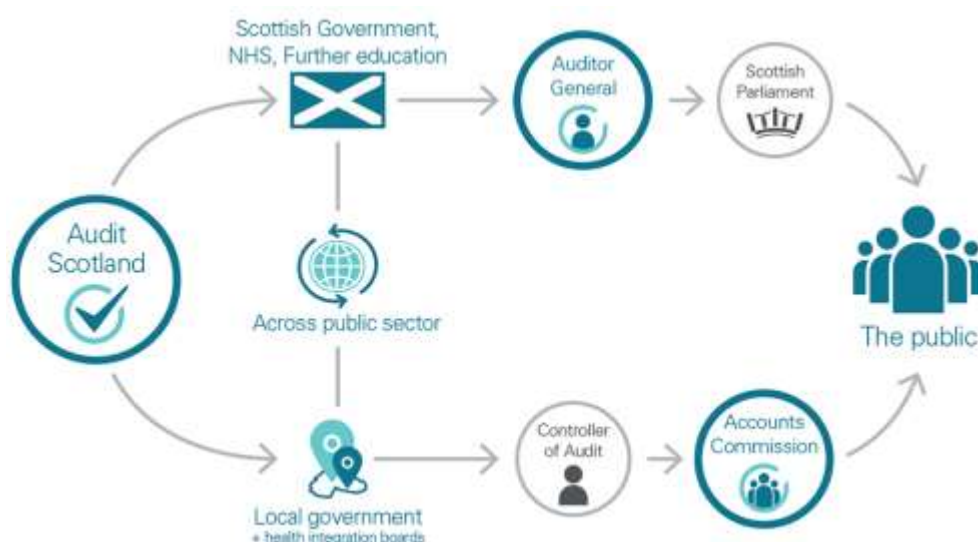
To the Tayside Community Justice Authority Accountable Officer and the Auditor General  
November 2017



## 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

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## Audit of the 2016/17 annual accounts

- 1 Our independent auditor's opinion was unqualified. This covered the financial statements, management commentary, remuneration report and the annual governance statement.
- 2 The working papers provided in support of the annual accounts were of a good standard.

## Financial management

- 3 The Authority achieved a breakeven position in 2016/17 following additional funding provided by the Scottish Government to meet cessation costs incurred following dis-establishment.
- 4 The Authority used Dundee City Council's main financial systems for processing and recording of transactions and the preparation of the financial statements. Our testing of these systems confirmed that they were operating effectively. We did not identify any significant internal control weaknesses.

## Financial sustainability

- 5 The Authority was dis-established on 31 March 2017. The Executive Director of Corporate Services at Dundee City Council has been given authority by the Scottish Government to authorise the accounts as the Accountable Officer.

## Governance and transparency

- 6 The Authority had appropriate governance arrangements in place for an organisation of its size although its risk management arrangements could have been improved.

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# Introduction

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1. This report is a summary of the findings arising from the 2016/17 audit of Tayside Community Justice Authority (the Authority).
2. The Community Justice (Scotland) Act 2016 resulted in the dis-establishment of community justice authorities at 31 March 2017. Functions were transferred to Community Justice Scotland at a national level and the local community planning partnerships at the local level.
3. As such, the 2016/17 annual accounts will be the last set of financial statements prepared for the Authority, and this will be the final annual audit report issued.
4. Following dis-establishment, and in line with Scottish Government guidance, the Chief Officer of the Authority discharged his duties to the Executive Director of Corporate Service of Dundee City Council, who became the Accountable Officer with responsibility for the completion of the financial statements. For the purposes of the approval of the annual accounts, the responsibilities of 'those charged with governance' have also transferred from the Authority to the Accountable Officer.
5. The scope of the audit was set out in our Annual Audit Plan issued in March 2017 and meets the requirements of the Code of Audit Practice 2016 (the Code). This report comprises:
  - an audit of the annual accounts
  - consideration of aspects of the audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 1](#).

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## Exhibit 1

### Audit dimensions



**6.** Supplementary Guidance to the Code allows appointed auditors to use judgement to conclude that the full application of the wider scope is not appropriate based on the risks, nature and size of an audited body (a small audited body clause). In our judgement the small audited body clause applies to the Authority. As a result our audit did not cover the 'value for money' dimension.

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

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

**8.** The Accountable Officer is responsible for preparing annual accounts that show a true and fair view in accordance with the Local Authority Accounts (Scotland) Regulations 2014. He is also responsible for establishing effective governance arrangements and ensuring financial management is effective.

**9.** 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.

**10.** As public sector auditors we provide an independent auditor's report on the annual accounts. We also review and report on the arrangements within the Authority to manage its use of resources such as money, staff and assets. In doing this, we aim to support improvement and accountability.

**11.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

**12.** This report raises matters from the audit of the annual 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.

**13.** 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 any 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.

**14.** This report is addressed to both the Accountable Officer and the Auditor General and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**15.** 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 accounts



### Main judgements

**Unqualified independent auditor's opinions on the Annual Accounts.**

**The working papers provided in support of the annual accounts were generally of a good standard.**

### Audit opinions

**16.** The annual accounts for the year ended 31 March 2017 were approved by the Accountable Officer on 3 November 2017. We reported, within our independent auditor's report:

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

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

### Submission of annual accounts for audit

**18.** We received the unaudited annual accounts on 29 September 2017, in line with the audit timetable set out in our 2016/17 Annual Audit Plan.

**19.** The working papers provided with the unaudited accounts were generally 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

**20.** Appendix 1 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

**21.** Materiality defines the maximum error that we are prepared to accept and still conclude that 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

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



involves considering both the amount and nature of the misstatement. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

**22.** On receipt of the annual accounts we reviewed our materiality calculations. The materiality levels set for the Authority are summarised in Exhibit 2.

## Exhibit 2

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure based on the latest audited accounts.	£91,000
<b>Performance materiality</b> – 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% of planning materiality.	£68,000
<b>Reporting threshold (i.e. clearly trivial)</b> – 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..	£5,000

Source: Audit Scotland

## How we evaluate misstatements

**23.** All misstatements identified during the audit, which exceeded our reporting threshold, have been amended in the financial statements.

## Significant findings

**24.** International Standard on Auditing 260 (UK & Ireland) requires us to communicate to you significant findings from the audit. These are summarised in [Exhibit 3](#).

## Exhibit 3

### Significant findings from the audit

Issue	Resolution
<p><b>1. Assets/Liabilities understatement</b></p> <p>The Balance Sheet did not recognise the full amount of the Authority's assets and liabilities. The pension cessation liabilities of £0.548 million and the associated funding due from the Scottish Government were omitted. Guidance in this area is unclear, stating that cessation costs as at 31 March 2017, will be reimbursed to the relevant pension funds by Scottish Government in line with the agreed approach, however the liabilities have been</p>	<p>The annual accounts have been amended to include the appropriate disclosures.</p>

Issue	Resolution
accrued by the Authority as employers and should therefore be included in the Authority's Balance Sheet along with the associated funding due.	

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Source: The Authority Annual Accounts 2016/17

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## Other findings

**25.** A small number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. None of these adjustments had an impact on the overall position.

# Part 2

## Financial management



### Main judgements

The Authority achieved a breakeven position.

The Authority uses Dundee City Council's main financial systems for processing and recording of transactions and the preparation of the financial statements. Our testing of these systems confirmed that they were operating effectively. We did not identify any significant internal control weaknesses.

### Financial performance in 2016/17

26. The budget for the Authority in 2016/17 was for a breakeven position with projected expenditure of £8.454 million.

27. In 2016/17, the authority spent £9.032 million on the provision of services. This represents an overspend of £0.578 million (this was matched by additional funding agreed with the Scottish Government). Income of £9.034 million was received from the Scottish Government representing the section 27 criminal justice grant, administration grant and funding for the dis-establishment of the Authority. After making adjustments of £0.002 million between accounting basis and funding basis under regulation, for employee benefits, the Authority's breakeven requirement was met.

28. The more significant variations against budget are summarised in [Exhibit 4](#).

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

### Exhibit 4

Summary of significant variations against budget

Area	Variance Favourable/ (unfavourable)	Main reason(s) for variance
Staff costs	£(0.024) million	Staff severance costs of £0.037 million were incurred in the dis-establishment of the Authority as agreed with the Scottish Government, offset partially by £0.01 million of recharges for Planning Officer's time spent on transition issues.
Pension Cessation Costs	£(0.548) million	On dis-establishment of the Authority a cessation payment was due to Tayside

Area	Variance Favourable/ (unfavourable)	Main reason(s) for variance
		Pension Fund to meet its future liabilities for the Authority's staff. The Scottish Government have agreed to fund this pension cessation cost.
CJA Administration Grant	£0.030 million	Funding for the staff severance costs of £0.037 million from the Scottish Government, offset by £0.007 million of underspends in other areas, where funding is repayable to the Scottish Government.
CJA Pension Cessation Grant	£0.548 million	Funding for the pension cessation event from the Scottish Government.

Source: Authority Annual Accounts 2016/17

## Budgetary monitoring and control

**29.** The Authority met four times during 2016/17 with financial monitoring reports considered at its September, December and March meetings. From our review we concluded that these reports provided an overall picture of the budget position at service level. Also, the reports forecast out-turn position for the year and include narrative explanations for significant variances against budget. The information provided allowed members to appropriately scrutinise the Authority's finances.

**30.** We have concluded that budget monitoring processes in place were effective for an organisation the size of the Authority.

## Financial capacity within the Authority

**31.** Dundee City Council's Executive Director of Corporate Services (Section 95 officer) had the role of Treasurer with responsibility for finance, and had direct access to the Authority during 2016/17. We concluded that the Section 95 officer had appropriate status within the Authority and complied with the principles set out in CIPFA's *Role of the Chief Financial Officer (2016)*.

**32.** Following dis-establishment the Executive Director of Corporate Services of Dundee City Council has been given authority by the Scottish Government to authorise the Authority's accounts as the Accountable Officer.

## Internal controls

**33.** Dundee City Council, as host authority, provides support in some key areas of business, particularly in finance, legal services and human resources.

**34.** As part of our audit we identified and inspected the key internal controls in a number of Dundee City Council's systems used by the Authority for the processing and recording of transactions and the preparation of the financial statements. Our objective was to gain assurance that the Authority has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**35.** No significant control weaknesses were identified which could affect the Authority'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

**36.** We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. Dundee City Council acts as the host authority responsible for the financial arrangements for the Authority. We reviewed these arrangements including policies and codes of conduct for staff and elected members, whistleblowing and fraud prevention and how they impact on the Authority.

**37.** Based on the evidence reviewed by us, we concluded that the Authority has adequate arrangements for the prevention and detection of fraud.

# Part 3

## Financial sustainability



### Main judgement

**The Authority was disestablished on 31 March 2017. The Executive Director of Corporate Services at Dundee City Council has been given authority by the Scottish Government to authorise the accounts as the Accountable Officer.**

#### Financial position

**38.** The Authority was dis-established on 31 March 2017, with outstanding liabilities matching the assets held by the Authority at £1.208 million. Within the asset and liability balances are £0.548 million for outstanding pension cessation costs and the associated funding income which the Scottish Government have agreed to settle in 2017/18.

#### Financial planning

**39.** Following dis-establishment there are no financial sustainability implications to be considered for the Authority. Under the oversight of the new national body, Community Justice Scotland, each local authority will now receive funding under Section 27 of the Social Work (Scotland) Act 1968 directly.

**40.** In December 2016 the Scottish Government wrote to the Chief Executive of each local authority to advise them of their allocation for 2017/18. The methodology for calculating funding has been revised following dis-establishment, with the result that some local authorities have seen increases, and some decreases, to their annual funding award. Recognising the impact that this may have, the funding changes will be phased in over a five year period to give authorities additional time to prepare budgets accordingly.

**41.** It is for each local authority to monitor how they use Section 27 funding going forward. Reduced levels of funding against the backdrop of rising service demands across the public sector in Scotland places a strain on service delivery for community justice. It is important that financial monitoring is robust and that financial position is kept under close review going forward under the new arrangements.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

# Part 4

## Governance and transparency



### Main Judgements

**The Authority has appropriate governance arrangements in place for an organisation of its size although its risk management arrangements could have been improved.**

#### Governance arrangements

**43.** 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.

**44.** Members and management of the Authority 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. Prior to dis-establishment, the Authority held four meeting during 2016/17. These were open to the public. We concluded that the Authority had effective governance arrangements which provided an appropriate framework for organisational decision-making.

#### Internal Audit

**45.** Internal audit provides senior management and members with independent assurance on an organisation's overall risk management, internal control and corporate governance processes. The Authority uses Dundee City Council's main financial systems and therefore relies on the work of the Council's internal audit service to provide assurances over the controls in place for those systems.

**46.** For 2016/17, Internal Audit concluded in their Annual Report on the Dundee City Council's system of controls that "reasonable assurance can be placed on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control."

**47.** We carried out a review of the adequacy of the internal audit function for Dundee City Council and concluded that overall, the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

**48.** We have concluded that the internal audit arrangements were appropriate for an organisation the size of the Authority.

#### Risk management

**49.** The Authority did not maintain a risk register over the period it was operational. Over the pre-disestablishment period, the Authority did agree a transition plan for each of its constituent council areas, mapping the Authority's priorities to those of

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.

the councils. Arrangements could have been enhanced through the effective use of risk management to ensure that the dis-establishment proceeded in an effective and co-ordinated way.

## Transparency

**50.** Transparency means that the public has access to understandable, relevant and timely information about how the Authority is taking decisions and how it is using resources such as money, people and assets.

**51.** The authority's meetings were open to the public and the website contained relevant information including agendas of meetings including relevant financial and performance reports. We note however that Scottish Government guidance requires these sites to be closed or a suitable statement made noting the dis-establishment of the Authority. The closure of the website is currently being progressed through Dundee City Council.

**52.** We have not encountered any evidence to suggest that information is routinely and unjustifiably withheld from public scrutiny. Therefore overall, we concluded that the Authority conducts its business in an open and transparent manner.

## National performance audit reports

**53.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, we published a number of reports which are of direct interest to the Authority. These are outlined in [Appendix 2](#) accompanying this report.



# 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
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 <i>The auditor's responsibilities relating to fraud in an audit of financial statements</i> requires auditors to consider management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>detailed testing of journal entries.</li> <li>review of accounting estimates for bias.</li> <li>focused testing of accruals and prepayments.</li> <li>evaluation of significant transactions that are outside the normal course of business.</li> </ul>	<p>Journal entry adjustments were tested and no indications of management override of controls were found.</p> <p>Judgements and estimations applied were tested to confirm they were appropriate and reasonable. No issues were highlighted with the judgements and estimates applied.</p> <p>We confirmed that income and expenditure was properly accounted for in the financial year.</p> <p>We reviewed transactions during the year – no issues were highlighted where significant transactions were outside the normal course of business other than those in relation to the dis-establishment of the authority. .</p>
<p><b>2 Risk of fraud over expenditure</b></p> <p>The Code of Audit Practice requires consideration of risk of fraud over expenditure. The Authority incurs significant expenditure which requires audit coverage.</p>	<ul style="list-style-type: none"> <li>consideration of component auditors' review of criminal justice social work grant claims.</li> <li>assessment of key financial controls over expenditure.</li> <li>detailed testing of transactions focusing on the areas of greatest risk.</li> </ul>	<p>Component auditor's opinion on the criminal justice social work grant claims considered. No significant issues identified.</p> <p>No significant issues were found in relation to controls in place across the key financial systems.</p> <p>We reviewed expenditure transactions during the year – no issues highlighted in relation to the risk of fraud over expenditure.</p>
<p><b>3 Revisions to presentation of the financial statements</b></p> <p>The 2016/17 Code of Practice on Local Authority Accounting makes a number of changes in the presentation of the financial statements, including a new</p>	<ul style="list-style-type: none"> <li>focused testing on the financial statements to ensure that the changes have been properly actioned.</li> </ul>	<p>Review of annual accounts to confirm they were appropriate and reasonable. an Annual Governance Statement was included in the 2016/17 accounts .</p> <p>A few issues were highlighted in</p>





















Audit risk	Assurance procedure	Results and conclusions
<p>expenditure and funding analysis and changes to the requirements of the annual governance statement to provide additional disclosures. To date the Authority has presented a Statement of Internal Financial Control in its financial statements rather than an Annual Governance Statement.</p> <p>These changes present a risk of material misstatement in the financial statements if they are not properly actioned.</p>		<p>relation to compliance with regulation and guidance. The Annual Accounts were amended to ensure compliance.</p>
<p><b>4 Disestablishment of the Authority</b></p> <p>All Criminal Justice Authorities will be disestablished on 31 March 2017 and responsibility for community justice services will transfer to Community Planning Partnerships. This has a number of impacts on the financial statements of the Authority.</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 greater risk of misstatement. Disestablishment will result in the pension liability crystalizing for the local government pension scheme. The strain on fund and cessation costs accrued by the authority, as at 31 March 2017, will be reimbursed to the relevant pension funds by the Scottish Government.</p> <p>The Authority will need to ensure arrangements are in place to ensure its closing balances are properly reported.</p>	<ul style="list-style-type: none"> <li>focused testing of transactions relating to the closure, including the pension liability and funding.</li> </ul>	<p>Responsibility for the accounts was passed to the Executive Director of Corporate Services, Dundee City Council once the Authority was dis-established on 31 March 2017.</p> <p>We reviewed transactions in relation to the dis-establishment of the Authority and confirmed that the balances disclosed were accurate and complete.</p>
<p><b>5 Annual accounts preparation</b></p> <p>The accounts will be prepared by staff at Dundee City Council, but the Authority's Chief Officer will no longer be in post (this role will transfer to the Treasurer) and the Authority will not meet again. The loss of the operational knowledge may</p>	<ul style="list-style-type: none"> <li>review of the arrangements in place for preparation of the annual accounts.</li> </ul>	<p>Responsibility for the accounts was passed to the Executive Director of Corporate Services, Dundee City Council once the Authority was dis-established on 31 March 2017.</p> <p>Reviewed the management commentary to ensure disclosures in line with</p>

Audit risk	Assurance procedure	Results and conclusions
<p>impact the quality of the narrative sections of the accounts.</p>		<p>requirements – no issues highlighted.</p>
<p><b>Wider dimension</b></p>		
<p><b>6 Disestablishment of Community Justice Authorities</b></p> <p>Local strategic planning and delivery of services through Community Planning Partnerships (CPPs) will be central to the new community justice arrangements.</p> <p>The Authority will need to ensure business continuity arrangements are in place to ensure a smooth transition.</p>	<ul style="list-style-type: none"> <li>review of disestablishment and resilience plans for the transition.</li> </ul>	<p>Transition plans to outline how each of the three Local Authorities intend to take forward arrangements for the local strategic planning and delivery of community justice were agreed by the Authority in June 2016.</p> <p>An agreement transferring responsibility to the Executive Director of Corporate Services following dis-establishment was agreed in line with Scottish Government guidance.</p> <p>The arrangements implemented were appropriate for the dis-establishment of the Authority.</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

[Local government in Scotland: Financial overview 2015/16 – November 2016](#)

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

# Tayside Community Justice Authority

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