



Lothian and Borders Community Justice Authority

2015/16 Annual audit
report to Members and
the Auditor General

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Key contacts

David McConnell, Assistant Director
dmcconnell@audit-scotland.gov.uk

Stephen O'Hagan, Senior Audit Manager
sohagan@audit-scotland.gov.uk

Audit Scotland
The Athenaeum Building
Nelson Mandela Place
Glasgow
G2 1BT
Telephone: 0131 625 1500
Website: www.audit-scotland.gov.uk

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies (www.audit-scotland.gov.uk/about/ac/). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General (www.audit-scotland.gov.uk/about/).

The Auditor General for Scotland has appointed David McConnell as the external auditor of **Lothian and Borders Community Justice Authority** for the period 2011/12 to 2015/16.

This report has been prepared for the use of **Lothian and Borders Community Justice Authority** and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website. The information in this report may be used by the Auditor General in discharging her responsibilities including reporting directly to the Scottish Parliament.

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Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none">Unqualified auditor's report on the 2015/16 financial statements.The financial statements of the Authority have been prepared on a going concern basis. From 1 April 2017, the eight community justice authorities in Scotland will be disestablished. Although a new service delivery model through local community justice partners will be implemented at that date, it remains appropriate for the financial statements to be prepared on a going concern basis.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">The Authority's financial management arrangements are adequate.The body operated within their budget for 2015/16. An overspend of £0.027m was recorded with these costs being met by the constituent local authorities.Rising demands for and costs of service provision will continue to place a strain on the Authority's financial position.
 <p>Governance and performance</p>	<ul style="list-style-type: none">The framework in place for the governance of the authority is appropriate to the organisation.There were no issues of concern in relation to the operation of the authority's financial control systems.The authority has appropriate anti-fraud arrangements.
 <p>Outlook</p>	<ul style="list-style-type: none">The Community Justice (Scotland) Bill means that community justice authorities will be disestablished from 1 April 2017. Local community justice partners will be responsible for preparing, delivering and reviewing a Community Justice Outcomes Improvement Plan for their local area, with Community Justice Scotland having responsibility for leadership and providing assurance to Ministers. This is a significant change and therefore there are risks relating to performance and the sustainability of services. The Authority has in place a transition plan to mitigate these risks, and has provided regular updates to the Board throughout the year.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of Lothian and Borders Community Justice Authority (the Authority). The report is divided into sections which reflect our public sector audit model.
2. The management of the Authority is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of the Authority, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at [appendix II](#) and [appendix III](#), include recommendations for improvements.
6. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
7. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
8. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of the Authority will be Scott-Moncrieff. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

Audit of the 2015/16 financial statements

Audit opinion	<ul style="list-style-type: none"> We have completed our audit of the Authority and issued an unqualified independent auditor's report.
Going concern	<ul style="list-style-type: none"> The financial statements of the Authority have been prepared on the going concern basis. From 1 April 2017, the eight community justice authorities in Scotland will be disestablished. Although a new service delivery model through local community justice partners will be implemented at that date, it remains appropriate for the financial statements to be prepared on a going concern basis.
Other information	<ul style="list-style-type: none"> We review and report on other information published with the annual accounts and any inconsistencies identified in the financial statements. We have nothing to report in respect of the other information included in the annual accounts.

Submission of financial statements for audit

9. We received the unaudited financial statements on 17th October 2016, later than the target date set out in our annual audit plan. This impacted on the audit completion timetable, however the accounts were audited and submitted in November 2016 for laying before the Scottish Parliament, prior to the statutory deadline.

Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan issued in February 2016.
11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance.
13. [Appendix I](#) sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.
14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

17. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of the Authority, we revised our planning materiality for 2015/16 to £0.149 million (1% of gross expenditure). We report all misstatements greater than £1,000.
18. We also set a lower materiality level, known as performance materiality, when defining our audit procedures. This is determined to ensure that uncorrected and undetected audit differences do not exceed our materiality level. Performance materiality was set at £0.134 million.

Evaluation of misstatements

19. All misstatements identified during the audit, which exceeded our misstatement threshold, have been amended in the financial statements.
20. A 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. The net effect of these adjustments on both the income and expenditure statement and the balance sheet was nil.

Significant findings from the audit

21. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:

- The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
 - Significant difficulties encountered during the audit.
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
- Written representations requested by the auditor.
- Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
- 22.** We have one matter to bring to your attention, which is set out in the following table.

Table 1: Significant findings from audit**Significant finding from the audit in accordance with ISA260****Prior year restatement – disbursement of grant funding**

- 23.** Included within the balance sheet assets of the unaudited financial statements is a S27 bank balance of £12,000 at 31 March 2016. As all grant funding received from the Scottish Government was disbursed to constituent authorities during the financial year, this balance only represents the bank interest received by the Authority on balances maintained through the year.
- 24.** However, when reviewing the asset classification of this bank balance, we identified that the prior year bank balance had not been properly presented. The S27 bank balance included within the 2014/15 financial statements also reflected accrued bank interest. However, £3.6m of 2014/15 grant funding was not disbursed until April 2015, and should have also been included as an asset within the 2014/15 financial statements, along with a corresponding creditor to reflect that this money was due to constituent authorities. This has resulted in a material understatement of prior year assets and liabilities.

Resolution: The prior year balance sheet for 31 March 2015 has been restated to include the £3.6m of grant funding that was not disbursed until April 2015. A corresponding creditor of £3.6m, to reflect that the funding was due to constituent authorities at that date, has also been included. The bank balances have also been reclassified from debtors to cash and cash equivalents within the current and prior year balance sheets. The net impact of these changes on the prior year and current year balance sheets is nil.

Financial management and sustainability

Financial management

25. The Authority sets an annual budget to meet its service and other commitments for the forthcoming financial year. This is impacted directly by two grants provided by Scottish Government for Section 27 services and to complete their administrative functions. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

26. Overall the Authority reported an overspend against budget of £0.027m. An underspend was recorded on the administration grant of £0.005m. Whilst there was an overspend on the S27 grant funding, this was attributable to additional services, namely for the Willow Centre and additional Women's funding.

The gross expenditure in year was £15.214m which was met by S27 grant income of £14.980m, administration grant of £0.217m and finance income of £0.007m. An additional award of S27 grant funding was made outwith the core grant allocation of £0.271m.

27. The S27 grant was allocated to the following local authorities:

- City of Edinburgh Council: £9.063m

- East Lothian Council: £1.207m
- Midlothian Council: £0.912m
- Scottish Borders Council: £1.128m
- West Lothian Council: £2.399m

Financial management arrangements

28. As auditors, we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- financial regulations are comprehensive, current and promoted within the Authority
 - reports monitoring performance against budgets are accurate and provided regularly to members
 - monitoring reports do not just contain financial data but are linked to information about performance
 - members provide a good level of challenge and question budget holders on significant variances.
29. The financial transactions of the Authority are processed through City of Edinburgh Council's main financial systems. Council officers present regular revenue budget monitoring reports to meetings of the Authority. We have concluded that the Authority's financial management arrangements are broadly satisfactory.

Financial sustainability

30. In assessing financial sustainability we are concerned with whether:

- spending is in line with available grant income
 - long term financial pressures are understood and planned for
 - investment in services and assets is effective.
31. The Authority is required to operate within their allocated budget and aim to achieve a break-even position year on year. The S27 grant allocation for 2016/17 is £14.900m which represents an increase of £0.191m (1%) on the initial 2015/16 funding allocation. However this increase in funding level is set against a backdrop of rising service demands, and it is important that the financial position is kept under close review in the run up to disestablishment of the Authority on 1 April 2017.

Conclusion on financial sustainability

32. We have concluded that the Authority has an adequate level of funding in place and it is reasonable that the financial statements are prepared on a going concern basis. Although the introduction of the new community justice delivery model will result in the disestablishment of the Authority from 1 April 2017, this is not relevant to our assessment of going concern.

Governance and transparency

Corporate Governance

33. The Chief Officer is the accountable officer for the Authority. They are responsible for ensuring the Authority has appropriate arrangements in place to discharge their duties. This includes the proper administration of financial affairs, safeguarding of resources and ensuring appropriate records are maintained.
34. The Authority meets on a quarterly basis with minutes of those meetings being taken and published on the website of the authority. Reports are provided to enable:
- review of current financial performance against budget
 - consideration of key risks and how to manage risks identified
 - the success of the body in discharging duties through review of performance.
35. We concluded that the Authority has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

Transparency

36. We have considered whether the Authority is sufficiently transparent in discharging their duties. Consideration has been given to:

- presentation of the financial statements
 - documentation is readily available to the public
 - budget monitoring reports are provided to members.
37. From review of the draft financial statements, the structure of these is compliant with the requirements but it has also been presented in a logical way. The reporting precedes the core financial statements and is then supported by relevant notes.
38. Minutes from meetings are available on their website with contact information available to the general public. From review of these within planning of the audit, it was noted that relevant financial information is presented to members. The website also contains audit outputs, the annual accounts for the Authority as well as relevant news items affecting the Authority. In our opinion, these arrangements are satisfactory.

Internal control

39. It is the responsibility of the Authority's management to maintain adequate financial systems and associated internal controls. The Authority's Statement on the System of Internal Financial Control states that reasonable assurance can be placed upon the adequacy and effectiveness of the Authority's internal control system. This statement complies with accounting requirements and is consistent with the findings of our audit.
40. Finance services for the Authority are provided by City of Edinburgh Council, and payroll and IT services are provided by Scottish

Borders Council. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements and no material weaknesses were found.

Arrangements for the prevention and detection of fraud

41. In work completed throughout the audit, consideration has been given to the arrangements in place for preventing and detecting fraud. This requires a sufficiently robust internal control environment to be in operation within the authority. Work completed by internal audit as well as a consideration of knowledge and expertise of key personnel within the organisation is required. It should be noted that no system eliminates this risk but all measures should be taken to ensure that the risk is minimised.
42. The arrangements for the prevention and detection of corruption in Lothian and Borders Community Justice Authority are satisfactory and we are not aware of any specific issues that we need to record in this report.

Outlook

43. The Community Justice (Scotland) Bill will result in the disestablishment of the Authority on 1 April 2017. As part of our 2015/16 Annual Audit Plan, we highlighted the risks from not effectively managing this transition including:
 - loss of key staff members
 - loss of focus on governance within the authority

- transfer of assets and liabilities to successor bodies is not completed effectively.
44. The Authority has prepared a transitional plan to address the key issues identified. The transitional plan is comprehensive and includes the consideration of the key areas identified above.
 45. Through our audit work we are satisfied that action is being taken to ensure the changes are implemented appropriately. However the Authority will need to ensure continued close monitoring of the identified risks through the remainder of the transition period.

Performance

Best Value

46. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.
47. The Authority's overarching strategic outcome is the year on year reduction in offending within the area. The number of crimes reported in 2013/14 decreased by 1,161 (3.5%) from the prior year to 32,754.
48. The Authority uses key indicators to measure performance against this national outcome, including:
 - reconviction rate
 - victimisation rates
 - sex offenders who do not re-offend.
49. In terms of reconviction, the 2013-14 figures were 27.3% which represented an increase of 0.4% from the previous year. The Lothian and Borders performance target is set below the national average by 5%. On the whole, reconviction is 1% below the Scottish average.

50. The rate of victimisation has decreased by 2.6% from 19.2% to 16.6%. This correlates with a general decrease in crime being recorded.
51. The number of committed sex offenders within the community was 696. There were 13 crimes (1.9%) recorded in Group 1 or 2 as per the multi-agency public protection arrangements (MAPPA). No Group 3 offences were recorded.

National performance audit reports

52. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued which are of direct interest to the Authority. These are outlined in [appendix III](#).

Appendix I: Significant audit risks

The table below sets out the financial statement audit risks we identified during the course 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
Risk of material misstatement		
<p>Budgetary Pressures: the 2015/16 s27 funding has increased marginally from 2014/15. Demand for services continues to increase and the on-going impact of welfare reform is yet to be fully understood.</p> <p>Risk Future funding gaps may have an adverse impact on services and the ability to achieve objectives.</p>	<ul style="list-style-type: none"> • Reports to the Board. • The Chief Officer and CEC finance officers to meet regularly to review the budget position - reporting to the Board. 	<p>We reviewed the financial reporting through the year, and year end position as part of financial statements audit. The Authority operated within their budgeted funding for the year, recording an underspend on the grant provided by Scottish Government.</p>

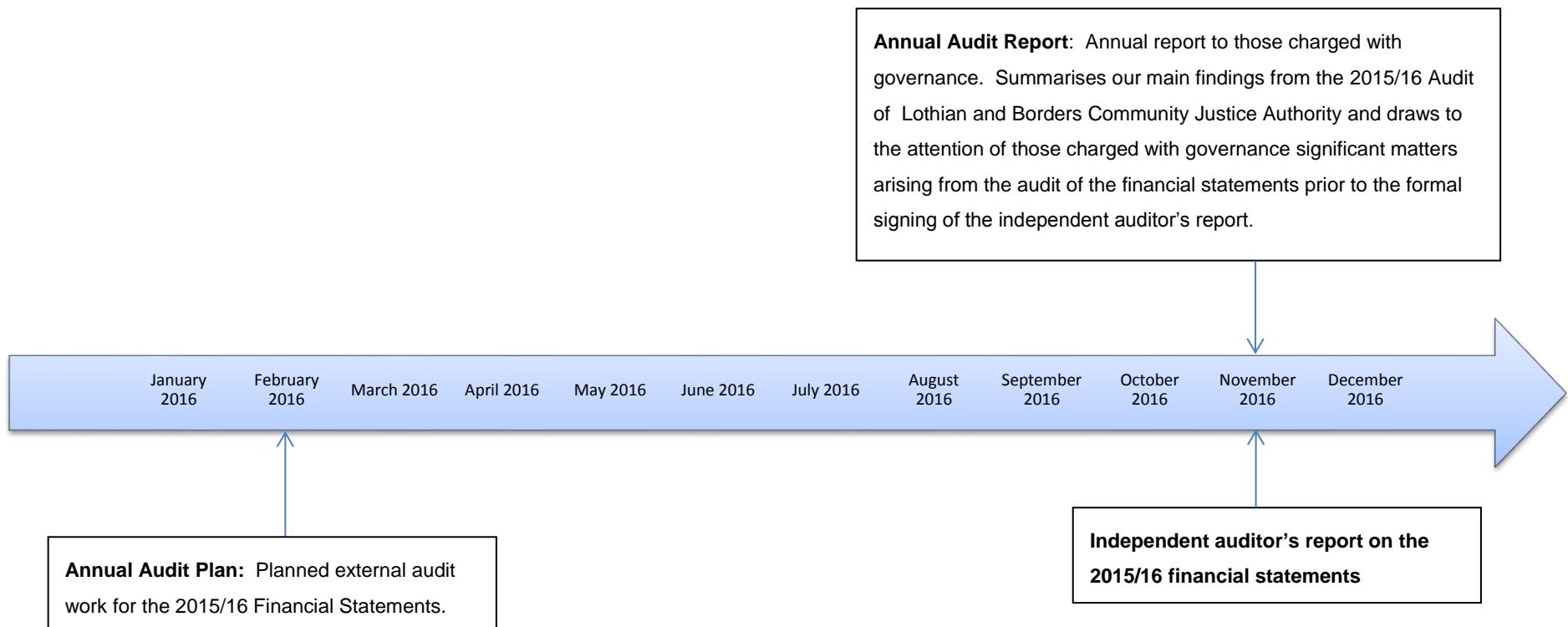
Audit Risk	Assurance procedure	Results and conclusions
<p>Risk of management override of control ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit.</p> <p>Risk Management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries • Review of accounting estimates • Evaluating significant transactions that are outside the normal course of business • Focused testing of accruals and prepayments 	<p>We found nothing in our review of the financial statements which would highlight management override of control.</p>
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>Dissolution – due to the planned dis-establishment of the authority in March 2017, there is a risk that staff may leave the organisation to take up other employment.</p> <p>Risk Loss of staff can impact on the ability of the Authority to meet day to day operations and assist with the transition to the new model for Community Justice.</p>	<ul style="list-style-type: none"> • The Chief Officer is on a Fixed Term contract to 31st March 2017. Only one member of staff has left the authority since 31st March 2015. 	<p>One member of staff left during 2015/16. No further departures as at October 2016, with service delivery maintained.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Dissolution – members may not be fully focused on governance matters as the body's status has changed.</p> <p>Risk Without effective governance of the CJA, there is an increased risk of fraud and a lack of accountability for officers.</p>	<ul style="list-style-type: none"> • Members have signed up to a 'handling statement' for the reform period which recognises the need for statutory obligations placed on them to continue to be discharged until such times as reform is introduced. The Board and Chief Officer will work together and with partners to promote the need for strong governance arrangements to be maintained, particularly around risk, performance and finance processes. 	<p>The board met regularly throughout the year and from review of minutes of meetings and attendance at these by external audit, it was noted that satisfactory governance arrangements continue to be in place.</p> <p>Reports on financial and activity performance were presented throughout the period.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Dissolution – the authority's assets, rights and liabilities may not be fully established on transfer to a Succession Body.</p> <p>Risk Without satisfactory transition arrangements, the Authority will not be dis-established effectively.</p>	<ul style="list-style-type: none">The Chief Officer has produced a Community Justice Redesign Transition Plan which covers the identification of assets and liabilities to be transferred. There are ongoing discussions on the Transition Plan as it is an organic document that will be updated through consultation with key stakeholders over the course of the transition into the new Community Justice model. Scottish Government will cover all pension liabilities resulting from disestablishment.	<p>We reviewed the Authority's progress in implementing the transition plan. In response to Internal audit findings on records management risks, A report was presented to the Board in August 2016, detailing specific actions taken to address highlighted issues. In addition, a report on information governance was submitted to the Scottish Government in September 2016.</p> <p>From review of the transition plan and Authority actions to date, we are satisfied that assets rights and liabilities have been established for the body.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Risk Management - supports decision making and contributes to performance. The risk register is supported by the work on the governance framework and capacity building within the authority. This included training by Internal Audit and appointing an administrator for the risk register. These changes are now fully operational however; this will need to be kept under review to ensure the authority is addressing all risks appropriately.</p> <p>Risk Without addressing or identifying all risks to the body, it can have a detrimental impact on the operations of the body. There is also scope for reputational damage as well.</p>	<ul style="list-style-type: none"> Included as part of wider governance training for members; the authority risk register connected with national CJA risk register (to help mitigate CJA collective risks); and continual assessing of performance risks through board and Strategic Officer Group meetings. 	<p>Through our audit, we have not identified issues with the risk management arrangements for the Authority.</p>

Appendix II: Summary of local audit reports 2015/16



Appendix III: Summary of Audit Scotland national reports 2015/16

