



Final report to the Members and the Auditor General on the 2015/16 audit

26 October 2016

the
Distinctive
audit

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An overview of our audit plan:

- Materiality: £207,050 (2014/15: £203,281).
- Performance Materiality: £186,345 (2014/15: £182,953).
- Threshold for reporting misstatements: £10,352 (2014/15: £10,164).
- Significant risks over revenue recognition and management override of controls.
- **Fully substantive audit** - We have not placed any reliance on internal controls and our audit work was fully substantive. We assessed the design and implementation of controls as part of our planning procedures, to assess the sufficiency of the control environment governing the production of financial information.



Partner introduction

Partner introduction

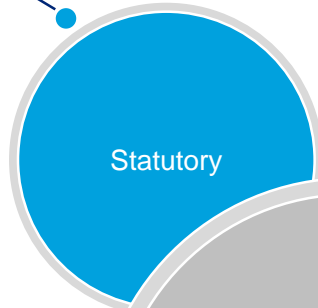
Overview of responsibilities

I have pleasure in presenting our final report to the Authority for the 2015/16 audit.

We have early adopted the requirements of the new Code of Audit Practice which comes into force for the 2016/17 audits. A reminder of the requirements is set out below.

Financial Statements

Provide an opinion on the financial statements and the regularity of transactions.



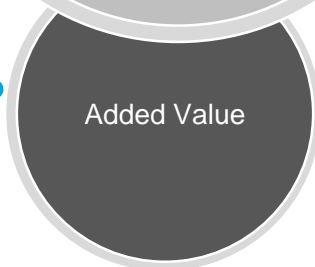
Annual Reports

Review and report on the other information such as annual governance statement, management commentaries, remuneration reports.



Public reporting

Audit plans, the principal audit outputs arising from audit plans and any other outputs on matters of public interest will be published on Audit Scotland's website.



Public Sector audit dimensions

Wider scope reporting covering financial sustainability, financial management, governance & transparency and value for money.

Audit quality is our number one priority. When planning our audit we set the following audit quality objectives:

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.

Partner introduction (continued)

Financial statement audit and annual report

Financial statements audit

Conclusions from our testing

- The key judgements and areas of audit focus in the audit process related to:
 - Revenue recognition
 - Management override of controls
- A summary of our work on the significant financial statements risks is provided in the dashboard on page 6.
- We have identified no misstatements during our audit.
- Based on the current status of our audit work, we anticipate issuing an unmodified audit opinion.

Status of the audit

The audit is substantially complete subject to the completion of the following matters:

- Finalisation of quality control procedures;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2016.

Annual report

Overall conclusion

- We have read the Explanatory Foreword in full in order to assess whether it is in line with our understanding of the Board and complies with the Local Government Code. No exceptions noted.
- The format and content of the Statement of Internal Financial Control is consistent with the requirements of the Code and concludes that there are no internal financial control issues, which is consistent with the findings of our audit.
- We are satisfied that the remuneration report has been prepared in accordance with Local Authority Accounts (Scotland) Regulations 2014 and is consistent with the findings of our audit.

Partner introduction (continued)

Significant financial statements risk dashboard

Fraud risk	Controls approach and findings	Consistency of judgements with Deloitte expectations	Comment
Revenue recognition – Grants and Requisitions			
✓	Evaluate design / implementation of key controls. No controls reliance. No significant observations.	●	We have confirmed that the contributions agreed as part of the budget have been reconciled to the actual amounts received and accounted for in the financial statements.
Management override of controls			
✓	Evaluate design / implementation of key controls. No controls reliance. No significant observations.	●	<p>We have noted no issues with journal entries and other adjustments made in the preparation of the financial statements.</p> <p>Our review of accounting estimates for bias that could result in material misstatement due to fraud identified no issues.</p>

Overly prudent, likely to lead to future credit      Overly optimistic, likely to lead to future debit.

Partner introduction (continued)

Public sector audit dimensions

We have commented below on the public sector audit dimensions with regard to Fife and Forth Valley Criminal Justice Authority:

Financial management

FFV CJA budgeted total admin costs in the year of £221k. Actual expenditure in the year was £239k. This is £18k more than budgeted due to planned payments to other bodies funded from reserves.

FFV CJA disbursed a total Section 27 allocation of £12.297m. Constituent authorities spent a total of £12.770m, an overspend of £474k. The overspend was met by the individual local authorities.

FFV CJA closely monitors budget and actual expenditure through regular reporting to Members.

Financial sustainability

Financial sustainability continues to be one of the most significant challenges and risks for FFV CJA and the wider public sector.

An agreed grant settlement and budget has been approved for 2016/17. From 1 April 2017, the functions of the Authority will transfer to Community Justice Scotland.

Governance and transparency

The Members meet on a regular basis to assess performance of the Authority against budget and to determine any risks affecting the entity.

Value for money

A plan is set by the Members each year that supports the delivery of the strategic priorities of the Authority and which identifies key projects and actions. Progress against this is monitored.

Jim Boyle
Audit Partner

Scope, nature and extent of audit

Scope, nature and extent of audit

Our overall responsibility as external auditor of FFV CJA is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

The special accountabilities that attach to the conduct of public business, and the use of public money, means that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements and associated documents such as governance statements, but providing a view also, where appropriate, on matters such as regularity (or legality), propriety, performance and use of resources in accordance with the principles of Best Value and 'value for money'.

Our core audit work as defined by Audit Scotland comprises:

- Providing the Independent Auditor's Report on the financial statements;
- Providing the annual report on the audit to the Board and the Controller of Audit;
- Communicating audit plans to those charged with governance; and
- Identifying significant matters arising from the audit, alert Audit Scotland accordingly and supporting Audit Scotland in producing statutory reports as required.

In accordance with paragraph 5 of the Code, due to the small size and nature of the Board, no formal audit plan was reported to those charged with governance. Our planning work was completed and fully discussed with key officers from the Authority.

The Authority is responsible for preparing annual accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual accounts or risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Significant risks and other matters

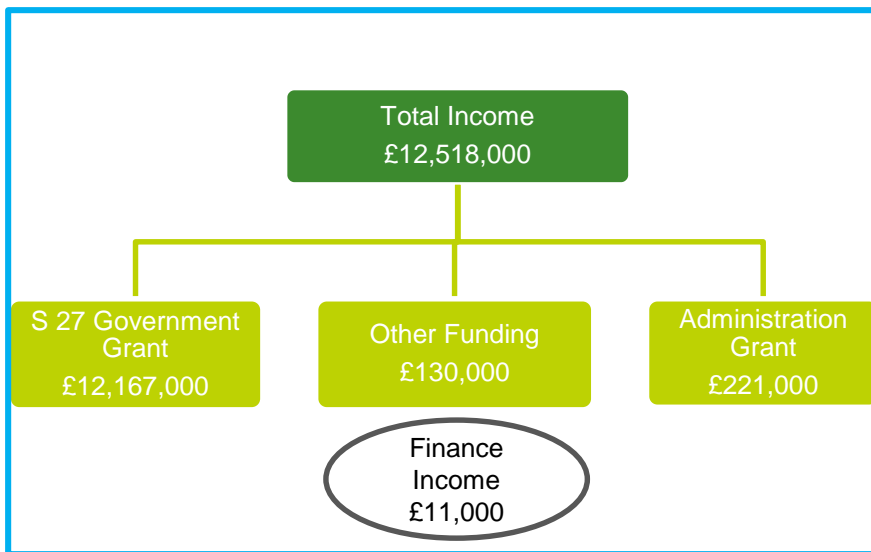
Significant risk

Revenue Recognition

Nature of Risk

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.

For the Authority we have considered this risk to be around the completeness of requisitions from the Scottish Government given the significance of these to the organisation and the reconciliation of that income received by Falkirk Council acting as host authority on behalf of the CJA.



Key judgements

Income received is determined by the Scottish Government before the year commences. The split of this income between the constituent authorities is determined at the start of the year as part of the budget setting process. Therefore there is very little judgement by management in recognising the income in the accounts.

Deloitte response

We have reviewed the treatment of income in the year to consider whether it is line with IFRS guidance and the Code. We have obtained a copy of the grant award letters received from the Scottish Government. We have also reviewed the income reconciliation and agreed the amounts received through to the bank account.

Deloitte view

No issues noted from our review of the treatment of income in the year, which has been accounted for in line with the Code.

Significant risk

Management override of controls

Risk Identified

International Standards on Auditing require auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor.

This recognises that management within Falkirk Council acting on behalf of the Authority is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. The risk of management override of control is present in all entities.

This risk cannot be pinpointed to an account balance or potential error and therefore specific procedures to respond to the risk of management override of controls should be designed and performed.

Key judgements

Our audit work is designed to test for instances of management override of controls. We have summarised above our work on key estimates around revenue recognition and note that there have been no significant one-off or unusual transactions in the period.

Deloitte response

We have considered the risk factors over the manipulation of accounting entries made in preparation of the financial statements, and note that:

- the Authority's results were monitored closely throughout the period 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.

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 data analytics to test a sample of journals, based upon identification of items of potential audit interest. No issues noted from our testing.

Accounting estimates

Due to the nature of the FFV CJA, the only debtors and creditors relate to money due to/ from the Scottish Government and constituent authorities, therefore no significant accounting estimates are included in the financial statements.

Significant transactions

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

Deloitte view

We have not identified any significant bias in the key judgements made by management.

Other matters

Critical accounting judgements and key sources of estimation

In the course of our audit of the financial statements, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our comments on the quality and acceptability of the accounting policies and estimates are discussed below.

We have assessed the disclosures based upon our review of the accounts and understanding of the organisation and the specific risks we identified as part of our planning process. We have not identified any other critical accounting judgements or key sources of estimation uncertainty that require to be disclosed. We have performed work as follows against each of these areas:

Disestablishment of the CJA

No critical judgements have been made in the accounts. Although the Community Justice Authorities will be disestablished on 31 March 2017, this will not affect the funding for financial year 2016/17, therefore the accounts have been prepared on a going concern basis. This has been disclosed in note 3 of the accounts.

We have confirmed that a budget has been agreed for 2016/17 with funding levels in line with 2015/16, confirming funding beyond April 2016.

Defined Benefit Pension Scheme

FFV CJA participates in the Fife Council Pension Scheme which is a multi-employer defined benefit scheme, where the share of the assets and liabilities applicable to each employer is not identified. This is therefore accounted for on a defined contribution basis as permitted by IAS 19.

We have reviewed the disclosure within the accounts against the Code requirements. The Code highlights that minor non-principal authorities (of which FFV CJA is one) who participate in Local Government Pension Schemes meet the criteria to account for the scheme as if it were a defined contribution scheme. This has been appropriately disclosed in Note 12 of the accounts.

Public sector audit dimensions

Financial management

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

Revenue expenditure

FFV CJA budgeted for £221k of admin expenditure for the year to 31 March 2016, in line with the grant agreement. The final out-turn was £239k, and an overspend of £18k.

The Authority disbursed a total Section 27 allocation of £12.297m. Constituent authorities spent a total of £12.770m, an overspend of £474k. The overspend was met by the individual local authorities.

The table below illustrates how the Board's performance compares to plan:

	2015/16 Budget £'000	2015/16 Actual £'000	Variance £'000
Admin grant expenditure	221k	239k	£18k

Comments on the key variances in 2015/16 are as follows:

- Expenditure is greater than budgeted due to planned payments to other bodies. The overspend has been met from reserves.

Deloitte conclusion

We are satisfied that budgetary processes are in place, with actual expenditure compared to budget being monitored by the Board throughout the year.

Financial sustainability

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.

Financial Outlook

The 2016/17 budget was approved by the Authority in June 2016.

- The administration budget is based on prior year expenditure and the anticipated admin grant to be received.
- The total S27 grant allocation has increased to £12.211 million in 2016/17, an increase of £44k (0.4%) and the Authority has agreed the allocation between the four constituent councils. Additional funding of £562k has been received to reduce re-offending.

From 1 April 2017, the CJA will cease to exist. Funding for the provision of criminal justice social work services under Section 27 of the Social Work (Scotland) Act 1968 will be paid by the Scottish Government direct to each local authority.

Deloitte conclusion

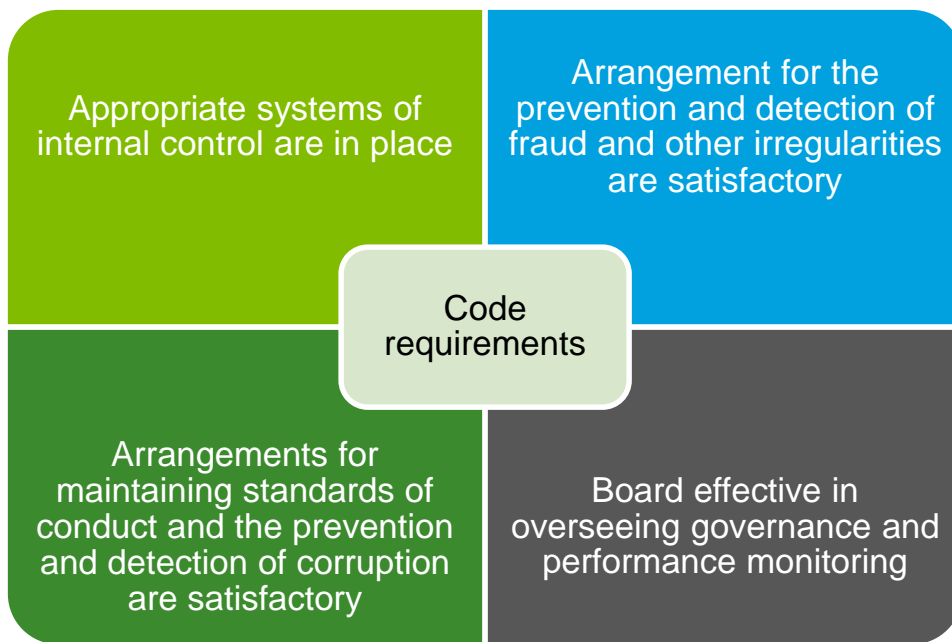
We have confirmed that a budget has been approved for 2016/17 and that functions will then transfer to Community Justice Scotland from 1 April 2017 at which time FFV CJA will cease to exist.

In accordance with paragraph 3.8.2.8 of the Code, an intention by government to transfer services from one authority to another does not negate the presumption that the authority is a going concern. The accounts therefore continue to be prepared on a going concern basis.

Governance and transparency

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.

In accordance with the Code of Audit Practice, we are required to consider and formally report in relation to the following key matters:



Deloitte conclusion

We confirm that we have reviewed the arrangements in each of the four areas and have identified no issues in this regard.

The members of the Authority met on a regular basis during 2015/16 in order to review performance to date, and to monitor changes from budget.

We are comfortable with the fraud arrangements in place and confirm there have been no frauds of which management have made us aware.

Internal Audit services are provided through Falkirk Council's Chief Internal Auditor, with no significant control weaknesses reported in the Authority's control environment.

Value for money

Value for money is concerned with using resources effectively and continually improving services.

Performance management

FFV CJA's Area Plan and accompanying Action Plan 2014-17 were approved by the Board in June 2014, which details the following strategic priorities:

- Transition Planning
- Access to Universal Services
- Prolific Offenders
- Vulnerable People
- Evidencing Outcomes

Progress against the outcomes contained within the Action Plan is regularly reported to the Authority.

Overview of performance targets in 2015/16

Strategic Priority	Progress at March 2016
Transition Planning	<ul style="list-style-type: none">• FFV CJA's Planning, Performance & Communications Officer continues to work with the Scottish Government on the new performance framework for Community Justice.• Progress has been made in identifying the key outcomes and work continues on the indicators.
Access to Universal Services	<ul style="list-style-type: none">• An increase in the number of prisoners from the Forth Valley area being supported by the PSP in the community.• An increase in the number of offenders engaging with Throughcare services.
Prolific Offenders	<ul style="list-style-type: none">• An increase in the number of men being referred and accepted onto the Caledonian Programme in Forth Valley and the Domestic Abuse Programmes in Fife.• An increase in the number of women and children engaging in the Caledonian Programme in the Forth Valley and the Domestic Abuse Programmes in Fife.• A reduction in the number of young offenders under the age of 18 years being sent to prison and involved in the Adult Criminal Justice System.• A reduction in the number of prisoners being held on remand from the FFV area.
Vulnerable People	<ul style="list-style-type: none">• A decrease in the number of women remanded in custody.• An increase in the number of women diverted from the Criminal Justice System.• An increase in the number of sex offenders attending intervention programmes within the prison and the community.
Evidencing Outcomes	<ul style="list-style-type: none">• An increase in the number of offenders accessing mainstream services.• Increased awareness of PSPs in operation within the FFV area.• An increase in the number of Fiscal Work Orders and Supervised Bail Orders imposed.

Deloitte conclusion

Performance is regularly reviewed by the Board with results taken into account as part of longer term planning.

Your Annual Report

Our comments on your annual report

We welcome this opportunity to set out for the Authority our observations on the annual report. We are required to read the “front half” of your annual report to consider consistency with the financial statements and any apparent misstatements. Here we summarise our observations on your response to these areas:

Deloitte response

Explanatory Foreword

The Explanatory Foreword is a requirement of the Code of Practice on Local Authority Accounting, the purpose of which is to offer interested parties an easily understandable guide to the most significant matters reported in the accounts.

We have read the Explanatory Foreword in full in order to ensure that it is in line with our understanding of the Authority and complies with the requirements of the Code.

Statement on the System of Internal Financial Control (SSIFC)

The Statement on the System of Internal Financial Control reports that FFV CJA has an effective system of internal financial control.

The format and content of the statement is consistent with the requirements of the Code and concludes that reasonable assurance can be placed on the adequacy and effectiveness of the Authority's Internal Control System in the year to 31 March 2016. No areas have been highlighted as requiring improvement, which is consistent with the findings of our audit.

Remuneration Report

The remuneration report has been prepared in accordance with the requirements of the Local Authority Accounts (Scotland) Regulations 2014, disclosing the remuneration of senior employees working for the Authority as well as the costs reimbursed to Fife and Falkirk Councils for the additional costs of the Convener and Depute Convener arising from their roles with the Authority.

We are satisfied that the remuneration report has been prepared in accordance with the amendment regulations and is consistent with the findings of our audit.

Purpose of our report and responsibility statement

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 and the Auditor General 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.

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.

The scope of our work

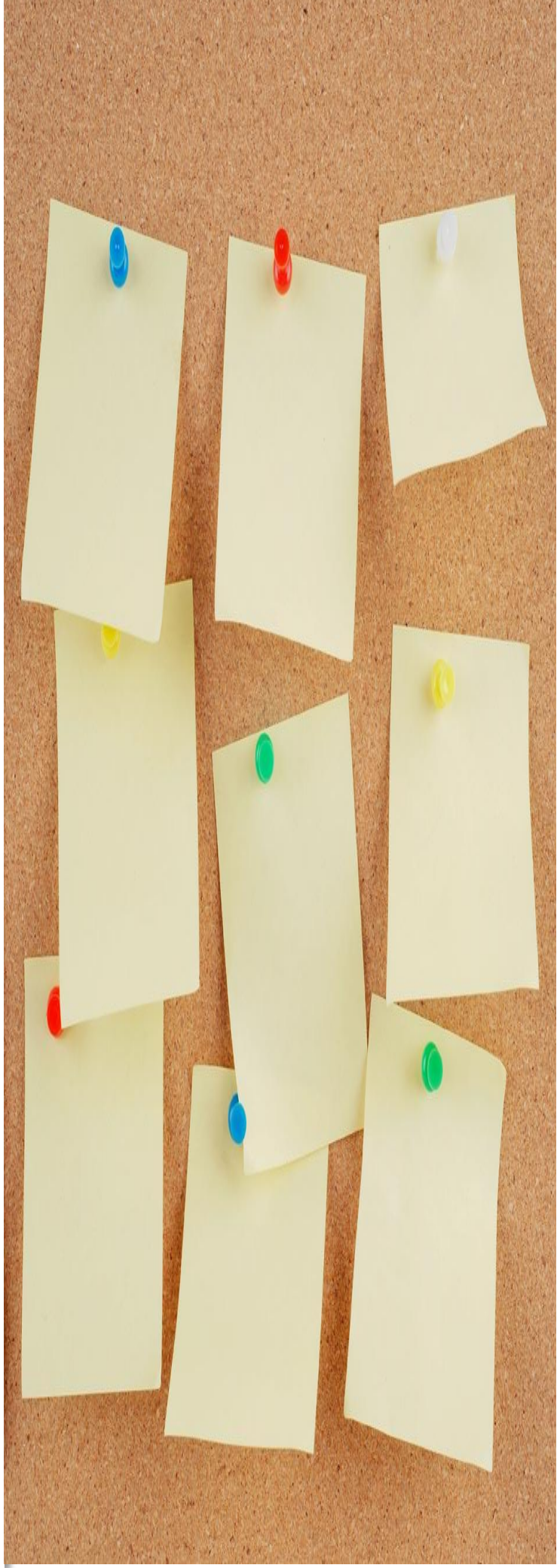
- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan and the supplementary "briefing on audit matters" previously circulated to you.

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

Deloitte LLP

Deloitte LLP
Chartered Accountants
Edinburgh
26 October 2016

Appendices



Audit adjustments

Summary of uncorrected and corrected misstatements

Corrected misstatements

- No corrected misstatements have been noted in the audit for the year to 31 March 2016 from our work to date.

Uncorrected misstatements

- No uncorrected misstatements have been noted in the audit for the year to 31 March 2016 from our work to date.

Disclosure misstatements

- Auditing standards require us to highlight significant disclosure misstatements to enable audit committees 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 to date.

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 key audit risks for the Authority.
- During course of our audit, we have had discussions with management and those charged with governance.

Concerns

As set out above we have identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation.

Independence and fees

There are no issues we wish to raise to you

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General, we are required to report to you on the matters listed below:

Independence confirmation	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.
Fees	Our audit fee for the year has been agreed at £5,000 (inclusive of VAT) and is within the indicative fee range set by Audit Scotland. There were no non-audit services for the period.
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Partnership's policy for the supply of non-audit services or of 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.
Relationships	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. We are not aware of any relationships which are required to be disclosed.

Events and publications

Our events and publications to support the Authority

Sharing our informed perspective

We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with companies large and small, across all industries and in the private and public sectors.

Recent publications relevant to the Partnership are shared below:

Perspectives: The public sector's talent retention challenge – How can a talent drain be avoided?

Although global governments are increasingly conscious of the value of skills, the UK's public sector workforce has been hit hard by austerity. Job losses, low morale and pay freezes have all fuelled concerns of a potential drain. Read the full blog here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sectors-talent-retention-challenge.html>

Publications

Decoding Digital Leadership

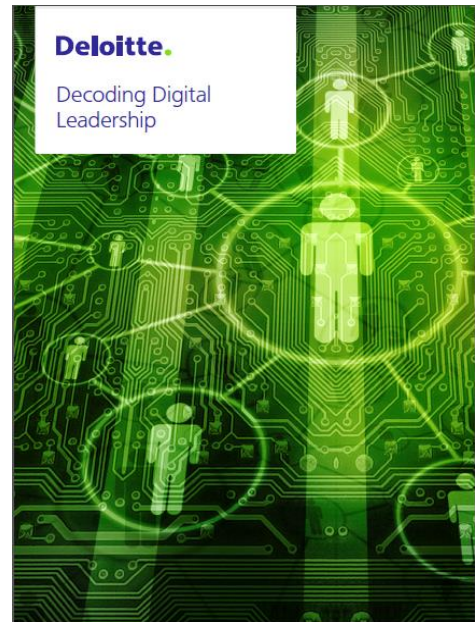
Surviving Digital Transformation

Digital transformation is a hot topic in government. The 2010 Spending Review mentioned the word 'digital' only four times in its reform plans, while the 2015 Review mentioned it 58 times. With that context, are senior leaders across government setting their organisations up for digital success?

Digital transformation requires top to bottom organisational transformation, which requires leaders who are willing and able to leverage digital to innovate, fail fast and drive value in an ambiguous context. Are your leaders equipped to drive digital transformation?

Download a copy of our publication here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/decoding-digital-leadership.html>



Deloitte.

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