



HENDERSON LOGGIE

Northern Community Justice Authority

**Report to Members and the
Auditor General**

2007/08

External Audit Report No: 2008/01

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Executive Summary

1.1 Introduction

1.1.1 Northern Community Justice Authority (“CJA”) is an independent statutory body established by the Management of Offenders etc (Scotland) Act 2005. CJAs have a range of planning, monitoring and reporting functions on the delivery of offender services. The membership of the Northern CJA comprises elected members of Aberdeen, Aberdeenshire, Comhairle nan Eilean Siar, Highland, Moray, Orkney Islands and Shetland Islands Councils.

1.1.2 We have audited the financial statements of the CJA for the year ending 31 March 2008 and examined aspects of the CJA’s governance arrangements. This report sets out our key findings and discharges our responsibilities under ISA260 – reporting matters arising from our audit to those charged with governance.

1.2 Financial issues

1.2.1 We have given an **unqualified** audit opinion on the financial statements of the CJA for the year ended 31 March 2008.

1.2.2 Adjustments have been made to the accounts arising from the audit as follows:

• Bank balance	decrease	£117,829
• Creditors	decrease	£116,522
• Debtors	decrease	£1,307

None of these adjustments arising from the audit impacted on the Income and Expenditure Account.

1.2.3 We have made some recommendations, detailed in Section 3, relating to consideration of the following matters:

- The preparation of the accounts of the authority on a more timely basis;
- A recognition of pension liabilities; and
- The arrangements for recording transactions of the CJA including arrangements for banking and dealing with transactions between Aberdeenshire Council, and the Community Justice Authority.

1.3 Underspend by constituent authorities

1.3.1 The total spend under Section 27 by the constituent authorities was £865,000 less than the Transfer Payments made by CJA. This level of underspend is due primarily to the difficulties experienced in establishing the Mandatory Drug Testing pilot and the Arrest Referral Scheme.

1.4 Statement on the System of Internal Financial Control

1.4.1 The CJA’s Statement on the System of Internal Financial Control identifies areas for improvements in internal control systems including provision of an internal audit function and a more robust accounting system to record the transactions of the CJA.



Executive Summary

1.5 Audit findings and recommendations

- 1.5.1 Our findings and recommendations are summarised in the Action Plan that accompanies this report (Appendix I) which has been agreed with management.

1.6 Status of our Report

- 1.6.1 This report is part of a continuing dialogue between the CJA and Henderson Loggie and is not, therefore, intended to cover every matter which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in the CJA's systems and work practices.
- 1.6.2 This report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on. The report will be submitted to Auditor General for Scotland and will be published on the Accounts Commissions website at www.audit-scotland.gov.uk.

1.7 Governance

- 1.7.1 The authority has developed a number of documents and initiatives which reflect examples of good governance practices. Further enhancement to processes are planned for 2008/09 and we will examine the application of these corporate governance arrangements during the audit appointment.

1.8 Performance

- 1.8.1 The CJA has prepared a detailed three year plan for 2008-2011 setting out the strategic direction for the management and development of offender services, and a range of short to medium term outcomes agreed with partner agencies.
- 1.8.2 The authority's 2007/08 Annual Report sets out the actions planned for the year, the progress made on each action, and a year end update for each action point. The report also notes areas where improvements can be made and which are to be addressed in 2008/09.

1.9 Acknowledgements

- 1.9.1 Our audit for this year has brought us in contact with CJA staff and accountants from Aberdeen City Council assigned to facilitate the accounts preparation. We would like to take this opportunity to place on record our appreciation of the co-operation and assistance extended to us by staff in the discharge of our duties.



Financial

2.1 Introduction

2.1.1 In accordance with the Code of Audit Practice we are required to audit the financial statements of the CJA for the year ended 31 March 2008 and examine aspects of the CJA's governance arrangements.

We set out below a summary of the audit certification issues: the accounts present a true and fair view of

2.2 Accounts Certification

2.2.1 We set out below a summary of the audit certification issues as to whether:

- the accounts present a true and fair view of the CJA's financial position as at 31 March 2008 in accordance with the Management of Offenders etc (Scotland) Act 2005 and regulations made thereunder, and the CIPFA/LASAAC 2007 Statement of Recommended Practice (2007 SORP); and
- the Statement on the System of Internal Financial Control is consistent with the information we obtain through our audit.

2.2.2 On 22 December 2008 we issued an unqualified audit opinion on the CJA's 2007/08 financial statements.

2.3 Financial Position

2.3.1 The CJA's Income and Expenditure Account records a deficit for the

financial year of £37,616 returning the net assets position to nil. Income of £12.766 million was received in the year, from funding from the Scottish Government. The CJA distributed the receipts from the Scottish Government to the constituent local authorities. Operating Expenditure of £234,945 was incurred in the year, comprising largely staff costs of £172,229. Accommodation was rented from Aberdeenshire Council and much of the day to day costs were incurred by Aberdeen City Council and Aberdeenshire Council and recharged to CJA.

2.4 ISA 260 Report

2.4.1 Under ISA 260, we are required to communicate certain matters arising from the audit to those charged with governance. The areas considered are summarised in the table below:

Area	Key Messages
Independence and objectivity of the audit team	<p>We are able to confirm our independence and objectivity as auditors and note the following:</p> <ul style="list-style-type: none">• We are independently appointed by Audit Scotland• We comply with the Auditing Practices Board's Ethical Standards; and• We have not performed any non-Code or advisory work during the year.



Financial

Area	Key Messages
Approach to the audit	<p>We have planned our audit in accordance with International Auditing Standards and the Code. Other key factors to highlight include:</p> <ul style="list-style-type: none"> We consider the materiality of items in the financial statements both in determining the approach to audit them and in determining the impact of any errors: and <p>The CJA's financial affairs are managed by Aberdeen City Council financial systems for processing recording and reporting transactions. Henderson Loggie are also the auditors of Aberdeen City Council and, during the 2007/08 financial year, we performed audit work on the core financial systems in operation at the Council. Our work did not identify any specific control weaknesses in the financial systems operated by the Council that we need to draw to the CJA's attention.</p>
Accounting policies and practices	<p>We consider that the Treasurer has adopted appropriate accounting policies in the areas covered by our testing, in accordance with the 2007 SORP.</p> <p>The Treasurer has considered and confirmed that the CJA remains a going concern.</p>

Area	Key Messages
Material risks and exposures	<p>The CJA has considered the confirmed that it has no material risks and exposures which should be reflected in the financial statements and the Treasurer has confirmed this in the Letter of Representation.</p>
Audit adjustments and unadjusted errors	<p>There are no unadjusted audit differences to report. Adjustments arising from the audit process are as follows:</p> <p>Bank balance decrease £117,829 Creditors decrease £116,522 Debtors decrease £ 1,307</p> <p>These adjustments did not have an effect on the deficit for the year.</p>

2.5 Accounting System

- 2.5.1 The financial system adopted to date is based on a simple spreadsheet approach recording income and expenditure. Whilst this system is acceptable for the current scale of the organisation an enhanced financial system should be considered for future years as the CJA evolves.



Keys Matters arising from the Audit

3.1. Preparation of Accounts

3.1.1 The authority's unaudited financial statements were submitted to external audit on 21 November 2008 after the latest date specified within the Scottish Government Criminal Justice Directorate's financial memorandum of April 2008.

Refer Action Plan point 1

3.2. Financial Position

3.2.1 The CJA's level of reserves reduced at 31 March 2008 to a nil position reflecting the CJA's position as a conduit to distribute grant funding from the Scottish Government to constituent local authorities.

3.3. Creditors

The accounts include a creditor balance of £6,460 in the balance sheet at 31 March 2008 relating to monies owed to Aberdeenshire Council for disbursements made on behalf of the CJA in the period to 31 March 2007. These creditor balances are now over one year old. The CJA should liaise with Aberdeenshire Council to pay these balances during 2008/09.

Refer Action Plan point 2

3.4. Pension Liabilities

No provision has been made in the accounts for pension liabilities under Financial Reporting Standard (FRS) 17-retirement benefits. We understand this approach has been taken on the grounds that the figures are not sufficiently material to justify the expense of obtaining an actual valuation and report. While employee numbers are currently low, there is a risk that, over time, pension liabilities will become significant and that the accounts could be restarted.

Refer Action Plan point 3

3.5. System of Controls

The CJA's Statement on the System of Internal Financial Control identifies areas for improvements in internal control systems including; a lack of specific internal audit work and the need for a review of the accounting arrangements between the authority and Aberdeen City Council and Aberdeenshire Council. We will continue to monitor the authority's progress in addressing these issues as part of our 2008/09 audit.

Refer action Plan points 4 and 5



Keys Matters arising from the Audit

3.6 Bank Account

- 3.6.1 The CJA does not have its own bank account, and all cash balances are held within the bank accounts of Aberdeen City Council. The Council maintains a separate cost centre for the CJA within its general ledger. All transactions flow through the cost centre and a year end cash balance is determined by the Council.
- 3.6.2 The CJA should consider the costs and benefits of operating its own bank account to improve financial management, make payments in its own name and to ensure prompt payment.

Refer Action Plan point 5



Governance

4.1 Introduction

4.1.1. Corporate governance is concerned with structures and processes for decision-making, accountability, controls and behaviours. The Scottish Government Community Justice Directorate issued a financial memorandum in April 2008 that defines the expected policies and procedures to be introduced by the authorities.

4.2 Board Membership and Meetings

4.2.1 The membership of the Northern CJA comprises elected members of Aberdeen, Aberdeenshire, Comhairle nan Eilean Siar, Highland, Moray, Orkney Islands and Shetland Islands Councils.

4.2.2 The Board holds four meetings per year. In 2007/08 it received and approved the 2008-2011 Area Plan, receiving reports, financial monitoring updates on the development of offender management and on other matters of relevance to the role and work of the authority.

4.3 Progress with Governance

4.3.1 During 2007/08 the CJA has made progress in developing its governance framework. The CJA has developed a number of documents and initiatives which reflect examples of good governance practices including:

- A Code of Conduct;
- A strategy for effective communications with the public, partners, offenders and the media;

- A coherent approach to workforce learning and development across the authority; and
- Identification and implementation of strategic alliances to more effectively address relevant issues.

This level of progress reflects a commitment to making a difference in the promotion of better quality, more cooperative and integrated services to manage offenders.

4.4 Support Services

4.4.1 The CJA's support services are provided by Aberdeen City Council and Aberdeenshire Council, with the accounting function being hosted by Aberdeen City Council. A service level agreement is in place with Aberdeenshire Council for the provision of Personnel and ICT and Law and Administration services. We have identified areas where there is scope for enhancement of the accounting governance of the CJA and the working relationship between the CJA and the two local authorities. The authority is to examine and adapt its way of working with the councils to improve accounting controls.



Performance

5.1 Aims of the authority

- 5.1.1 The aims of the authority are to contribute to reducing re-offending and increase community safety and public protection.

5.2 Overview of performance in 2007/08

- 5.2.1 The National Strategy for the Management of Offenders outlined a set of outcomes that the community justice authorities should achieve for communities, offenders and the justice system. The Scottish Government Justice Department has been developing measures for the past two years that will determine the progress authorities have made against these outcomes. This work is still underway and it is anticipated that the national framework will be in place from April 2009.
- 5.2.2 The authority has prepared its three year Plan 2008-2011 setting out the strategic direction for the management and development of offender services and a range of short to medium term outcomes agreed with partner agencies. An action plan has been prepared to support the delivery of the desired outcomes.
- 5.2.3 The authority's Annual Report for 2007/08 set out the actions for the year addressing each of the five identified strategic outcomes. Reporting identifies the timescale for each action, the partner agencies involved, and the status of the action. An end of year update is provided for each action. The report identified the need to integrate the authority's planning process with that of the constituent authorities community planning partnerships as an area for improvement in 2008/09. This will support the delivery of the Single Outcome Agreement between the Scottish Government and local authorities.



Outlook for the Future

6.1 Financial Reporting

6.1.1 Central government and NHS bodies are to move from UK General Accepted Principles to International Financial Standards (IFRS) with effect from 2009/10. The intention is that local government will adopt IFRS for 2010/11. As yet it is unclear when the Authority will adopt IFRS given that it is a central government body following local government accounting practice. This issue will require clarification during 2008/09.

6.2 Accounting Procedures

6.2.1 As reported the CJA has scope to improve the accounting processes and procedures and to enhance the interaction with Aberdeen City Council and Aberdeenshire Council, both of which provide part of the accounting functions of the authority.

6.3 Development of Governance Processes

6.3.1 As a new organisation, the CJA is continuing to develop a range of governance processes and policies and we will continue to monitor and review these.

6.3.2 The CJA has made good progress in developing its governance framework. Given the nature of the relationship, the CJA has with partner councils the greater importance is to establish that the Authority is confident that appropriate policies operate within member councils.

6.4 Performance

6.4.1 As part of its proposed national study programme Audit Scotland has met with community justice authority chief officers to discuss a study on "Reducing Re-Offending". These discussions are expected to influence the scope and timing of any future study.



Final Remarks

7.1 Action Plan

- 7.1.1 Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of members. In response, officers have considered the issues and have agreed to take the specific steps set out in the column headed "Planned Management Action". Management have identified against each action the target date for completion.
- 7.1.2 Appropriate mechanisms should be considered and agreed by members for monitoring the effectiveness of planned action by officers. We will review the operation of the agreed mechanism as part of the 2008/09 audit.



Appendix I – Action Plan

No	Finding	Priority	Planned Management Action	Management Response	Implementation date
1	The authority's financial statements were not submitted until after the final deadline determined in the Scottish Government Community Justice financial memorandum issued in April 2008	High	A timetable requires to be prepared in conjunction with the Chief Social Worker and the Finance Director of the constituent local authorities to ensure accounts of the CJA are able to be recompleted in a timely manner.	Agreed	Treasurer 31 March 2009
2	We noted that £6,460 remains unpaid for transactions from 2006/07. These creditor balances are now over one year old.	Low	The CJA should liaise with Aberdeenshire Council to pay these balances during 2008/09	Agreed	Treasurer 31 March 2009
3	No provision has been made in the accounts for pension liabilities under Financial Reporting Standard (FRS17-retirement benefits, on the grounds of materiality. Over time pension liabilities could become significant and the accounts might therefore be overstated	Medium	Advice should be sought from the actuary for the production of the 2008/09 accounts so that appropriate disclosure can be made.	Agreed	Treasurer 31 March 2009
4	The CJA's Statement on the Systems of Internal Financial Control identifies that there is a lack of internal audit work which would provide a review of the robustness of the internal control system	High	The CJA should take action to address identified weaknesses in internal controls.	Agreed	Treasurer 31 March 2009



Appendix I – Action Plan

No	Finding	Priority	Planned Management Action	Management Response	Implementation date
5	<p>The CJA is treated as a separate cost centre within Aberdeen City Council's ledger rather than a separate entity. In addition other transactions such as payroll, staff expenses and other expenditure are met by Aberdeenshire Council. As a result</p> <ul style="list-style-type: none"> • The CJA does not operate its own bank account; • Transactions between the CJA and Aberdeen City Council are treated as internal transfers and no invoices are raised. • There is less clarity and accountability for the financial control environment. • There is a lack of clarity over completeness of accounting transactions between CJA and the two authorities. 	High	<p>The CJA should undertake a review of its financial management arrangements and should consider arrangements for:</p> <ul style="list-style-type: none"> • Banking; • Recording its transactions within Aberdeen City Council's ledger; and • Managing transactions between Aberdeen City Council, Aberdeenshire Council and the CJA 	Agreed	Treasurer 31 March 2009



Respective Responsibilities

Respective Responsibilities of Members, Officers and Auditors

Each public sector body is accountable for the way in which it has discharged its stewardship of public funds. Stewardship is a function of both executive and non-executive management and, therefore, responsibility for effective stewardship rests upon both Members and Officers of a public sector body.

That responsibility is discharged primarily by the establishment of sound arrangements and systems for the planning, appraisal, authorisation and control over the use of resources, and by the preparation, maintenance and reporting of accurate and informative accounts.

It is our responsibility to undertake an independent appraisal of the discharge by management of its stewardship responsibilities, to enable us to give an assurance that those responsibilities have been reasonably discharged.

The CJA Board and the Chief Officer's responsibilities for the Statement of Accounts are set out on page 6 of the annual statement of accounts. Our responsibility is to form an independent opinion, based on our audit, on the financial statements and report that opinion to you.

We are required to review whether the CJA's Statement on the System of Internal Financial Control reflects compliance with the 2007 SORP, and we report if, in our opinion, it does not. We are not required to consider whether this statement covers all risk and controls, or form an opinion on the effectiveness of the CJA's corporate governance procedures or its risk and control procedures.

