

North Strathclyde Community Justice Authority

Report to Members and the Auditor General for Scotland
on the 2009/10 Audit

October 2010



 AUDIT SCOTLAND



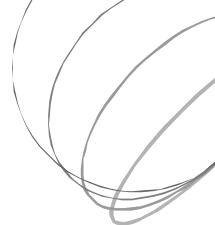
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Key Messages

In 2009/10, we audited the financial statements and looked at aspects of governance within the North Strathclyde Community Justice Authority. This report sets out our main findings.

Overall, we found the financial stewardship of the North Strathclyde Community Justice Authority (NSCJA) during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- An unqualified opinion has been issued on the financial statements for 2009/10.
- Final accounts preparation procedures and working papers were of a good standard and this enabled the audit to progress smoothly.
- The NSCJA has a sound corporate governance framework.

Renfrewshire Council provide internal audit services to the NSCJA. The Statement on the System of Internal Financial Control for the year 2009/10, signed by the Treasurer and Chief Officer of the NSCJA, concluded that the NSCJA has in place a sound system of internal financial control with no identified material weaknesses. Our audit work resulted in findings consistent with that opinion.



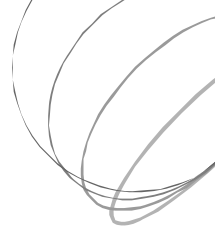
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Introduction

1. The members and officers of the NSCJA are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
 - The financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed.
 - The NSCJA's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests.
 - The NSCJA has adequate corporate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability.
 - The systems of internal control provide an appropriate means of preventing or detecting material mis-statement, error, fraud or corruption.
 - The NSCJA has proper arrangements for securing best value in its use of resources.

2. This report summarises the most significant issues arising from our work during 2009/10.



Financial statements

3. In this section we summarise key outcomes from our audit of the NSCJA's financial statements for 2009/10.

Auditor's report

4. We have given an unqualified opinion on the financial statements of the NSCJA for 2009/10, concluding that the financial statements:
 - give a true and fair view, in accordance with the Management of Offenders etc. (Scotland) Act 2005 and regulations made thereunder, of the state of affairs of the body as at 31 March 2010 and of its net operating cost and cash flows for the year then ended
 - have been properly prepared in accordance with the Management of Offenders etc. (Scotland) Act 2005 and regulations made thereunder.

Financial position

5. The NSCJA's balance sheet as at 31 March 2010 reflected reserves of £23,316, an increase of £7,466 from the previous year. The movement relates to the in-year surplus after taking account of interest earned on balances held during the year and additional administration grant monies received from the Scottish Government relating to 2008/09. In terms of its in-year grant income, the NSCJA achieved a break-even position.
6. The section 27 grant funding (which represents the largest income source) is divided up between the constituent bodies for spending on various agreed projects. Note 9 to the financial statements provides a consolidated position for the sum of all of these bodies. The overall spend shown here of £11,080,380 represents an over-spend by £168,219.
7. On occasions when a constituent council has over-spent but the NSCJA overall has under-spent, the NSCJA is permitted to reallocate this to the over-spent council. However on this occasion the NSCJA had fully spent up to its allocation. The table below outlines the section 27 allocation and expenditure for 2009/10 and provides a year-end variance analysis.

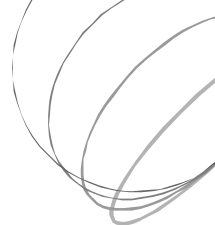


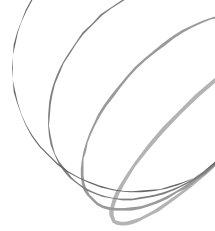
Exhibit 1

Member authority section 27 analysis

Authority	2009/10 s27 Allocation (£)	2009/10 s27 Expenditure (£)	Variance (£) under/(over)
Renfrewshire Council	4,195,709	4,181,387	14,322
East Renfrewshire Council	1,184,327	1,184,681	(354)
Inverclyde Council	1,804,018	1,770,535	33,483
Argyll & Dunbartonshire Partnership	3,728,107	3,943,777	(215,670)
TOTAL	10,912,161	11,080,380	(168,219)

Accounts preparation and submission

8. The draft financial statements for NSCJA presented to audit were well supported by working papers provided, and were made available in good time to allow our audit to be completed well within the statutory deadline for submission to Scottish Ministers by 31 October. Our audit resulted in only minor adjustments to the draft set of accounts, all of which were agreed with officers and amendments have duly been processed.
9. The Scottish Government Criminal justice Directorate's Guidance Note Two: Management Statement / Financial Memorandum, sets out the format which the financial statements for community justice authorities are required to follow. The memorandum also states that the accounts should be prepared in line with the local authority Code of Practice – A Statement of Recommended Practice (the 2009 SORP) accounting principles. Our review concluded that the financial statements did indeed satisfactorily comply with both the financial memorandum and the 2009 SORP.
10. In 2008/09 we highlighted that we welcomed the change that resulted in the splitting out of section 27 and administration grant funding from the Scottish Government. This year we noted a further improvement which involved the splitting out of section 27 and administration expenditure in the top section of the Income and Expenditure Account for the year. We also welcome this change as it allows expenditure to be matched to relevant income sources and in 2009/10 demonstrated an in-year break-even position before the addition of prior year additional funding and interest income (as referred to in paragraph 5).



11. The audited accounts were certified on 20 October 2010 and are now available for presentation to the NSCJA and to be laid before the Scottish Parliament. The financial statements are an essential means by which the NSCJA accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

Financial outlook

12. The majority of income received by the NSCJA (section 27 grant funding from the Scottish Government) is paid out directly to the member authorities and any over-spends over the total amount received by the NSCJA must be borne by the respective council(s). Therefore the risks associated with this expenditure lie with the constituent authorities rather than the NSCJA itself.
13. The costs from running the NSCJA itself are met from the administration grant funding also provided by the Scottish Government. The allocation for 2010/11 of £219,721 represents an increase of £3,525 over the 2009/10 allocation. This increase however does not represent an inflationary rise but rather is to cover audit costs. In 2009/10 the NSCJA slightly under-spent its allocation by £291 however as community justice authorities are not permitted to hold unspent grant monies this income will be returned to the Scottish Government.
14. As referred to in paragraph 5, the NSCJA also holds revenue reserves of £23,316 which are available to mitigate against unforeseen circumstances. This reserve does not relate to unspent grant monies but instead relates to interest earned on balances held during the year.
15. As with all public sector bodies, the financial outlook for the NSCJA will be challenging given the upcoming expenditure reductions.

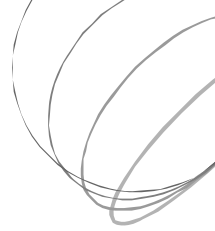
IFRS Preparation

16. In 2010/11 all local authority bodies in Scotland (including the NSCJA) will be required to prepare annual financial statements in accordance with International Financial Reporting Standards (IFRS). Unlike other local authorities, community justice authorities were not required to prepare restated balance sheets as at 1 April 2009 as the main changes (regarding employee leave accruals) are far less significant.



Legality

17. Each year we request written confirmation from the Treasurer that the NSCJA's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes and checklists. The Treasurer has confirmed that, to the best of her knowledge and belief and having made appropriate enquiries of members and officials of the NSCJA, the financial transactions of the joint board were in accordance with the relevant legislation and regulations governing its activities.



Corporate governance

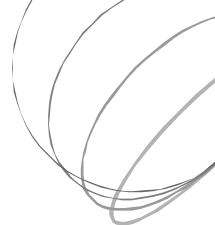
18. In this section we comment on key aspects of the NSCJA's governance arrangements during 2009/10.

Overview of arrangements in 2009/10

19. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. In previous years, we have concluded that the NSCJA has many aspects of a sound corporate governance framework in place and have reached the same conclusion this year subject to some minor issues raised in paragraph 22 below.
20. We note that in June of this year the NSCJA reviewed its scheme of delegation and procedural standing orders. As the financial regulations date back to December 2007 we would expect a similar review of this document within the next year. From discussions with officers we are aware that a risk register is in place and that a draft risk management strategy has been produced, however as yet we have not seen this strategy formally approved by the NSCJA.

Systems of internal control

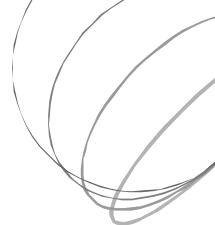
21. Internal audit plays a key role in the NSCJA's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. Internal audit's programme of work is based on a five year cyclical approach based on an assessment of risk. During 2009/10, investigations were carried out into:
- Review of the arrangements for budget monitoring.
 - Follow up of previous audit work.
22. The review of budget monitoring highlighted some areas for improvement in relation to administration grant expenditure, whilst stating that controls in place regarding section 27 expenditure were generally satisfactory. Internal audit also reviewed Renfrewshire Council's payroll, creditors, main financial (ledger) and debt management systems (which are all used by the NSCJA) and found these to be satisfactory. Further work is planned by internal audit in 2010/11 including ad-hoc financial advice, reactive investigative work, risk management advice and further follow up work.



23. We have also reviewed Renfrewshire Council's main financial systems as part of our annual work and our findings are consistent with those of internal audit with only a small number of minor issues highlighted in a management letter issued to the Director of Finance and Corporate Services in June 2010. We have also undertaken an overview of internal audit (as reported in a management letter in January 2010) and found that the section has appropriate resources, documentation standards and reporting procedures to allow us to review and place reliance on aspects of their work during the year.

Relationship with host authority

24. Renfrewshire Council is the host authority for the NSCJA, and as such provides various support services (such as finance, personnel, legal and administration). The host authority in turn charges the NSCJA for the provision of these services. In 2009/10 these costs amounted to £21,150. From discussion with officers we are aware that formalised service level agreements (SLA) exist for both legal and administration services and finance and IT services. We are aware that two documents were prepared as these services were performed by two different directorates. However given that all of these services have now been amalgamated into Corporate Services, going forward consideration should be given to developing one SLA covering all aspects of service provision rather than several different ones.



Performance

Overview of performance reviews undertaken in 2009/10

25. Annual action plans are in place in order to address areas for improvement as detailed in the Area Plan 2008/11, approved by the Cabinet Secretary in February 2008. Progress on the 2009/10 action plan was reported to the NSCJA in March 2010 and forms part of the annual report which was submitted to the Scottish Government in September 2010.
26. The action plan contained 40 points, of which 28 were recorded as completed within timescale, 1 to be completed within timescale, 6 to be completed out-with the timescale and the remaining 5 which will not be completed. We understand that all 5 points which shall not be completed have valid reasons for being removed, such as they are now being taken forward as part of national initiatives or due to a change in focus.
27. Each point in the action plan has been cross-referred to outcomes from the National Strategy for Management of Offenders and those adopted for the CJA National Performance Framework (NPF) which we note has been delayed and has also caused a delay in the local framework. We specifically mentioned the NPF and the local implications in our 2008/09 report and we shall again monitor progress in 2010/11. We also note that the new Area Plan for 2011/14 is available on the NSCJA website.
28. The co-operation and assistance given to us by the NSCJA members, officers and staff is greatly acknowledged.