

Key Issues Memorandum

Fife and Forth Valley Community Justice Authority

For the year ended 31 March 2011

Gary Devlin
Engagement Lead
T 0131 6598554
E gary.j.devlin@gtuk.com

Grace Scanlin
Audit Manager
T 0131 6598526
E grace.scanlin@gtuk.com



Grant Thornton

To the Accounts Commission and the Fife and Forth Valley Community Justice Authority (FFVCJA)

The purpose of this memorandum is to highlight the key issues affecting the results of FFVCJA and the preparation of the financial statements for the year ended 31 March 2011. It is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We take responsibility for this memorandum, which has been prepared on the basis of the limitations set out in 'The small print' (Section 6).

This is the final year of our appointment as auditors to the FFVCJA. We would like to take this opportunity to record our appreciation for the kind assistance provided by the Chief Officer, finance team and other staff during the period of our appointment.

Grant Thornton UK LLP

Grant Thornton UK LLP
1/4 Atholl Crescent
Edinburgh EH3 8LQ

T +44 (0)131 229 9181
F +44 (0)131 229 4560
DX ED428 Edinburgh
www.grant-thornton.co.uk

Chartered Accountants

Member firm within Grant Thornton International Ltd

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP

A list of members is available from our registered office.

Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

Contents

1	Executive summary	0
2	Financial reporting	1
3	Financial statements	2
4	Audit adjustments	Error! Bookmark not defined.
5	Governance and performance	5
6	The small print	6

1 Executive summary

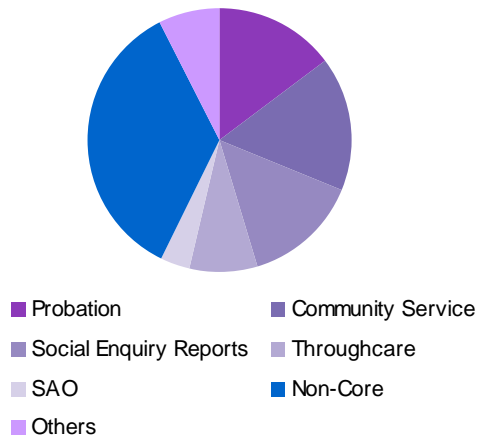
Financial statements	
Audit Opinion	<ul style="list-style-type: none"> We intend to give an unqualified opinion on both the financial statements for the FFVCJA for 2010-11 and on the regularity of transactions undertaken during the financial year.
Financial Statements	<ul style="list-style-type: none"> The draft Financial Statements and supporting working papers were presented for audit on the 27th September 2011, following revision to prepare the accounts under the International Financial Reporting Standards. Thereafter, a number of minor presentational adjustments were made to the notes to the accounts.
Governance issues	
Risk register	<ul style="list-style-type: none"> The Authority has introduced a risk register during the year, which forms direct links with a national register for the Community Justice Authorities across Scotland. We noted minor areas for improvement in risk management arrangements, but overall we view this as a significant step in improving governance at the Authority.
Performance issues	
Local Performance Framework	<ul style="list-style-type: none"> The Authority has a well developed performance management framework which includes outcome measures and trend information. An annual report is prepared which explains how the Authority has performed in relation to the Area Plan.

2 Financial reporting

2.1 Financial statements

	2011 £'000	2010 £'000
Gross Expenditure	12,335	11,883
Income	(12,324)	(11,896)
Other Income	(8)	-
Surplus/(deficit) for the year	(3)	12

2.2 Analysis of 2010-11 Expenditure



Financial Performance

The Authority's Income and Expenditure Account for the year records a deficit of £2,614. The Authority is responsible for the disbursement of the Section 27 grant from the Scottish Government to the four constituent authorities, Fife, Stirling, Falkirk and Clackmannanshire Councils. The Section 27 allocation for 2011 was £12,451,419. The constituent authorities spent a total of £12,262,119. The authorities spend in total was £189,300 under their allocation, principally as a result of delays in recruiting for the Caledonian Project. This underspend will be repaid by the constituent local authorities when the retention is settled for 2010-11.

The Authority also receives an administration grant from the Scottish Government of £207k. This grant will be maintained at the same level in 2011-12, and has not been increased for the last two years. This places additional pressure on the FFVCJA as a result of increased employee costs, and the effects of a full year of VAT at the 20% rate.

Analysis of 2010-11 Expenditure

Our analysis of expenditure notes that expenditure categories were broadly in line with spending in 2009-10, although additional spend was supported by a virement from non-core to core services. Significant increases in expenditure were incurred in Community Service and Home Detention Curfews, in line with Scottish Government priorities. However, court costs continued to rise by 18%.

The Authority's general fund reserve at 31 March 2011 now stands at £9,383.

3 Financial statements

3.1 Introduction

In the conduct of our audit, we have not had to alter or change our audit plan, which we communicated to you in our Audit Approach Memorandum.

Our response to the matters identified at the planning stage are detailed below.

3.2 Audit opinion

We are able to conclude that the FFVCJA financial statements give a true and fair view of the financial position for the period from 1 April 2010 to 31 March 2011 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance. We confirm that information which comprises the management commentary, included with the Annual Report, is consistent with the financial statements.

3.3 Matters identified at the planning stage

	Issue	Auditor response and conclusion
1	<p>International Financial Reporting Standards (IFRS) 2011 is the first year that the local authority accounting code is based on international financial reporting standards. The move to an IFRS-based Code from the UK GAAP-based SORP has resulted in a number of changes in accounting practice that the Authority has had to take into account to prepare the 2010/11 financial statements. The key accounting changes for 2010-11 include:</p> <ul style="list-style-type: none"> • changes in the classification of leases, and a new requirement to account for arrangements containing a lease • a requirement to recognise a liability for untaken annual leave and flexi-time accruals • new disclosure requirements for accounting standards not yet adopted, key assumptions and judgements, changes in respect of prior period adjustments, and operating segments. <p>The Authority is also required to restate its 2009-10 accounts under IFRS to report comparative information.</p>	<p>We held a planning meeting with the Finance team within Clackmannanshire Council to discuss progress in implementing IFRS.</p> <p>Key IFRS areas were covered in the joint workshop held in March 2010 to address areas of risk early in the year. Key areas for the Authority in converting to IFRS are:</p> <ul style="list-style-type: none"> • leases which may be classified as finance leases • holiday pay and flexi-time accruals. <p>During the audit in 2009-10 we noted concerns about the level of preparedness for IFRS. The Authority missed deadlines for producing a shadow balance sheet as at 31 March 2009. When we received the first set of accounts we noted that they were not IFRS compliant, and delays were experienced as the audit had to be rescheduled.</p> <p style="text-align: right;">Refer to Action Plan Point 1</p>

2	<p>Financial Position</p> <p>All public sector bodies are facing an unprecedented period of financial restraint. Funding outcomes have an impact on FFVCJA, but also on the ability of partner organisations to support the achievement of objectives within the Area Plan.</p>	<p>The nature of funding on an annual cycle places particular pressures on the Authority to ensure that projects in place quickly. During 2010-11, the Authority was unable to recruit quickly to the Caledonian Project, and therefore was unable to spend the allocation awarded during the year. We did, however, note that the Authority made good use of budget monitoring reports and was able to successfully apply for an £181k virement from the non-core to core services allocation.</p> <p>More generally, we noted that Service Level Agreements are not complete or in place for a number of areas of work, notably with NHS Forth Valley for the drug treatment service.</p> <p style="text-align: right;">Refer to Action Plan Point 2</p>
---	--	---

3.4 Matters identified during audit fieldwork

	Issue	Auditor response and conclusion
3	<p>Remuneration Report</p> <p>During the year, Scottish Ministers approved an amendment to the Local Authority Accounts (Scotland) Regulations 1985 to publish a remuneration report as part of their annual accounts. The report is similar to that produced for listed companies and public sector bodies that report under the Government Financial Reporting Manual.</p> <p>The amendments to the Regulations require the Authority to disclose:</p> <ul style="list-style-type: none"> • remuneration policies for senior members and senior officers • remuneration paid to senior members and senior officers for 2009-10 and 2010-11 • pension benefits including pension contributions paid by the Authority and the value of accrued pension benefits at the balance 	<p>Our review of the Authority's Remuneration Report found that the Report was compiled in accordance with the Regulations and was presented in line with guidance issued by the Scottish Government.</p>

Issue	Auditor response and conclusion
<p>sheet date</p> <ul style="list-style-type: none"> information of the number of employees earning in excess of £50,000 per year. <p>In future years, the Authority will also be required to disclose summary information in relation to any exit packages, including compulsory and voluntary redundancy costs, ex-gratia payments and other departure costs.</p>	

4 Governance and performance

4.1 Introduction

Each year, we review the governance and performance reporting arrangements in place at the Authority. This section summarises our findings.

4.2 Managing Risk

During the year, the Authority prepared a risk register, in line with a draft national risk register for Community Justice Authorities across Scotland. The register focuses on operational risks, rather than, for example the reputational impact of a service failure. These risks will be managed by the constituent authorities. However, we believe that there is scope to improve the current arrangements. Appendix A highlights the allocation of risks across likelihood and the severity of impact, which should lead to an assessment of how often each risk should be reviewed. There is a noticeable clustering of risks, which may indicate that there is not sufficient differentiation between the three categories of likelihood.

We also believe that there would be benefit in ranking risks to ensure that Board members can quickly focus on areas for action.

Refer to Action Plan Point 3

5.3 Performance Management

The FFVCJA's Area Plan sets out the local priorities and objectives for the period 2011-14. This explains how the Authority fits into Scotland Performs national priorities, and works with partner organisations to deliver outcomes within Single Outcome Agreements. The Area Plan is supported by an annual action plan to allow the Authority to measure progress. Nationally, Community Justice Authorities have been tasked with reducing re-offending rates by 2%. The key priorities for the FFVCJA are also:

- the implementation of the Criminal Justice and Licensing (Scotland) Bill, which will introduce the use of Community Payback Orders
- Young offenders
- Substance use, especially alcohol
- the transfer of health responsibilities from the Scottish Prison Service to local Health Boards
- Domestic Abuse.

The annual report for 2010-11 outlines a number of key successes, including improvements in the successful completion rates for Community Service Orders and Probation Orders, the launch of the Caledonian System (one of only 4 areas in Scotland to receive funding), and a reduction in overall court disposals.

5 Action Plan




5.1 Accounting system and internal control



We have applied our risk methodology to your audit. This approach allows us to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. See 'The small print' for further details of our approach.

We have set out any control weaknesses that became apparent to us during our audit fieldwork. Our interim report issued in May 2010 included control findings from that audit and also a follow up on all prior year recommendations.

Key to assessment of internal control deficiencies

-  Material weakness - risk of material misstatement
-  Significant deficiency - risk of significant misstatement
-  Deficiency - risk of inconsequential misstatement

	Assessment	Issue and risk	Recommendation
1		The Authority receives financial support services from Clackmannanshire Council. However, we note that the agreement does not currently include a Treasurer, in line with other local government bodies or Community Justice Authorities. This would provide a responsible officer to ensure that key accounting developments are addressed.	We recommend that the Authority reviews the Service Level Agreement for financial support to ensure that they receive a service which meets their governance requirements.
2		We noted that some of the constituent authorities do not have Service Level Agreements in place for services. This presents a risk that the service will be withdrawn, or offered at a higher than expected rate.	We understand that the Authority is currently reviewing how services are commissioned. We would, however, recommend that contracts or service level agreements are in place to protect the service and price that the Authority requires.

	Assessment	Issue and risk	Recommendation
3	●	We noted that there is scope to improve the risk management arrangements, although we acknowledge that the Authority hope to maintain direct links with the national CJA risk register.	We would recommend that the risks are ranked to allow Board members to focus on areas for action.

Appendix A: Risk Register

Allocation of Risks within Risk Register

LIKELIHOOD	3 High					
	2 Medium			3		6
	1 Low			8, 10	1,2,4,5,7,9	
		1 Negligible	2 Minor	3 Moderate	4 Major	5 Catastrophic
SEVERITY/IMPACT						

Severity	Likelihood	Proximity
1 = Negligible	1 = Low	1 = Tolerable
2 = Minor	2 = Medium	2 = Low Priority
3 = Moderate	3 = High	3 = Review annually
4 = Major		4 = Review six monthly
5 = Catastrophic		5 = High Priority

Appendix B: The small print

Purpose of memorandum

This Key Issues Memorandum has been prepared for the benefit of discussions between Grant Thornton and Fife and Forth Valley Community Justice Authority.

The purpose of this memorandum is to highlight the key issues affecting the results of the Group and the preparation of the Authority's financial statements for the year ended 31 March 2011.

This document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the Authority.

This memorandum is strictly confidential and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the Authority arising under our audit engagement letter.

The contents of this memorandum should not be disclosed to third parties without our prior written consent.

Responsibilities of the Chief Officer and Auditors

The Chief Officer is responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the Chief Officer confirm that our understanding of all the matters in this memorandum is appropriate, having regard to their knowledge of the particular circumstances.

Clarification of roles and responsibilities with respect to internal controls

The Chief Officer is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Authority that she has done so.

The Chief Officer is required to review the Authority's internal financial controls. In addition, the Chief Officer is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Authority should receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive

special examination might identify.

We would be pleased to discuss any further work in this regard with the Authority.

Independence and robustness

Ethical standards require us to give you full and fair disclosure of matters relating to our independence.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

In accordance with best practice, we analyse our fees below:

	£
Audit	5,120

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- significant findings from the audit