

Lothian & Borders Community Justice Authority

Report to Members and the Auditor General on the 2010/11 Audit



Prepared for Lothian & Borders Community Justice Authority
October 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key Messages

Introduction

Lothian and Borders Community Justice Authority (the authority) was established under the Management of Offenders etc (Scotland) Act 2005. The Act established eight community justice authorities to provide strategic bodies for planning, managing and reporting on the performance of local authorities, Scottish Prison Service and their statutory partners who co-ordinate offenders' services.

This report summarises the findings from the 2010/11 audit of Lothian and Borders Community Justice Authority. This is the final year of a four year appointment. We have audited the financial statements and looked at aspects of performance management and governance arrangements that have been developed since the authority's inception. This report sets out our main findings from the 2010/11 audit and the outlook for the period ahead.

Key outcomes from 2010/11 audit

We have given an unqualified opinion on the financial statements of the Lothian and Borders Community Justice Authority.

Outlook

Looking ahead, it is clear that public sector spending in the period 2012/13 to 2014/15 remains very challenging both from a funding and service demand perspective. The authority, like other public sector bodies will continue to face significant challenges in delivering the Area Plan 2011-14, within increasing financial constraints. In the past individual councils have subsidised some aspects of provision of criminal justice social work services but this is unlikely to be sustainable going forward in the current economic climate, highlighting the need for strong financial planning, sound performance management and joint working. Discussions on agreeing a basis for internal resource allocation to constituent councils are still on-going and will be revisited in the light of the introduction of a revised national formula. .

The co-operation and assistance given to us by Lothian and Borders Community Justice Authority and staff during the year is gratefully acknowledged.

Introduction

1. This report summarises the findings from the 2010/11 audit of Lothian and Borders Community Justice Authority. Findings are set out in four sections: financial statements; financial position; governance and accountability and performance management and improvement.
2. Overall conclusions about the authority's management of key risks are discussed throughout this report. Appendix A sets out the key risks highlighted in the report which we wish to draw to the attention of members and the action planned by management to address them.

Financial statements

Introduction

3. In this section we summarise key outcomes from our audit of the authority's financial statements for 2010/11, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.
4. We audit the financial statements and give an opinion on whether:
 - they present 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 2011 and of its net operating costs and cash flows for the year then ended
 - they have been properly prepared in accordance with the Management of Offenders etc (Scotland) Act 2005 and regulations made thereunder.
 - they have been prepared in accordance with the Code of Practice now based on International Financial Reporting Standards (IFRS)
5. We also review the statement on the system of internal financial control by considering the adequacy of the process put in place by the authority to obtain assurances on the systems of internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the authority.

Audit Opinion

6. We have given an unqualified opinion on the financial statements of Lothian and Borders Community Justice Authority for 2010/11.
7. The authority's unaudited financial statements were submitted to Audit Scotland on 13 September 2011 ahead of the latest date specified within the Scottish Governments Criminal Justice Directorate's financial memorandum of April 2008.
8. The accounts were certified by the target date of 31 October 2011. The audited accounts will be submitted to Scottish Ministers in order to be laid before the Scottish Parliament prior to the deadline of 31 December 2011.

Accounting issues

9. Community Justice Authorities in Scotland were established as bodies corporate under the Management of Offenders etc (Scotland) Act 2005 We note that accountability issues are fully set out in the Management Statement/Financial Memorandum, which states that statutory accounts should be prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom. However the Grant allocation letter from the Scottish Government refers to the need for the Chief Officers, as accountable officers, to act in accordance with the requirements of the Government Financial Reporting Manual. While the

principles involved are broadly similar, there are instances where accounting treatments and application of statutory guidance differ. For clarity, we recommend that guidance in this area is revised to ensure consistency. This issue has been notified to our technical advisors in Audit Scotland and will be notified to the Scottish Government in our covering comments.

Action Point 1

10. Overall, we were satisfied that the authority had prepared the accounts in accordance with the Code. Apart from the matters detailed at paragraphs 11 and 12, there were no other matters which we considered required to be reported separately to the Chief Officer and Authority members. Consequently, we have not prepared a separate report in line with International Standard on Auditing 260 (ISA 260) communication of audit matters with those charged with governance. There were no material weaknesses in the accounting and internal control systems identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data.
11. 2010/11 was the first year in which local authority financial statements were to be prepared in accordance with international Financial Reporting Standards (IFRSs). International Accounting Standard (IAS) 19 requires that all short-term employee benefits, including accumulated compensated absences i.e. un-taken holidays, flexi-time or time off in lieu, should be recognised as a cost in the year to which they relate. Local government finance circular 3/2010 provided guidance to local authorities on accounting for these costs by setting up a statutory adjustment account so that they would not impact on the general fund balance. Initially, the CJA accounts were prepared on this basis until it was realised that the guidance was not applicable to CJAs, as they were not technically local authority bodies. Consequently, the decision was taken not to accrue or provide for the costs of untaken leave, on the grounds that these amounts are not material. This departure from the requirements of IFRS is disclosed in the accounting policies.
12. International Accounting Standard IAS19 also requires that organisations should account for retirement benefits at the point at which it commits to paying them, rather than when the payment actually falls due. Again, a decision has been taken not to comply with IAS19 for the purpose of these accounts on the grounds that the amounts involved are not material. This position will be subject to ongoing review.

Regularity

13. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Chief Officer as to his view on adherence to enactments and guidance.

Financial reporting outlook

IFRS adoption

14. 2010/11 saw significant changes in the accounting requirements for bodies required to follow the Code of Practice on Local Authority Accounting 2010. Change on such a significant level is not planned for 2011/12.

Financial position

Introduction

15. In this section we summarise key aspects of the authority's reported financial position to 31 March 2011, including our views on potential financial risks. Our findings and key messages are set out in this section, highlighting the significant challenges being faced by the authority in managing ongoing financial pressures in funding existing service delivery and future improvement.

Financial Position 2010/11

16. The authority's total expenditure in 2010/11 was £15.0 million. This was funded through Scottish Government Section 27 Criminal Justice Grant of £14.8 million, comprising an initial allocation of £14.2 million and additional project funding of £0.5million, and an administration grant of £0.2 million. This comprised an initial allocation of £14.2million and additional project funding of £0.5million. The Section 27 grant is split between core and non-core services in accordance with the 2010/11 grant allocation. The authority disbursed the Section 27 grant to constituent councils as follows:
 - City of Edinburgh Council - £9.583 million
 - East Lothian Council - £1.001 million
 - Midlothian Council - £0.856 million
 - Scottish Borders Council - £1.348 million
 - West Lothian Council - £2,028 million
17. Actual expenditure incurred was £0.2 million higher than the Section 27 grant received and this was funded directly by the constituent councils.

Outlook

18. The authority's Section 27 indicative grant allocation for 2011/12 is £14.6 million. Additional funding for other specific projects as in previous years may also be received during 2011/12. As at the end of Quarter one, two of the five Councils are reporting a forecast overspend. In the past individual councils have subsidised some aspects of provision of criminal justice social work services but this is unlikely to be sustainable going forward in the current economic climate. Work is on-going to develop a Financial Protocol between the CJA and the five local authorities in respect of core funding.

Action point 2

Governance and accountability

Introduction

19. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our findings arising from a review of the authority's arrangements.

Overview of Arrangements

20. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours. In the Statement on the System of Internal Financial Control the Chief Officer reported that the authority has a "framework of regular management information, financial regulations, administrative procedures, management supervision and a system of delegation and accountability".
21. During the course of 2010/11, the authority has continued to implement the expected policies and procedures required by the Scottish Government's Community Justice Directorates financial memorandum of April 2008.
22. The City of Edinburgh Council provides financial and internal audit services to the authority. With effect from April 2009, the authority entered into a service level agreement with the City of Edinburgh Council to define the services to be provided and the standards to be expected. We will continue to monitor the effectiveness of the service level agreement between the authority and City of Edinburgh Council.
23. A new Chief Officer was appointed in 2010/11. Chris Hawkes retired on 31 December 2010. His successor, Rob Strachan, took up post officially from 1st January 2011, but was in post by mid- November for a handover period to facilitate a smooth transition.
24. Recent developments have included the introduction of a series of Learning and Innovation workshops, which are free to members and partners. These are aimed at disseminating knowledge and good practice and stimulating debate. The outcomes from the workshops are made available through Newsletters on the CJA website.
25. Lothian and Borders CJA has also developed a policy and research register to ensure the LBCJA and its partners and stakeholders are as up to date as possible on current and emerging policy and research. The register demonstrates LBCJA's commitment to effective joint working with partners and stakeholders across Lothian and Borders. The intention is that the register will continue to evolve, based on feedback from our partners and stakeholders and will inform policy discussions at the LBCJA board.

Public performance reporting

26. The authority achieves a high standard of public performance reporting. It produces an annual performance report which is published on the authority's website and available in hard copy on request. The report presents a balanced and informative picture of the authority's performance against its area plan priorities and national outcomes.

Prevention and detection of fraud and irregularities

27. At the corporate level, the authority has in place codes of conduct for both elected members and officers as part of their arrangements for the prevention and detection of fraud.

Performance management and improvement

Introduction

28. In this section we summarise how the authority is developing its performance measures.

Overview of performance

29. 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 that will determine the progress authorities have made against these outcomes. This work introduced a national framework with effect from April 2009.
30. The Lothian and Borders CJA Area Plan 2011-14 received formal approval and sign off by the Cabinet Secretary in September 2010, following their scrutiny process. The Plan, which was circulated widely for consultation across a wide range of partner agencies, sets 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 for 2010-11 was also prepared, setting out the Authority's key developments and how they would be implemented, including preparing for the introduction of the new "Community Payback Orders". Each key development in the plan has been allocated to a CJA Group or workstream and progress monitored throughout the year. A draft Action plan for 2011-12 setting out the Authority's top 5 priorities has also been prepared and submitted to the Government in September for approval.
31. The authority has also prepared a Draft 2010/11 Annual Report which, in addition to demonstrating progress against the 5 key themes of the LBCJA strategic planning priorities,, also documents how the work of the Authority adds value and highlights a number of local developments and successes. The report also provides information on areas of corporate developments including managing resources and communication.
32. The authority is also in the process of developing a community justice performance framework, which was "road-tested" at the Board meeting in August 2011. While the development of the performance framework is at an early stage, there is clear evidence of progress with buy-in from partners and further road-test workshops planned.
33. It is clear that the authority understands the challenges ahead resulting from the severe financial pressures and budget reduction which it and its partner bodies are facing. The need for good partnership working is also acknowledged in order to achieve more from limited resources, and ensure value for money and efficiencies are demonstrated. Key future developments include:

- Continuing the development of women-centred approaches to female offending behaviour and their wider needs which will require a multi-disciplinary response..
 - Implementing new standards for community service and development of new frameworks for managing and delivering Community Payback Orders in each council.
 - Development of a performance management and quality assurance system will continue to be a priority for 2011/12.
34. The authority had previously appointed Baker Tilley to undertake a review and report on the cost base for each of the 12 core services with a view to providing a sound basis for future resource allocation. Owing to the effect of specific local circumstance e.g. the rural nature of the Scottish Borders, Baker Tilley was unable to establish universal cost bases for the core services
35. A cross council working group carried out further work to establish a basis for the allocation of funding. The outcome of this review, reported at the meeting on 17 February 2011, resulted in a decision that a workload based allocation, including a transitional approach to mitigate the impact on Scottish Borders Council should be adopted, subject to caveats that any future Scottish Government guidance in respect of funding allocations would be addressed.

Action point 3

Risk Management

36. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks. Risk management supports decision making and contributes to performance.
37. The first risk register for the authority was produced in October 2008 with the updated risk register being approved by committee in July 2009. An updated version has not been published as yet but the need to capture strategic generic and "partnership" risks has been recognised. The Risk Register is currently undergoing review so that it can be linked to the National Risk Register developed by the CJA Convenors & Chief Officers and the recognised generic risks which apply to all CJA partners. At the Board meeting of November 2011, the Board approved the introduction of a specific risk management agenda item which would bring together and report on partnership risk register for the Authority under agreed headings, with a separate business continuity plan for the authority maintained by the CJA team.

Action point 4

Outlook

38. The local performance framework continues to be developed. The first CJA road-test on performance was presented at the CJA meeting in August, with plans for similar presentations in the future. Future Learning and Innovation workshop themes might be identified from performance challenges highlighted in these presentations.

Appendix A: Action Plan

Key Risk Areas and Planned Management Action

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|---|---|---------------------|-------------|
| 1. | 9 | <p>Accounting guidance</p> <p>CJA were established as bodies corporate. The Management Statement/ Financial Memorandum, states that statutory accounts should be prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom. However the Grant allocation letter from the Scottish Government refers to the need for Accountable officers to act in accordance with the requirements of the Government Financial Reporting Manual.</p> <p>Risk – guidance may be followed which is not applicable to CJAs. We recommend that guidance in this area is revised to ensure consistency and clarity in respect of the guidance which is applicable to them.</p> | <p>Audit Scotland has raised this issue with Technical Services in Audit Scotland and with Scottish Government Officers.</p> <p>Receive further update from Audit Scotland at February CJA Board meeting.</p> | Rob Strachan | 23.02.12 |
| 2. | 18 | <p>Sustainability of service delivery</p> <p>In the past individual councils have subsidised some aspects of provision of criminal justice social work services but this may no longer be sustainable in light of the on-going budget cuts. Accurate and timely quarterly reporting of expenditure by the</p> | <p>It has been accepted in the November minute that the CJA Board will receive a financial report for Quarters 2, 3 and 4 with an exception report for Quarter 1.</p> | Rob Strachan | 17.11.11 |

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|---|---|---------------------|-------------|
| | | <p>Councils would assist the CJA to more accurately monitor its financial position throughout the year.</p> <p>Risk – The CJA may be unable to deliver the required level of service.</p> | | | |
| 3. | 35 | <p>Core service unit cost review</p> <p>A cross-council working group has been established to carry out this task.</p> <p>The CJA might consider liaising with other CJA bodies , such as Highland, who may have similar geographical issues, to establish best practice in funding allocation</p> <p>Risk- the complexities of the work involved may lead to further delays in agreeing a revised resource allocation formula.</p> | <p>The draft Finance Protocol will be tabled at the February CJA Board meeting.</p> | Rob Strachan | 23.02.12 |
| 4. | 37 | <p>Risk register</p> <p>The Risk Register is currently undergoing review so that it can be linked to the National Risk Register developed by the CJA Convenors & Chief Officers and the recognised generic risks which apply to all CJA partners.</p> <p>Risk - delays in completing this review could result in risks being missed or inadequately addressed.</p> | <p>The introduction of a "partnership" approach to risk with a specific risk management agenda item was approved by the Board on 17/11/11.</p> <p>A meeting of CJA partners will be held to progress this item for Quarter 1 of 2012.</p> | Rob Strachan | 30.06.12 |