



HENDERSON LOGGIE
Chartered Accountants

Northern Community Justice Authority

**Report to Members and the
Auditor General**

2010/11

External Audit Report No: 2011-01

Draft Issued: 27 October 2011

Final Issued: 31 October 2011



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Restriction on Use

This report has been prepared in accordance with our responsibilities under International Standards on Auditing and Audit Scotland's Code of Audit Practice for the audit of Northern Community Justice Authority's statement of accounts. Our audit does not necessarily disclose every weakness and for this reason the matters referred to in this report may not be the only shortcomings which exist.

We take this opportunity to remind you that:

- this report has been prepared for the sole use of Northern Community Justice Authority and its Committee Members and will be shared with the Auditor General and Audit Scotland
- no responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes



1. Executive Summary

Introduction

1. Northern Community Justice Authority (the Authority) is an independent statutory body established by the Management of Offenders etc (Scotland) Act 2005. Community Justice Authorities (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 City, Aberdeenshire, Eilean Siar, Highland, Moray, Orkney Islands and Shetland Islands Councils.

Finance

2. Our opinion on the statement of accounts is unqualified. The statement of accounts give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2010/11 Code, of the financial position of the Authority and has been properly prepared in accordance with the Management of Offenders etc. (Scotland) Act 2005 and regulations made thereunder.
3. The Authority's Comprehensive Income and Expenditure Statement records a surplus position for the year of £3,676. This restores the General Fund balance to nil at 31 March 2011. Income of £12.74 million was received in the year, from funding from the Scottish Government. The Authority distributed the receipts from the Scottish Government to the constituent local authorities.

Governance

4. The Authority has developed a number of documents and initiatives which reflect examples of good governance practices. These are published on the Authority's website.
5. An internal audit review of the Authority was conducted in 2010/11 and no significant weaknesses were noted.

Performance

6. The Authority 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. A plan for 2011-14 has been developed and published on the Authority's website.
7. The Authority's 2010/11 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 2011/12 Action Plan applies an outcome focused approach to the planning and delivery of community justice services across the Authority's area.

Acknowledgement

8. This is the final year of our appointment as external auditors. We would like to take this opportunity to place on record our appreciation of the co-operation and assistance extended to us in the discharge of our duties by officers within the Authority and the Treasurer.
9. We will liaise with the Authority's incoming auditors to achieve a coordinated handover of the audit and to ensure that the incoming auditors are fully briefed on all relevant matters.



2. Introduction

Introduction

10. We are pleased to submit our annual report, covering significant matters arising during the course of our audit of the Authority for the year ended 31 March 2011
11. Our overall responsibility as the external auditor of the Authority is to undertake our audit in accordance with the principles contained in the Audit Scotland Code of Audit Practice. The Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector, involving assurance on the financial statements but also consideration of areas such as regularity, performance and achievement of Best Value. The respective responsibilities of the Authority's Members, Officers and Auditors are set out in Appendix I to this report.
12. Broadly the scope of our audit was to:
 - provide an opinion on the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission (the Code)
 - review and report on the Authority's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, prevention and detection of corruption, and the Authority's financial position
 - review and report on the Authority's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources and in securing Best Value
13. As part of our overall planning approach to the Authority's annual audit we carried out a review of the key financial risks, national and local, facing the Authority and have continued to monitor them during the year through attendance at Committee meetings, review of minutes and discussions with officers. To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff. Except to the extent necessary for the purposes of the audit, this information has not been independently verified.
14. This report summarises the findings from our 2010/11 audit. Our findings are set out in two sections: Finance and Governance.
15. We have followed up the Action Plan included in the 2009/10 report to Members, and progress on these recommendations is included at Section 6.
16. We take this opportunity to remind you that external auditors do not act as a substitute for the Authority's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used efficiently, economically and effectively.



3. Finance

Financial Statements Audit

17. We are pleased to report that the target date of 31 October 2011 for the audit completion and certification of the annual accounts was met. We have given an unqualified opinion on the statement of accounts for the year ended 31 March 2011.
18. We set out below a summary of the audit certification issues:
- the financial statements give a true and fair view, in accordance with applicable law and the 2010/11 Code of the state of the affairs of the Authority as at 31 March 2011 and of the income and expenditure of the Authority for the year then ended
 - the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 Code
 - the financial statements have been properly prepared in accordance with the Management of Offenders etc (Scotland) Act 2005 and regulations made thereunder
 - the part of the remuneration report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985
 - the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements
 - the Annual Governance Statement complies with Delivering Good Governance in Local Government.
19. Non-compliance with statute or regulations may materially affect the financial statements. Our audit procedures include the following:
- reviewing minutes of relevant meetings
 - enquiring of senior management the position in relation to litigation, claims and assessments
 - detailed testing of transactions and balances
20. We confirm that we did not identify any instances of concern with regard to the legality of transactions or events.
21. We also request written confirmation from the Treasurer that the Authority's financial transactions accord with relevant legislation and regulations. He has confirmed that he is not aware of any actual or potential non-compliance with laws and regulations that could have a material effect on the ability of the Authority to conduct its business and therefore on the results and financial position to be disclosed in the statement of accounts for the year ended 31 March 2011.
22. Under International Standard on Auditing (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:

3. Finance

Table 1: ISA260 Reporting

Area	Key Messages
Nature and Scope of the Audit	We have planned our audit in accordance with International Auditing Standards and the Code.
Integrity and objectivity of the audit engagement partner and audit staff	As external auditors, we are required to communicate on a timely basis all facts and matters that may have a bearing on our independence. We provided no consultancy nor non audit services to Northern Community Justice Authority during the year and can confirm that we have complied with the Auditing Practices Board Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.
Accounting Policies and Practices	In our opinion there are no issues that require to be brought to the Authority's attention regarding the appropriateness of the accounting policies.
Material Risk and Exposure	The Authority has confirmed that it has no material risks and exposures which should be reflected in the Statement of Accounts and the Chief Officer and Treasurer has confirmed this in the Letter of Representation. Further comments on specific risks and how the Authority has mitigated these is included in paragraphs 27 to 31 of this report.
Audit Adjustments	Officers have made one minor adjustment to the accounts during the course of the audit. This adjustment, for £186, is between Debtors and Creditors and has no impact on the outturn for the year
Unadjusted Misstatements	There were no unadjusted misstatements (other than those which are trivial).
Material Uncertainties	There are no material uncertainties relating to events and conditions that cast significant doubt on the Authority's ability to continue as a going concern. .
Fundamental Disagreements	There are no areas of disagreement with management that, individually or in aggregate, have a significant impact on the statement of accounts and our audit report.
Modifications to our audit report	There are no modifications to our audit report.
Material Weaknesses	No material weaknesses in the accounting and internal control systems were identified during the audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts.
Other matters relevant to the audit	There are no other matters relevant to the audit.

Financial Position

23. The Authority's Comprehensive Income and Expenditure Statement records a surplus position for the year of £3,676. This restores the General Fund balance to a nil balance at 31 March 2011. Income of £12.74 million was received in the year, from funding from the Scottish Government. The Authority distributed the receipts from the Scottish Government to the constituent local authorities. Operating Expenditure of £204,953 was incurred in the year, comprising largely of employee costs of £123,033. 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 the Authority.

3. Finance

Financial Performance

24. Financial performance is measured against the financial budget set by the Authority for 2010/11. In this regard the Authority reported an underspend for the financial year of £14,699 against a budget of £222,875. This variance arose as a result of a combination of expenditure being lower than budgeted (£16,484) and income less than budgeted (£1,785). Explanation for these variances is provided in the Explanatory Foreword to the statement of accounts.
25. The budget for 2011/12 has set expenditure at £222,875, the same as the outturn for 2010/11.

Reserves and Balances

26. CJA's cannot carry a balance on their General Fund as, due to the way they are funded, income is restricted by statute to the amount of the expenditure. Accordingly the balance on the General Fund at 31 March 2011 is nil.

Material Risks and Exposures

27. Our audit planning identified a number of material risks and exposures faced by the Authority that we assessed might impact on the Authority's accounts. The following paragraphs summarise these issues along with other issues identified during the audit and how they have been resolved.

International Financial Reporting Standards

28. From 2010/11, local authority and associated bodies accounts must be prepared in accordance with International Financial Reporting Standards (IFRS). Authorities needed to restate the 2009/10 comparative information onto an IFRS basis, and disclose a restated 1 April 2009 IFRS-based Balance Sheet.

Remuneration Report

29. The Local Authority Accounts (Scotland) Amendment Regulations 2011 requires authorities to prepare a remuneration report as part of its annual accounts from 2010/11. The Authority has considered the requirements of the Regulations and has concluded that it has one employee who requires to be disclosed. The Authority makes no payment of salary, allowances nor pension contributions to any Councillors who are appointed members of the Authority. This has been disclosed in the Remuneration Report in the accounts.

2010/11 Code Disclosure

30. A completed CIPFA Disclosure Checklist has been prepared by officers. This confirmed that the accounts met the Code disclosure requirements in all material respects.

Employee Benefits - Pensions

31. The Northern CJA participates in the North East Scotland Pension Fund (formerly Aberdeen City Council Pension Fund) which is part of the Local Government Pension Scheme (Scotland). Note 6 to the Statement of Accounts gives full information relating to pensions.

4. Governance

General

32. 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.
33. The membership of the Authority comprises elected members of Aberdeen City, Aberdeenshire, Eilean Siar, Highland, Moray, Orkney Islands and Shetland Islands Councils.
34. The Committee held three meetings in 2010/11 when it received reports which included financial monitoring updates on the development of offender management and other matters of relevance to the role and work of the Authority. A fourth meeting was cancelled due to adverse weather conditions but reports were still distributed to members for their consideration.
35. In previous years the Authority has introduced good reporting structures and policies and these continue to provide good quality, cooperative and integrated services to manage offenders.
36. The Area Plan 2011-2014 places emphasis on strategic aims designed to:
 - Improve joint working practices;
 - Improve information sharing;
 - Improve community integration; and
 - Improve the shared management of resources and policy development.

The emphasis on these areas enables the Area Plan to link back to the Scottish Government Scotland Performance agenda and to sit together with local authority Single Outcome Agreements and complement the Corporate and Service Plans of partner organisations.

In respect of the four national strategic aims, during November 2011 representatives from all CJAs, Scottish Government, COSLA, Scottish Prison Service and ADSW will come together to discuss the progress on delivery around these and their associated outcomes.

Internal Control

37. The Authority'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. The accounting processes of Aberdeen City Council treat the Authority in the same manner as Trusts, whereby the accounts are completely separate to those of the Council. The Authority's funds are held by the Loans Fund of Aberdeen City Council and consequently are more readily identifiable.

Annual Governance Statement

38. In June 2007, CIPFA in association with SOLACE published the revised Framework – Delivering Good Governance in Local Government. This recommends that the review of the effectiveness of the system of internal control should be reported in an Annual Governance Statement. The Authority has opted to introduce this during 2010/11.

4. Governance

Internal Audit

39. The Authority utilises the internal audit service of Aberdeen City Council. A review of the Authority was undertaken in 2010/11 and no significant weaknesses noted.

Fraud and Irregularity

40. As external auditors we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities.
41. The Authority has appropriate arrangements in place to help prevent and detect fraud and irregularity. These arrangements include anti-fraud and corruption strategies, whistle blowing policies and codes of conduct for elected members and staff. Overall we concluded that arrangements were generally satisfactory to prevent and detect fraud and other irregularities.
42. We are required to have arrangements in place to be notified of all frauds over £5,000 and to submit reports to Audit Scotland. No such frauds were reported during 2010/11.

5. Performance

Overview of Performance in 2010/11

43. The reporting year 2010/11 was the final year of the Area Plan period 2008 – 2011. The Authority was working to the outcomes set out in the National Strategy for the Management of Offenders. During 2010/11 the focus of Community Justice Authorities (CJAs) moved to the Scottish Government's Reducing Reoffending Programme. The Authority's Action Plan for 2010/11 included a total of 30 actions and the annual report noted the following:
- 27 actions were completed satisfactorily,
 - 3 actions did not meet the original timescales but are being progressed in the current year.

44. With regard to the 2008 – 2011 Area Plan, year end reports were submitted to the Northern CJA detailing the Annual Action Plan status. The table below is a summary of the three year performance:

Year	No. of Actions	Green	Amber	Red
2008/09	42	29	12	1
2009/10	29	23	5	1
2010/11	30	27	3	0
Total	101	79	11/20	1/2

Of the seventeen amber actions in 2008 – 2010 eleven were completed in subsequent years. Of the two red actions one was completed in the subsequent year and one was superseded by the introduction of the Reducing Reoffending Programme.

45. Highlights from the 2010/11 reporting year for the Authority includes work around:
- **HMP Grampian**
This has included setting up the HMP Grampian Community Steering Group which is chaired by the Authority's Chief Officer. HMP Grampian is due to replace the existing prisons in Aberdeen and Peterhead with one large multi-regime establishment to house prisoners from the Aberdeen and Aberdeenshire areas. The CJA, Scottish Prison Service, local authorities, Grampian Police, Scottish Court Service and a range of other partners are being brought together regularly to progress all matters relating to the community aspects of a new prison.
 - **Focus on Women Offenders**
During the reporting year Scottish Government provided additional funding to all CJAs to improve services to women offenders in the community and custody in order to reduce reoffending. Part of this announcement in January 2010 included the creation of Community Integration Units at HMP Aberdeen and HMP Inverness specifically for women offenders nearing the end of their sentences and whose risk assessment would allow them unsupervised access to the community. This was an unexpected development for the Authority but they responded positively by setting up the Northern Prisons Delivery Group, chaired by the Authority's Chief Officer, which brings together a range of partners including the Scottish Prison Service, local authorities, 3rd Sector organisations and other agencies. Both Units were established and occupied in early summer 2010 and they continue to provide a valuable alternative from the national women's prison at Cornton Vale.
46. The Northern CJA is currently working to its 2011/12 Action Plan. This contains ten Strategic objectives which include four national objectives and six objectives based on the Reducing Reoffending Programme. There are also 20 local objectives with 35 linked actions.



6. Action Plan

Follow-up 2009/10 Recommendations

Recommendations	Management Response		Progress at October 2011
<p>R1 Consideration should be given to producing a single Annual Governance Statement for inclusion within the 2010/11 Statement of Accounts.</p>	<p>During the remainder of the year, consideration will be given to voluntarily including an Annual Governance Statement in the Statement of Accounts.</p> <p>To be actioned by: Treasurer and Chief Officer</p> <p>No later than: 31 March 2011</p>		<p>Annual Governance Statement included in 2010/11 Statement of Accounts.</p> <p>Fully implemented</p>
	Grade	B	
<p>R2 All LAs should be reminded of their requirement to submit returns timeously.</p>	<p>A reminder will be sent to all LA's Directors of Finance asking that the matter be given suitable emphasis in the audit planning process, thus ensuring timely completion of the audit certificate.</p> <p>To be actioned by: Treasurer</p> <p>No later than: 30 November 2010</p>		<p>Letter sent, dated 25th November 2010 (see attached)</p> <p>Fully implemented</p>
	Grade	B	
<p>R3 A full reconciliation of all the prior year debtor and creditor figures should be prepared to accurately reflect the position and the necessary adjustments to funding made. Payments can then be requested from and made to appropriate bodies (SG and Las).</p>	<p>A statement has been sent to the LA's with the prior year position for each and requesting that payment be made where appropriate or seeking confirmation of agreement to funding due to them so that the matter can be concluded in early course.</p> <p>To be actioned by: Treasurer</p> <p>No later than: 30 November 2010</p>		<p>Outstanding payments / receipts in relation to the transactions with the local authorities and the NCJA have been completed.</p> <p>Subsequent correspondence and agreement reached with the Scottish Government is currently being actioned to ensure the remaining distribution of balances is completed by the end of October 2011.</p>
	Grade	B	Partially Implemented



6. Action Plan

Recommendations	Management Response		Progress at October 2011
<p>R4 An internal audit review should be undertaken during 2010/11.</p>	<p>An initial discussion has taken place with the internal auditors with agreement to an audit being carried out in the current year.</p> <p>To be actioned by: Treasurer</p> <p>No later than: 31 March 2011</p>		<p>An internal audit was carried out in 2010/11 and the findings were reported to the NCJA in September 2011.</p> <p>It was agreed to get the next audit carried out in 2012/13.</p>
	Grade	B	Fully Implemented

To aid the use of the action plan, our recommendations have been graded to denote the level of importance that should be given to each one. These gradings are as follows:

- A Fundamental issues that require immediate consideration of senior management
- B Significant issues that required the attention of line management.
- C Less significant matters that do not require urgent attention but which should be followed up within a reasonable timescale.



Appendix I 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 Authority and the Chief Officer's responsibilities for the Statement of Accounts are set out on page 8 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 Authority's Annual Governance Statement reflects compliance with *Delivering Good Governance in Local Government*, issued by the CIPFA/SOLACE Joint Working Group 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 Authority's corporate governance procedures or its risk and control procedures.



Appendix II – Definition of Material, Significant and Trivial in relation to Audit Adjustments

We are required to express an opinion on whether the accounts give a true and fair view of the financial position of the Authority. In arriving at that opinion we need to assess any weaknesses, misstatements and errors discovered during our audit testing. Additional information or events in the period between the balance sheet date and the date we sign our audit report must also be considered.

In order to help us to assess the impact of errors we classify them as material, significant or trivial.

Materiality is set at the start of the audit using statistical formula and following consideration of risk. The value for significant and trivial are set in relation to the materiality figure.

Material misstatement and adjustments

Material misstatements are misstatements that, in our opinion, mean that the accounts do not give a true and fair view. Material misstatements discovered during our audit are discussed with management and agreement reached over the required revision for the final audited accounts. Where no agreement is reached to make a material adjustment we would need to consider qualifying our audit opinion.

Significant misstatements and adjustments

Significant items are lower in value than material items, but still of a size that might give rise to the financial statements not giving a true and fair view, particularly if there are several of them, which in total would become material. The Authority has the option of adjusting for significant misstatements or not. The impact of any significant misstatements not adjusted for in the final audited accounts would need to be considered and where the combined impact of non-adjusted items was material, this could lead to a qualified opinion. Reasons for non adjustment of significant misstatements are required to be reported to the members.

Trivial errors and adjustments

Trivial errors are those with a fairly low value, and which do not affect the true and fair view of the financial statements. These are recorded and summarised during the audit and the overall total net impact is considered. Individual trivial errors would not require adjustment. If the net total of trivial errors becomes significant or material then there will be an issue to be considered for our report unless the Authority agrees to adjust the errors.



Appendix III – Acronyms

CIPFA	Chartered Institute of Public Finance and Accounting
CJA	Community Justice Authority
ICT	Information Communication Technology
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
ISP	Intensive Support Package
LA	Local Authority
SG	Scottish Government
SOLACE	Society of Local Authority Chief Executives
SORP	Statement of Recommended Practice