

Lothian & Borders Community Justice Authority

Annual audit report on the 2011/12 audit



Prepared for Prepared for Members of Lothian and Borders Community Justice Authority
and the Auditor General
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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 2011/12 audit of Lothian and Borders Community Justice Authority. This is the first year of a five 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 2011/12 audit and the outlook for the period ahead.

Key outcomes from 2011/12 audit

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

We are also satisfied with disclosures made in the statement on the system of internal financial control.

Outlook

A national review of Community Justice spending is underway, with a focus now moving to outcomes. The 2012/13 grant allocation for the Lothian & Borders Community Justice Authority shows a decline in the Section 27 grant from £14.876 million to £14.587 million. The administration grant remains constant at £215,000. Service projections predict that demand will continue to increase, indicating that there is likely to be increasing pressure on elements of the budget.

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 is the summary of our findings from the 2011/12 audit of the Lothian & Borders Community Justice Authority (the Authority). The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinion on the financial statements and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. A number of reports have been issued in the course of the year and these are detailed at Appendix A. We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of the Authority.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated, we expect the Authority to understand its risks and have arrangements in place to manage these risks. The Chief Officer and other members of the Board should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to the Lothian & Borders Community Justice Authority and the Auditor General and should form a key part of discussions with the Board. The report should be made available to stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website.
6. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. We are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income.
9. We review and report on, as appropriate, other information published with the financial statements, including the Chief Officer's Report and the Statement on the System of Internal Financial Control. This section summarises the results of our audit on the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of Lothian & Borders Community Justice Authority for 2011/12 give a true and fair view of the state of the body's affairs and its net operating cost for the year. The Authority is required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code) and we confirmed that the financial statements have been properly prepared in accordance with the Code and in accordance with the Management of Offenders etc (Scotland) Act 2005 and regulations made thereunder by Scottish Ministers. We also confirmed that information given in the Chief Officer's report was consistent with the financial statements.

Regularity

11. In accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000, we have also provided an opinion, that in all material respects, the expenditure and receipts in the financial statements were incurred or applied in accordance with applicable enactments and guidance. 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 relevant legislation and regulations. No significant items were identified for disclosure.

Going concern

12. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on the financial statements. The Community Justice Authority has considered it appropriate to adopt a going concern basis for the preparation of the financial statements.

Statement on the System of Internal Financial Control

13. The Community Justice Authority's major grant transactions are processed through the City of Edinburgh Council's financial systems. The Community Justice Authority's Administration expenditure is processed through their own records, with Scottish Borders council providing payroll services. Our review of these systems was conducted as part of the audit of City of Edinburgh Council's, supplemented by specific audit work on the Community Justice Authority's financial statements.
14. We are satisfied with the disclosures made in the Statement on the System of Internal Financial Control and the adequacy of the process put in place by the Chief Officer to obtain the necessary assurances.

Remuneration report

15. The Scottish Government has issued guidance to Community Justice Authorities which advised on the expectation that Community Justice Authorities would prepare for the first time a remuneration report in 2011/12. The Authority has prepared a report for this year.

Accounting issues

16. We are satisfied that the Community Justice Authority has prepared the 2011/12 financial statements in accordance with the Code and in accordance with the Management of Offenders etc (Scotland) Act 2005 and regulations made thereunder by the Scottish Ministers.

Accounts preparation & submission

17. The Community Justice Authority's financial statements were submitted for audit by the deadline of 30 September 2012.

Outlook

18. Following the Local Government Elections in May 2012, a new Board for the Authority was appointed. They met for the first time in June 2012 where CJA Board Members approved three key documents: CJA Standing Orders, a protocol for Board Members attendance at meetings, and a Members Code of Conduct. These documents would be extensively covered in the induction programme for Board Members and substitute Members.

Financial position

19. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
20. We consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
21. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

Financial position

22. The authority's total expenditure in 2011/12 was £15.083 million. This was funded through Scottish Government Section 27 Criminal Justice Grant of £14.876 million, Administration Grant of £0.204 million net (£212k paid by SG, £8k reclaimed by SG) and Financing and Investment income (the sum carried forward from 2010/11 and utilised in 2011/12 to cover the balance of the £207k spend) £0.003 giving a net position of zero. The Section 27 grant is split between core and non-core services in accordance with the 2011/12 grant allocation. The authority disbursed the Section 27 grant to constituent councils as follows:
 - City of Edinburgh Council - £9.406 million
 - East Lothian Council - £1.091 million
 - Midlothian Council - £0.894 million
 - Scottish Borders Council - £1.319 million
23. West Lothian Council - £2,166 million.
24. Local authority expenditure (or 'Section 27 related expenditure') incurred was £0.312 higher than Section 27 grant received and this was funded directly by the constituent councils.

Outlook

Budget 2012/13

25. The Section 27 grant allocation for the Lothian & Borders Community Justice Authority in 2012/13 has reduced by £299,000 from £14.876 million in 2011/12 to £14.587 million. The administration grant remains constant at £215,000. This is against a backdrop of a continuing

increase in demand for services. Service demand projections suggest there will be increasing pressure on elements of the budget. This further increases the need for difficult decisions to be made in relation to budgets and the risks of adverse impact on services.

Financial plans

26. There is a national review of criminal justice funding by the Scottish Government underway, including the Section 27 funding formulae. This Government review aims to ensure that funding should be focused on outcomes rather than activities.
27. The Board's draft Financial Protocol has undergone a number of developments and iterations, but has been subsequently been overtaken by the Scottish Governments refreshed financial memorandum. It requires restructuring and linking to a governance framework to be developed which covers roles and responsibilities of the CJA.

Refer action plan no 1

Governance and accountability

28. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
29. Through its accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance in monitoring these arrangements.
30. Consistent with the wider scope of public audit, we have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
31. In this part of the report we comment on key areas of governance.

Relationship with the host Authority

32. 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.
33. The statement on the system of internal financial control states that reasonable assurance can be placed upon the adequacy and effectiveness of the Authority's internal financial control system. The statement complies with accounting requirements and is consistent with the findings of our audit.

Public performance reporting

34. The authority achieves a high standard of public performance reporting. This could be improved by focusing on outcomes and priorities of the CJA and local authorities. The CJA should consider agreeing outcomes with authorities based on the individual authorities priorities and their respective Section 27 funding allocation. The annual performance report is normally published on the authority's website and available in hard copy on request. Currently the authority's website does not contain up to date Board papers for public disclosure.

Refer action plan no 2 & 3

Risk Management

35. 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.
36. The draft Risk Register was considered by the CJA's partners and was considered to be too long and requires streamlining. Once redrafted it will be subject to Board assessment and the risks will be reported to the Board on an exception basis.

Refer action plan no 4

Standards of conduct and arrangements for the prevention and detection of fraud and irregularities

37. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We consider the arrangements put in place by the Authority are adequate.

National performance reports

38. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland.

Reducing reoffending in Scotland

39. Following on from the Overview of Scotland's Justice System issued in September 2011, Audit Scotland issued a more detailed report, looking specifically at how Scotland deals with people who persistently offend, in November 2012.
40. Reducing reoffending is important in building a "safer and stronger" Scotland, one of the Scottish Government's strategic objectives. Significant amounts of money and many different organisations are involved in attempting to reduce reoffending and the cost of offending to Scottish society is high. There is variation in the range of services provided across the country and there are no agreed measures to assess the performance or impact of Community Justice Authorities. As a result a range of different performance indicators for reporting and presenting data are being used.
41. The Authority organised an Audit Scotland presentation of the report to the Board in November and the board agreed to adopt the 'Questions for CJA Board Members' detailed in the Annex of the Audit Scotland Reducing reoffending report rather than the generic questions in the 'Role of Boards Report' which had previously been used.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue
Annual Audit Plan	30 April 2012
Report on financial statements to those charged with governance	26 October 2012
Audit opinion on the 2011/12 financial statements	31 October 2012
Annual Report on Audit to members	07 January 2013

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	26	<p>Financial Protocol</p> <p>The draft Financial Protocol has been overtaken by the Scottish Governments refreshed financial memorandum. It now requires restructuring and linking to a governance framework which covers roles and responsibilities.</p> <p>Risk: the effectiveness of allocating the Authority's funding may be impacted upon.</p>	The CJA's Financial Protocol will be reshaped and we propose to develop a separate but interconnected governance framework which will cover roles and responsibilities.	Rob Strachan	Ongoing
2	33	<p>Performance Reporting</p> <p>The CJA should consider agreeing outcomes with authorities based on the individual authorities' priorities and their respective Section 27 funding allocation.</p> <p>Risk the CJA may not fully achieve the best outcomes</p>	As part of the budget process agreed, the Chief Officer and the five councils will agree outcomes linked to the allocation of funding for 2013/14, with outcomes to be reported to the board in May 2013 at the latest.	Rob Strachan	May 2013
3	33	<p>CJA's Web Site</p> <p>Currently the authority's website does not contain up to date Board papers for public disclosure.</p> <p>Risk: The authority will not be able to demonstrate publicly the achievement of plans, targets and priorities.</p>	IT issues have resulted in difficulties in keeping the CJA's Web site up to date. Action is being taken and the Web Site will be fully operational by the end of February 2013.	Rob Strachan	February 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4	35	<p>Risk Register</p> <p>The draft Risk Register was considered to be too long and requires streamlining. It is to be redrafted and subject to Board assessment</p> <p>Risk: Without clear strategic risks being identified the authority may not be fully focused on key risks.</p>	The Risk register will be monitored through the Strategic Officers Group and reported on and exception basis to the Board linked to action planning and performance management updates.	Rob Strachan	Ongoing