

# North Strathclyde Community Justice Authority

## Annual report on the 2011/12 audit



Prepared for North Strathclyde Community Justice Authority and the Auditor General  
December 2012

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# Key messages

## 2011/12 audit findings

We have given an unqualified opinion on the financial statements of North Strathclyde Community Justice Authority (NSCJA) for 2011/12, concluding that the financial statements give a true and fair view of the financial position of NSCJA as at 31 March 2012 and its income and expenditure for the year.

For 2011/12, NSCJA incurred a deficit of £23,355 on the provision of services, compared to a budgeted breakeven position in terms of grant income and expenditure. The variance is due to additional one-off payments to authorities which were funded from reserves.

The accounts do not include an accrual in respect of employees' untaken leave at year-end as it was only £4,246 as at 31 March 2012 and is immaterial compared to total expenditure of £11m. However, these costs would count against the revenue reserve and if the accounts had been adjusted then net assets of £3,823 would change to a net liability of £423. These are only small amounts but officers will review the accrual and accounting impact for 2012/13 accounts.

## Outlook

NSCJA has a number of financial challenges to manage to ensure it remains financially resilient enough to deliver services at the current rate, and we will continue to monitor progress. These include a small reserves position of only £3,823 as at 31 March 2012; administration funding which has not increased in three years and officers will review the approach to accounting for the untaken leave accrual.

On 7 November 2012, Audit Scotland published *Reducing reoffending in Scotland*. The report concluded that reoffending is a continuing problem and reconviction rates have remained relatively static over recent years. Community justice authorities have brought people together from the many bodies involved in reducing reoffending but the way they were set up and inflexible funding have significantly limited their effectiveness.

The report makes various recommendations for public bodies working together and includes a list of questions CJA board members could use to support their governance role, or officers could use to improve the planning and delivery of services to reduce reoffending.

At a national level work underway includes the CJA Policy Performance and Communications Group developing a revised CJA National Performance Framework and the Scottish Government reviewing the allocation of community justice funding to agree a set of principles to underpin a new approach to funding for community justice. It is anticipated this will be place for financial year 2013/14.

The Chief Officer provides regular updates on developments to members.

# Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of North Strathclyde Community Justice Authority (NSCJA). The nature and scope of the audit were outlined in the Audit Plan issued to the Treasurer in June 2012 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections, which reflect the public sector audit model.
2. Appendix A 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 or even minimised. What we expect is that NSCJA understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
3. This report is addressed to the members of NSCJA and Auditor General and should form a key part of discussions, either prior to, or as soon as possible after, the formal completion of the audit of the financial statements. This report should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
4. This report will be published on our website after consideration by NSCJA. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
5. The Treasurer is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those that have come to their attention during their 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

6. 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.
7. Auditors 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.
8. The accounts of NSCJA are to be prepared in accordance with the Code of Practice on Local Authority Accounting 2011/12 (the 2011/12 Code).
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the statement on internal financial control and the remuneration report.

## Audit opinion

10. We have given an unqualified opinion on the financial statements of NSCJA for 2011/12, 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 by the Scottish Ministers of the state of the affairs of the body as at 31 March 2012 and of its net operating cost for the year then ended;
  - have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2011/12 Code; and
  - have been prepared in accordance with the requirements of the Management of Offenders etc. (Scotland) Act 2005 and regulations made thereunder by the Scottish Ministers.

## Legality

11. Through our planned audit work we consider the legality of NSCJA's financial transactions. In addition the Chief Officer, as accountable officer, has confirmed that, to the best of his knowledge and belief the financial transactions of NSCJA were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

## Statement on the system of internal financial control

12. We reviewed the statement on the system of internal financial control (SSIFC) and confirm that it complies with the 2011/12 Code. The statement reports that NSCJA has in place a

sound system of internal financial control which is in line with findings from our testing and also with the findings of internal audit. In addition, this finding is in line with our findings from our audit of the host authority, Renfrewshire Council.

13. However, we consider the process put in place by NSCJA to obtain the necessary assurances for the SSIFC could be improved. The statement is supported by Renfrewshire Council directors' certificates of assurance, since NSCJA use these systems, but NSCJA does not provide any certificate of assurance. We consider this should be reviewed to ensure that any financial systems, which are local to NSCJA, are included in certificates of assurance.

**Refer Action Plan no. 1**

## Remuneration report

14. Last year we noted that remuneration reports were not mandatory for community justice authorities (CJAs) but that the Scottish Government suggested that CJAs should consider including these reports voluntarily from 2011/12. The NSCJA 2011/12 does include a remuneration report and we are satisfied with the disclosures.

## Accounting issues

15. CJAs are required to prepare accounts in line with the Scottish Government Criminal justice Directorate's Guidance Note Two: Management Statement / Financial Memorandum. The memorandum (which dates from 2008) also states that the accounts should be prepared in line with the local authority Code of Practice – A Statement of Recommended Practice (the SORP). Local authorities in Scotland are now required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the 2011 Code). This Code is essentially the 2011/12 equivalent of the SORP. We are satisfied that NSCJA has prepared the 2011/12 financial statements in accordance with the 2011 Code with one observation.
16. NSCJA has not included an accrual in respect of employees' untaken leave at year-end (which is a requirement of the Code). Statutory guidance has been issued which allows for an adjustment account to be created for the host council and the various joint boards/committees administered by local authorities to ensure that this accrual has no impact on the level of reserves held. No such guidance was issued regarding CJAs.
17. As host authority Renfrewshire Council calculated the annual leave accrual at £4,246 as at 31 March 2012 (£2,277 as at 31 March 2011), an increase of £1,969. These amounts are immaterial compared to total expenditure of £11m. Officers advised that the Scottish Government has yet to provide funding for this cost and therefore due to its immaterial amount, did not include the cost in the financial statements. However, these costs would count against the revenue reserve and if the accounts had been adjusted then net assets of £3,823 would change to net liability of £423.

**Refer Action Plan no. 2**

18. Last year we reported that CJAs differ from other joint boards/committees, which are administered by Scottish councils, in that they are deemed to be non-principal authorities in

relation to the local government pension scheme. This allows CJAs to account for the pension scheme on a defined contribution basis, which essentially means that there are no adjustments required to the superannuation costs and no resultant pension asset/liability in the balance sheet (with a matching reserve).

19. In 2012 Renfrewshire Council were able to obtain the pension asset and liabilities figures from actuaries, which showed that the net pension liability as at 31 March 2012 was £31,000 (2010/11 net liability £1,000). The accounts though did not reflect these figures on the basis they were considered not material nor was it cost effective to incorporate these entries. Where accounting information is available we would encourage NSCJA to incorporate the figures into their accounts.

**Refer Action Plan no. 3**

### Accounts submission

20. NSCJA's financial statements were submitted in June 2012, well ahead of the September deadline. Updated accounts were provided in October to reflect the changes from certified claims from constituent local authorities. Final accounts preparation procedures and working papers were generally of a good standard and officers were helpful in dealing with queries during the audit.
21. We issued our report on the audit of the financial statements (in compliance with the International Auditing Standard 260) on 17 October, which indicated our intention to give an unqualified opinion on the financial statements for NSCJA. The audit certificate was duly signed off on 31 October 2012.

### Presentational and monetary adjustments to the unaudited accounts

22. As a result of the audit, a small number of minor changes were made to the presentation and disclosures in the financial statements, the main ones being to amend 2010/11 comparative figures and amending figures in the cash flow statement.



# Financial position

23. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
24. Auditors 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.
25. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

## Financial results

26. The Comprehensive Income and Expenditure Statement for 2011/12 reports a deficit of £23,355 on the provision of services, compared to a budgeted breakeven position in terms of grant income and expenditure. The variance is due to additional one-off payments to authorities which were not funded by grants from the Scottish Government but funded from reserves as agreed by the CJA Board.

## Financial position

27. NSCJA's balance sheet at 31 March 2012 shows net current assets of £3,823 (31 March 2011: £27,178) with the decrease due to reserves being used to fund one-off payments as noted above.

## 2012/13 budget

28. Two sources of grant funding are made available to NSCJA from the Scottish Government. The first of these is known as section 27 funding which is in turn allocated out to each of the member authorities in order to carry out the community justice service and projects. The initial allocation of this funding from NSCJA to the member authorities was approved on 9 March 2012 with a total value of £10,532,199. This represents a 2.1% reduction from the 2011/12 initial allocation of £10,763,859.
29. Projected year-end spend as at September 2012 is for a small over-spend of £59,000 (0.5%). Any such overspends would be borne by the member authorities.
30. The second source of grant funding concerns the administration costs of NSCJA. The 2012/13 allocation is £219,721, which is now the same budget for a third year and remains

unchanged from 2010/11. As at September 2012 officers projected a small underspend of £2,820 (1.3%).

31. NSCJA has a number of financial challenges to manage to ensure it remains financially resilient enough to deliver services at the current rate, and we will continue to monitor progress:
- small reserves position of only £3,823
  - administration funding which has not increased in three years
  - review of accounting for pensions and accrual in respect of employees' untaken leave at year-end.

## Financial outlook

32. In early 2012 the Scottish Government established a stakeholder group to review the allocation of community justice funding and agree a set of principles to underpin a new approach to funding for community justice. It is anticipated this will be place for financial year 2013/14. The new framework would support improved allocation of funding to those services with a proven track record at reducing reoffending.

# Governance and accountability

33. 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.
34. Through its chief executive or equivalent, 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 (including audit committees or similar groups) in monitoring these arrangements.
35. Consistent with the wider scope of public audit, auditors 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
36. In this part of the report we comment on key areas of governance.

## Corporate governance

### Processes and committees

37. Following the May 2012 elections new members were appointed to NSCJA and an induction and training event was held in August 2012 to advise members on current community justice issues.

### Internal control

38. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
39. With Renfrewshire Council being the host for NSCJA, all financial transactions of NSCJA are processed through the financial systems of the council and are subject to the same controls and scrutiny of the council including regular reviews of internal audit. We assess the work of internal audit and where possible place reliance on their work. For 2011/12 we placed reliance on their testing e.g. testing on council payroll and treasury management systems.

40. In the Internal Audit Annual Report 2011/12, the Chief Auditor concluded reasonable assurance can be placed upon the adequacy and effectiveness of NSCJA's internal control, risk management and governance arrangements.
41. Overall the Statement on the System on Internal Financial Control reports that there were no identified material weaknesses in 2011/12 and we concur with this conclusion.

## **Prevention and detection of fraud and irregularities**

42. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. No frauds were reported in Internal Audit's Annual Report for 2011/12 and we have no fraud issues identified from our audit work.

## **Standards of conduct and arrangements for the prevention/detection of bribery and corruption**

43. 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. Auditors consider whether bodies have adequate arrangements in place. The personnel policies of Renfrewshire Council continue to be applied. We have concluded that the arrangements at NSCJA are satisfactory and we are not aware of any specific issues that we need to identify in this report.

# Best Value, use of resources and performance

44. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
45. Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
46. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
  - a performance audit which may result in the publication of a national report
  - an examination of the implications of a particular topic or performance audit for an audited body at local level
  - a review of a body's response to national recommendations.
47. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments
48. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
49. This section includes a commentary on the performance management arrangements within NSCJA, headline performance outcomes/ measures used and any relevant national reports published by Audit Scotland.

## Overview of performance in 2011/12

50. The work of NSCJA is underpinned by the 2011/2014 Area Plan and annual action plans to progress the overarching strategy of the area plan. Update reports are provided to each NSCJA meeting. In March 2012 the planning officer provided a final position report which showed that of 21 actions, 19 (90%) were achieved within timescale. There were two actions which were not achieved within timescale: the communication strategy was delayed to incorporate a national strategy which was being prepared and the throughcare protocols among partners for HMP Low Moss and HMP Greenock which, though now in place, was later than planned.

## National reports - Reducing reoffending in Scotland

51. Following publication of *An overview of Scotland's criminal justice system* in September 2011, the Scottish Parliament's Audit Committee took evidence on the findings and published its own report in February 2012, when it asked Audit Scotland to look at a number of issues related to reducing re-offending. On 7 November 2012, Audit Scotland published *Reducing reoffending in Scotland*. The aim of the report was to assess the efficiency and effectiveness of approaches taken to reduce re-offending. The audit focused on what happens to adult offenders sentenced in court and did not look at preventative work designed to stop people offending in the first place.
52. Key messages from the report are:
- Reoffending is a continuing problem and reconviction rates have remained relatively static over recent years.
  - There is a mismatch between what is currently being delivered and what is known to be effective. There is an urgent need for a more strategic approach to planning, designing and delivering services at both a national and CJA level.
  - Demand for services to reduce reoffending is increasing and SPS, CJAs and councils need better information on the needs of reoffenders to plan and manage services. Access and availability vary across the country and the level of support for prisoners serving short sentences needs to improve, particularly in relation to their housing needs.
  - CJAs have brought people together from the many bodies involved in reducing reoffending but the way they were set up and inflexible funding have significantly limited their effectiveness. CJAs are small, each employing between three and four staff. They have made little progress with reducing reoffending.
  - There needs to be stronger leadership at national, regional and local levels if reoffending is to be tackled effectively. There has been little progress with many of the problems identified in the 2006 *National Strategy for the Management of Offenders* and these need to be addressed.
53. There were recommendations for different parts of the public sector but for community justice authorities the report recommends CJAs and councils work together to improve their understanding of the unit costs of different types of criminal justice social work activity and how these relate to the quality of service delivered. This work should be used to inform decisions on how resources are used and where efficiency could be improved.
54. In addition the report recommends that the Scottish Government, Scottish Prison Service, CJAs and councils should work together, and with other public and third sector providers, to improve how services to reduce re-offending are planned, designed and delivered to ensure that they:
- meet the needs of offenders, in particular those serving short prison sentences
  - recognise the level of demand
  - are based on evidence of what works

- take into account costs of delivery.
55. NSCJA is already involved in this level of joint working. The work of NSCJA with prisoners at HMP Low Moss is described in a case study showing the cross-agency work taking place to deliver services through a coordinated service model. The case study comments on the complexity involved, for example, working with over 30 public and third sector organisations.
  56. The report includes a list of questions CJA board members could use to support their governance role, or officers could use to improve the planning and delivery of services to reduce reoffending. The questions are grouped into four themes: strategic direction, planning, monitoring and performance and working effectively as a board.
  57. The Chief Officer is briefing members at the December 2012 NSCJA meeting on the report and we will consider any actions taken on the report and recommendations as part of our planning for 2012/13.

## Outlook

58. The CJA Policy Performance and Communications Group is working towards a CJA National Performance Framework and Lothian and Borders and Tayside CJAs will test the performance regime. The Chief Officer provides regular updates to members on developments.

# 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	13	<p><b>SSIFC assurances</b></p> <p>There is no separate assurance statement obtained from the Chief Officer covering systems specific to NSCJA.</p> <p>Risk – insufficient arrangements around obtaining assurances for SSFIC.</p>	Internal Audit will review arrangements with the Chief Officer in time for preparing the 2012/13 annual accounts.	Chief Auditor and Chief Officer	30 May 2013
2	17	<p><b>Accrual for accumulated short-term absences</b></p> <p>The accounts do not include an accrual for accumulated short-term absences, estimated at £4,246. If so net assets of £3,823 would change to a small liability position at the year-end of £423.</p> <p>Risk - a low level of reserves increases the risk of the balance sheet moving to a net liability position because of unbudgeted costs. A net liability position increases the risk of the body not being financially resilient enough to deliver services at the current rate.</p>	The Accountable Officer will work with Renfrewshire Council finance in liaising with the Scottish Government over funding for this cost. The level of accrual, and the impact on the accounts will be reviewed again when preparing the 2012/13 accounts.	Treasurer and Chief Officer	31 March 2013
3	19	<p><b>Pensions</b></p> <p>In 2012 Renfrewshire Council were able to obtain</p>	For 2012/13 Renfrewshire Council finance will consider accounting for pension	Treasurer	31 May 2013



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>the pension asset and liabilities figures from actuaries but the accounts did not reflect these figures on the basis they were considered immaterial nor was it cost effective to incorporate these entries. Where accounting information is available we would encourage the Council to incorporate the figures into the accounts of NSCJA.</p>	<p>costs and the assets/ liabilities and related disclosures, should that information be available.</p>		