

# Northern Community Justice Authority

## Annual report on the 2011/12 audit



Prepared for Northern Community Justice Authority and the Auditor General for Scotland  
November 2012

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

## 2011/12

We have completed our audit of the 2011/12 financial statements and considered aspects of governance within Northern Community Justice Authority (the Authority). This report sets out our main findings.

Overall, we found the financial stewardship of the authority during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- an unqualified opinion has been issued on the financial statements for 2011/12
- the authority has a sound corporate governance framework
- we are satisfied with disclosures made in the annual governance statement and in the remuneration report.

## Outlook

A national review of Community Justice spending is underway, with a focus now moving to outcomes. The 2012/13 grant allocation for the Northern Community Justice Authority shows a decline in the Section 27 grant (core and non core services) from £12.481 million to £12.336 million. Service projections predict that demand will continue to increase, indicating that there is likely to be increasing pressure on elements of the budget.

# Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of Northern 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 opinions (i.e. on the financial statements) and conclusions 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 (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 or even minimised. What we expect is that the authority understands its risks and has arrangements in place to manage these risks. The Accountable Officer and members of the authority 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 Northern Community Justice Authority and the Auditor General and should form a key part of discussions with authority members as soon as possible after the formal completion of the audit of the financial statements. Reports 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 after consideration by the authority.
6. The management of the authority 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 explanatory foreword, annual governance statement and the remuneration report. 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 Northern Community Justice Authority for 2011/12 give a true and fair view of the state of the authority's affairs and its net operating cost for the year.
11. Community justice authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the 2011/12 Code). 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 Explanatory Foreword by the Chief Officer was consistent with the financial statements. We reviewed the Annual Governance Statement and concluded that it complied with the Code.

## Regularity

12. 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 income 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

13. 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 authority has considered it appropriate to adopt a going concern basis for the preparation of the financial statements and we concur with this view.

## Accounting issues

### Accounts submission

14. The authority's financial statements were submitted for audit by the deadline of 30 September 2012.
15. All errors identified during the audit were corrected in the accounts and therefore there are no unadjusted misstatements to bring to your attention.

### Accounting and internal control systems

16. The authority's financial transactions are processed through Aberdeen City Council's financial systems. Our review of these systems was conducted as part of that council's audit, supplemented by specific audit work on the authority's financial statements. No material weaknesses in the accounting and internal control systems were identified during the audit which could 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.
17. The working papers in support of the financial statements were generally adequate. However, due to staff leave and sickness, there was a delay in receiving responses to audit queries, which led to a tight timescale for audit completion. We will liaise with officers as part of the 2012/13 audit planning process to agree the 2012/13 accounts completion and audit timetable.

### Annual governance statement and remuneration report

18. It is good practice for a leading elected member (e.g. the Convener) to sign the Annual Governance Statement and the Remuneration Report in addition to the Chief Officer signing these statements. The authority currently does not have these statements signed by a member. The Chief Officer and Treasurer are considering how to incorporate this into the accounts preparation process for future years.

**Refer action plan no. 1**

## Outlook

19. There are no significant changes to the 2012/13 Code that are expected to have an impact on Northern Community Justice Authority's annual financial statements.

# Financial position

20. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
21. 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.
22. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

## Financial results

### Financial position

23. In 2011/12, the authority's total expenditure was £12.921 million. This was met mainly by the Section 27 criminal justice grant and administration grant totalling £12.910 million, paid by the Scottish Government.
24. The Section 27 grant expenditure final outturn was £12.814 million, including cashback for communities, invoicing and intensive support packages. This represents a £40,000 underspend against the full grant allocation for all services.
25. At 31 March 2012 the authority had a negative balance with Aberdeen City Council's loans fund (effectively borrowing from the loans fund). This was due to a 2011/12 payment received just after the year end. However, at the time of the financial statements audit in October 2012, the authority still had a negative loans fund balance. The authority should manage its cash balance to avoid incurring interest charged on negative loans fund balances.

**Refer action plan no.2**

### Budget 2012/13

26. The Section 27 grant allocation for the Northern Community Justice Authority in 2012/13 has reduced by £0.145 million from £12.481 million in 2011/12 to £12.336 million (excluding cashback, invoicing and intensive support packages funding). This is against the backdrop of a continuing increase in demand for services.



## Financial plans

27. 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.

# 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 chief executive or 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 (including audit committees or similar groups) 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.

## Internal control

32. The authority's financial transactions are processed through Aberdeen City Council's financial systems. We took assurance on the effectiveness of the main controls within these systems from the external audit of Aberdeen City Council. This was supplemented by specific audit work on the authority's financial statements. Our audit of the main financial systems did not highlight any weaknesses in control which would impact on the financial statements.
33. The annual governance statement 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. As mentioned in paragraph 18, it is good practice to have a leading elected member sign the annual governance statement and remuneration report, in addition to the Chief Officer signing these statements.

### Refer Action Plan 1

34. Following the satisfactory results of internal audit work in 2010/11, it was decided that there would be no internal audit work undertaken in 2011/12. The next specific internal audit will be in 2012/13.

## Prevention and detection of fraud and irregularities

35. The authority does not have in place its own arrangements for the prevention and detection of fraud and corruption, but complies with the relevant policies of Aberdeen City Council.

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

36. 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. We have concluded that the arrangements in the authority are satisfactory and we are not aware of any specific issues that we need to highlight in this report.

## Outlook

37. Following the local government elections in May 2012, some new members of the authority were appointed. They met for the first time in June 2012. At this meeting, new members were provided with an induction pack for the authority and a member development event was held in August 2012. Another event will follow in January 2013. Against the back drop of future budget challenges and service pressures, on-going member training and support will be important.

# Performance management

38. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value. Key parts of these arrangements are the approach to setting corporate objectives and identifying appropriate measures by which progress in achieving these objectives can be monitored and reported.
39. The 2011-14 Area Plan sets out the aims and objectives for the Northern Community Justice Authority. The absence of a national framework is continuing to create challenges to monitor the progress of local area plans. Work is currently underway at a national level to develop a performance framework. The authority receives performance monitoring reports and action plan updates at its quarterly meetings.

## National performance reports

40. 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

41. Following on from the 'Overview of Scotland's Justice System' report of September 2011, Audit Scotland has issued a more detailed report, looking specifically at how Scotland deals with people who persistently offend, in November 2012.
42. 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.
43. As part of our 2012/13 audit we will look at how the authority takes into consideration the recommendations and good practice in the national report.

# 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	9 July 2012
Report on financial statements to those charged with governance	30 October 2012
Audit opinion on the 2011/12 financial statements	31 October 2012

# 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	18 & 33	<p><b>Annual Governance Statement and Remuneration Report</b></p> <p>It is good practice, and recommended by the Code, to have a leading elected member (e.g. the Convener) sign the Annual Governance Statement and Remuneration Report, in addition to the Chief Officer's signature. Currently the authority does not have these arrangements in place.</p> <p><i>Risk: the authority does not comply with good practice.</i></p>	<p>A review of the timetable for completion of the Statement of Accounts will be undertaken by the Treasurer and options will be identified that will enable the NCJA to ensure Member scrutiny of these Statements, thereby enabling the Convener's signature to be included.</p>	Treasurer in conjunction with the Chief Officer	31 March 2013
2	25	<p><b>Loans Fund Balance</b></p> <p>The authority had a negative loans fund balance with Aberdeen City Council at the year end, and also at the time of audit in October 2012. These negative balances incur interest charges. The authority should manage its cash position to avoid having a negative loans fund balance.</p> <p><i>Risk: the authority incurs unnecessary interest charges.</i></p>	<p>The Treasurer has increased scrutiny of the cash position of the balances that are retained by the NCJA and income has been claimed more frequently to ensure that a positive cashflow is maintained.</p>	Treasurer	Ongoing