

# Lothian and Borders Community Justice Authority

## Annual report on the 2012/13 audit



Prepared for Members of Lothian and Borders Community Justice Authority and the Auditor  
General for Scotland}

November 2013

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.

---

# Contents

<b>Key Messages .....</b>	<b>4</b>
2012/13 .....	4
Outlook.....	4
<b>Introduction.....</b>	<b>5</b>
<b>Financial statements .....</b>	<b>6</b>
Conduct and scope of the audit.....	6
Audit opinion & accounting issues .....	6
Significant findings (ISA260) .....	6
Financial position .....	6
Corporate governance and systems of internal control.....	8
Best value .....	9
<b>Appendix A: Action Plan .....</b>	<b>11</b>
Key Risk Areas and Planned Management Action .....	11

# Key Messages

2012/13

## Financial Statements

We have given an unqualified opinion that the financial statements of Lothian and Borders Community Justice Authority (LBCJA) for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

Overall the Lothian and Borders Community Justice Authority arrangements for the prevention and detection of fraud were satisfactory during 2012/13. From our review we found the LBCJA has a sound corporate governance framework. We were also satisfied with disclosures made in the Internal Financial Control Statement and in the remuneration report.

## Outlook

We note the financial stability of the LBCJA on the basis of its financial position and projected one year 'Allocations for Approval'. The financial position going forward is however becoming even more challenging than previous years with further reductions in funding coupled with increasing cost pressures. This represents a major challenge for the LBCJA and expenditure during the year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage. There are significant financial challenges in delivering the Area Plan 2011-14, within increasing financial constraints.

A national review of Community Justice spending is underway, with the focus now moving to outcomes. The 2013/14 grant allocation for the Lothian & Borders Community Justice Authority shows a decline in the Section 27 grant from £14.587 million to £14.544 million. The administration grant remains constant at £215,000. Service projections indicate that demand will continue to increase, indicating that there is likely to be increasing pressure on elements of the budget.

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

# Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of Lothian and Borders Community Justice Authority (LBCJA). The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of LBCJA and no responsibility to any third party is accepted.
3. [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 LBCJA 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.
4. This report is also addressed to the Auditor General for Scotland and will be published on our website after consideration by the Board of LBCJA.

# Financial statements

## Conduct and scope of the audit

5. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Board on 21 February 2013, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
6. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not require to carry out any additional work outwith our planned audit activity this fee remains unchanged.

## Audit opinion & accounting issues

7. We have given an unqualified opinion that the financial statements of LBCJA for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. The audit opinion was formally issued and signed on 31 October 2013.
8. We received the unaudited financial statements on 27 September 2013 in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team and we completed our on-site fieldwork in October 2013. LBCJA is required to follow the 2012/13 the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code) and we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

## Significant findings (ISA260)

9. During the course of the audit we did not identify any significant issues regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.

## Financial position

### 2012/13 Outturn

10. The main financial objective for LBCJA is to ensure that the financial outturn for the year is within the Section 27 and Administration budgets allocated by Scottish Ministers.
11. The LBCJA operated within the approved Section 27 and Administration budgets for 2012/13 as detailed in Table 1 below.

Table 1: Budget

	Final Budget (£'000)	Actual Outturn (£'000)	Variance (£'000)
<b>Section 27 :</b>			
Expenditure	14,836	14,680	156
<b>Administration:</b>			
Expenditure	215	206	9
<b>Total Expenditure :</b>	15,051	14,886	165
Grant Income	14,884	14,866	(18)
Financing and Investment Income		19	19
<b>(Under)/Overspend</b>	(167)	1	(166)

Source: Financial Statements

12. The authority's total expenditure in 2012/13 was £14.886 million (£15,085 million). This was funded through Scottish Government Section 27 Criminal Justice Grant of £14.886 million (£15.070 million) and Financing and Investment income of £19,000 (£13,000), Administration expenditure was £206,000 (£209,000) The Section 27 grant is split between core and non-core services in accordance with the 2012/13 grant allocation. The authority disbursed the Section 27 grant to constituent councils as follows:

- City of Edinburgh Council - £9.464 million
- East Lothian Council - £1.017 million
- Midlothian Council - £0.920 million
- Scottish Borders Council - £1.104 million
- West Lothian Council - £2,175 million.

## Financial planning

13. There was no cost of living rise applied to Section 27 and the total allocation of £14.544 million (£14.587 million) reflects a small reduction of £43,000. The funding has been allocated to councils on the basis of the national formula. The allocations to Councils are as follows for 2013/14:

- City of Edinburgh Council - £9.073 million
- East Lothian Council - £1.159 million
- Midlothian Council - £0.914 million
- Scottish Borders Council - £1.133 million
- West Lothian Council - £2,265 million.

14. The Scottish Government has removed the Core/Non-Core distinction for 2103/14 allocations although there is real expectations around how funds will be utilised. CJA's are now free to allocate funds as they see fit across the CJA in accordance with their area plan and in a way that they see as most appropriate to fulfil their statutory obligations and reduce reoffending. As a result of this flexibility there is an expectation by the Scottish Government that progress will be made by CJA's to achieve national outcomes and reduce reoffending.

## Corporate governance and systems of internal control

### Overall governance arrangements

15. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and overall we found the LBCJA had sound governance arrangements in place.

### Accounting and internal control systems

16. 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.
17. 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 financial statements.
18. Internal audit is an important element of the LBCJA governance structure. Our review established that the work of internal audit is of a good quality allowing us to place reliance on the risk area of Corporate Governance. This not only avoided duplication of effort but also enabled us to focus on other key risk areas.

### CJA Governance Standards and Framework

19. The Board's draft Financial Protocol has undergone a number of developments and iterations, but has subsequently been overtaken by the Scottish Governments refreshed financial memorandum. The Financial Protocol has been restructured and linked to a governance framework, which covers roles and responsibilities of the CJA.
20. At its November 2012 meeting, the CJA agreed a process for allocating funding for 2013/14 which has since been incorporated into the framework and its operation will be reviewed after one year. This based on:
  - Justice services monies based on national formula
  - Reducing re-offending monies based on our shared priorities and offender profiling in Lothian & Borders



- An agreed annual budget process with the 5 Councils around outcomes and shared priorities.

## Prevention and detection of fraud and irregularity

21. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion, LBCJA's overall arrangements for the prevention of fraud are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

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

22. 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. No issues have been identified by us for inclusion in this report.

## Risk Management

23. 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.
24. Supporting the development of the risk register is work on the governance framework and capacity building within the LBCJA. This includes training by Internal Audit and appointing an administrator for the risk register. Until these changes are fully operational the authority may not be fully addressing all risks appropriately.

**Refer action plan no 1**

## Best value

25. Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. Where such requirements are not specified we may, in conjunction with the LBCJA agree to undertake local work in this area.

## Performance

26. Lothian and Borders CJAs overarching strategic outcome is to reduce reoffending across Lothian and Borders, year on year. LBCJA has set its target as 5% below the national average for 'one year' reconviction rates by 2016. The one year reconviction rate across Scotland is

28.4% for the 2010-11 cohort. The comparable rate for LBCJA for 2010/11 is 25.4%. This is 3% points below the Scottish average and the same as for the previous year.

27. The reconviction frequency rate is 50.2 for the 2010-11 cohort for Scotland as a whole, while for the LBCJA area this figure is 44.8 for the 2010-2011 cohort, some 5.4 below the Scottish average. This performance information will also be used to inform the Single Outcome Agreement target required for reducing reoffending. Though currently not achieving their target, LBCJA are currently performing better than the national averages.

## COMPLIANCE WITH EQUALITY LEGISLATION

28. The Equality Act 2010 (Specific Duties) (Scotland) Regulations 2012 has introduced new specific duties placed upon relevant Scottish Public Authorities, including Community Justice Authorities. Whilst the policy statement which the board had previously approved provided a strong basis for compliance with the CJA's obligations, it had become clear from subsequent discussions with the Equality and Human Rights Commission (EHRC) that the CJA's approach required further development, particularly around equality outcomes.
29. An enhanced document had been developed which reflects the CJAs commitment and shared equality outcomes. The document was approved at the Strategic Officers Group meeting on 26th July and had subsequently been shared with the EHRC. While the broad outcomes had been set, further detailed work is required to improve data and outcomes. Until the additional work is in place, LBCJA may not be fully complying with ECHR legislation.

**Refer action plan no 2**

## Acknowledgements

30. We would like to express our thanks to the staff of LBCJA and CEC for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

# 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	24	<p><b>Risk Register</b></p> <p>Development of risk register is work is supported by the governance framework and capacity building within the LBCJA. This includes training by Internal Audit and appointing an administrator for the risk register.</p> <p>Risk: Until this fully operational the authority may not be fully addressing all risks appropriately.</p>	<p>Lothian and Borders Community Justice Authority will:</p> <ul style="list-style-type: none"> <li>• pioneer an integrated risk and performance reporting system</li> <li>• train board members on risk and performance.</li> <li>• embed risk and performance reporting into Governance Framework review by Strategic Officers Group immediately.</li> <li>• fully refresh and assess strategic organisational risks.</li> </ul>	Robert Strachan Chief Officer	<p>Feb 2014</p> <p>Feb 2014</p> <p>Ongoing</p> <p>Feb 2014</p>
2	29	<p><b>EHCR</b></p> <p>An enhanced policy statement document has been developed which reflects the CJAs commitment and shared equality outcomes. While the broad outcomes had been set, further detailed work is required to improve data and outcomes.</p>	<p>Lothian and Borders Community Justice Authority will:</p> <ul style="list-style-type: none"> <li>• commission evaluation of protocol for young people, including data improvement planning.</li> <li>• work with SHINE and Willow to</li> </ul>	Robert Strachan Chief Officer	<p>Mar 2014</p> <p>Ongoing</p>

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		Risk: Until the additional work is in place LBCJA may not be fully complying with ECHR legislation.	<p>identify suitable, manageable data collection around gender performance improvement.</p> <ul style="list-style-type: none"> <li>• equality proof performance management frameworks around each of our shared priorities (with Scottish Centre for Crime and Justice Research).</li> </ul>		June 2014