

Northern Community Justice Authority

Annual report on the 2012/13 audit



Prepared for Northern 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. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Key messages	4
2012/13	4
Outlook.....	4
Introduction	5
Financial statements	6
Audit opinion	6
Accounting issues	7
Outlook.....	7
Financial position	9
Financial results	9
Governance and accountability	11
Prevention and detection of fraud and irregularities.....	11
Standards of conduct and arrangements for the prevention/ detection of bribery and corruption	12
Performance management	13
Local performance reporting.....	13
National performance reports	13
Appendix A: audit reports	14
Appendix B: action plan	15

Key messages

2012/13

We have completed our audit of the 2012/13 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 2012/13
- 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

In December 2012, the Scottish Government published a consultation paper on the future structure of the community justice system, proposing three possible options for reform:

- Enhanced Community Justice Authority model: where changes are made to CJA membership and functions;
- Local authority model, where local authorities assume responsibility for the strategic planning, design and delivery of offender services in the community;
- Single service model, where a new national social work-led service for community justice (separate to and sitting alongside the Scottish Prison Service) is established.

Following this consultation, the Scottish Government is expected to announce its decision in December 2013.

Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of Northern Community Justice 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 for Scotland 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.
7. The co-operation and assistance given to us by the Authority and Aberdeen City Council during the year is gratefully acknowledged.

Financial statements

8. 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.
9. 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.
10. 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

11. We have given an unqualified opinion that the financial statements of Northern Community Justice Authority for 2012/13 give a true and fair view of the state of the Authority's affairs and its net operating cost for the year.
12. Community justice authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code). We confirmed that the financial statements were 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. We also concluded that the parts of the Remuneration Report to be audited had been properly prepared in accordance with the Local Authority Accounts (Scotland) Regulations 1985.

Regularity

13. 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

14. 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

15. The Authority's financial statements were submitted for audit by the deadline of 30 September 2013.
16. 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

17. 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.
18. The working papers in support of the financial statements were generally adequate. However, due to a key member of staff being on leave for two weeks during the October audit period, 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 2013/14 audit planning process to agree the 2013/14 accounts completion and audit timetable.

Refer action plan no. 1

Annual governance statement and remuneration report

19. The Authority has adopted good practice this year, in having both the Convener and the Chief Officer sign the Annual Governance Statement and the Remuneration Report. Unfortunately the Convener was not available on 31st October deadline to sign these statements, so the financial statements and the audit opinion were signed on 4th November.

Refer action plan no. 1

Outlook

20. There are no significant changes to the 2013/14 Code that are expected to have an impact on the Authority's annual financial statements.
21. A Scottish Government announcement on the future structure of the community justice system is expected shortly. Depending on the government's decision, the Authority may need to

consider whether it is appropriate to adopt a going concern basis for future financial statements.

Financial position

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

Financial results

Financial position

25. In 2012/13, the Authority's total expenditure was £12.654 million. This was met mainly by the Section 27 criminal justice grant and administration grant totalling £12.653 million, paid by the Scottish Government.
26. The Section 27 grant expenditure final outturn was £12.452 million, including cashback for communities, invoicing and intensive support packages. This represents a £20,000 underspend against the full grant allocation for all services.
27. We reported last year that at 31 March 2012 the Authority had a negative balance with Aberdeen City Council's loans fund (effectively borrowing from the loans fund, which incurs interest charges). The Authority agreed to scrutinise the cash position more closely to avoid this in future; we are pleased to note that there was a positive cash balance at 31 March 2013.

Budget 2013/14 and financial plans

28. During 2012 the Scottish Government carried out a national review of community justice funding. The review aimed to ensure that funding should be focused on outcomes rather than activities, and its conclusions included:
 - that Community Justice money should continue to be ring-fenced;
 - that CJAs' funding should no longer be split into "core" and "non core", but instead should be brought together and allocated according to a single, transparent formula; and
 - that the Scottish Government should no longer prescribe that money must be spent against specific budget headings (CJAs should have increased flexibility in how they use their budgets, with the opportunity to demonstrate their ability to do this effectively).

29. The Authority's financial plans and quarterly monitoring reports have been updated to reflect this.
30. The Section 27 grant allocation for the Northern Community Justice Authority in 2013/14 has reduced by £0.088 million from £12.336 million in 2012/13 to £12.248 million (excluding cashback, invoicing and intensive support packages funding). This is against the backdrop of a continuing increase in demand for services.
31. At September 2013, the projected 2013/14 expenditure was £0.074 million over budget. When adjusted for a potential 1% pay award, this projected overspend increases to £0.161 million. This represents a major challenge for the Authority and expenditure will require to be closely monitored to address projected overspends and identify any further emerging budget pressures. Where an overspend occurs on Criminal Justice Social Work Services this is ultimately funded by the General Fund of the local authority that incurred the overspend.

Governance and accountability

32. 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.
33. 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.
34. 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
35. In this part of the report we comment on key areas of governance.

Internal control

36. 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 did not highlight any weaknesses in control which would impact on the financial statements.
37. 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.
38. A review of the Authority was undertaken by the internal auditors, PriceWaterhouse Coopers in 2012/13 and the results were found to be satisfactory.

Prevention and detection of fraud and irregularities

39. 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

40. 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 Authority's arrangements are satisfactory and we are not aware of any specific issues that we need to highlight in this report.

Performance management

41. 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.

Local performance reporting

42. The 2011-14 Area Plan sets out the aims and objectives for the Authority. A more detailed action plan for delivery of these objectives is developed annually. The Authority receives performance monitoring reports and progress updates against the annual action plan at its quarterly meetings.
43. The Authority's 2012/13 annual report is available to the public on the Authority's website. Reported performance information includes:
 - The Authority's reconviction rate has fallen from 32.7% from the 2005/06 cohort of offenders to 27.6% for the 2010/11 cohort, according to the latest figures, published in September 2013;
 - Since 2006/07, recorded crime rates within the Authority have fallen by 34.7% from 57,025 down to 37,221. The number of young men and women in custody (under 21) on average is down by 33% since 2007/08, with the greatest reduction coming during 2012/13;
 - Since the introduction of Community Payback Orders in 2011/12, the number of hours of unpaid work has risen from 140,556 in 2010/11 to 170,444 in 2012/13;
 - The Authority is actively involved in developments around the new HMP and YOI Grampian which remains on track to open in March 2014 as Scotland's only multi regime prison holding adult males, adult females, young males, young females and the remand population. The prison will also have the first Community Integration Unit for both men and women.

National performance reports

44. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland.
45. Audit Scotland's "Reducing reoffending in Scotland" national report, published in November 2012, was presented to the Authority at its December 2012 meeting. The covering report by the Authority's Chief Officer outlined the key messages within the Audit Scotland report as well as highlighting Audit Scotland's recommendations on what the Scottish Government, the Scottish Prison Service, community justice authorities and councils should do. The key messages and recommendations within the report were considered in more detail at the members' Development Day on 24 January 2013.

Appendix A: audit reports

External audit reports and audit opinions issued for 2012/13

Title of report or opinion	Date of issue
Annual audit plan	15 April 2013
Report on financial statements to those charged with governance	31 October 2013
Audit opinion on the 2012/13 financial statements	4 November 2013
Annual report on the 2012/13 audit	28 November 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	18 & 19	<p>Certification of financial statements</p> <p>There is a one month period between the deadline for submission of unaudited accounts (30th September) and the deadline for certification of the accounts (31st October). The accountant was on leave for much of this period, which led to delays in responding to audit queries.</p> <p>In addition, the Convener was not available to sign the statements on 31st October so the accounts were signed four days later.</p> <p><i>Risk: the financial statements are not certified in time to meet the deadline for laying the accounts before Parliament.</i></p>	<p>The Treasurer will continue to work closely with the auditor to improve the effective scheduling of accounts preparation and audit work. A date of 30 October 2014 has been agreed by the Convener, Chief Officer and Treasurer, and put in the diary, to ensure the accounts are signed by 31 October. This will be undertaken annually.</p>	Treasurer	30 October 2014