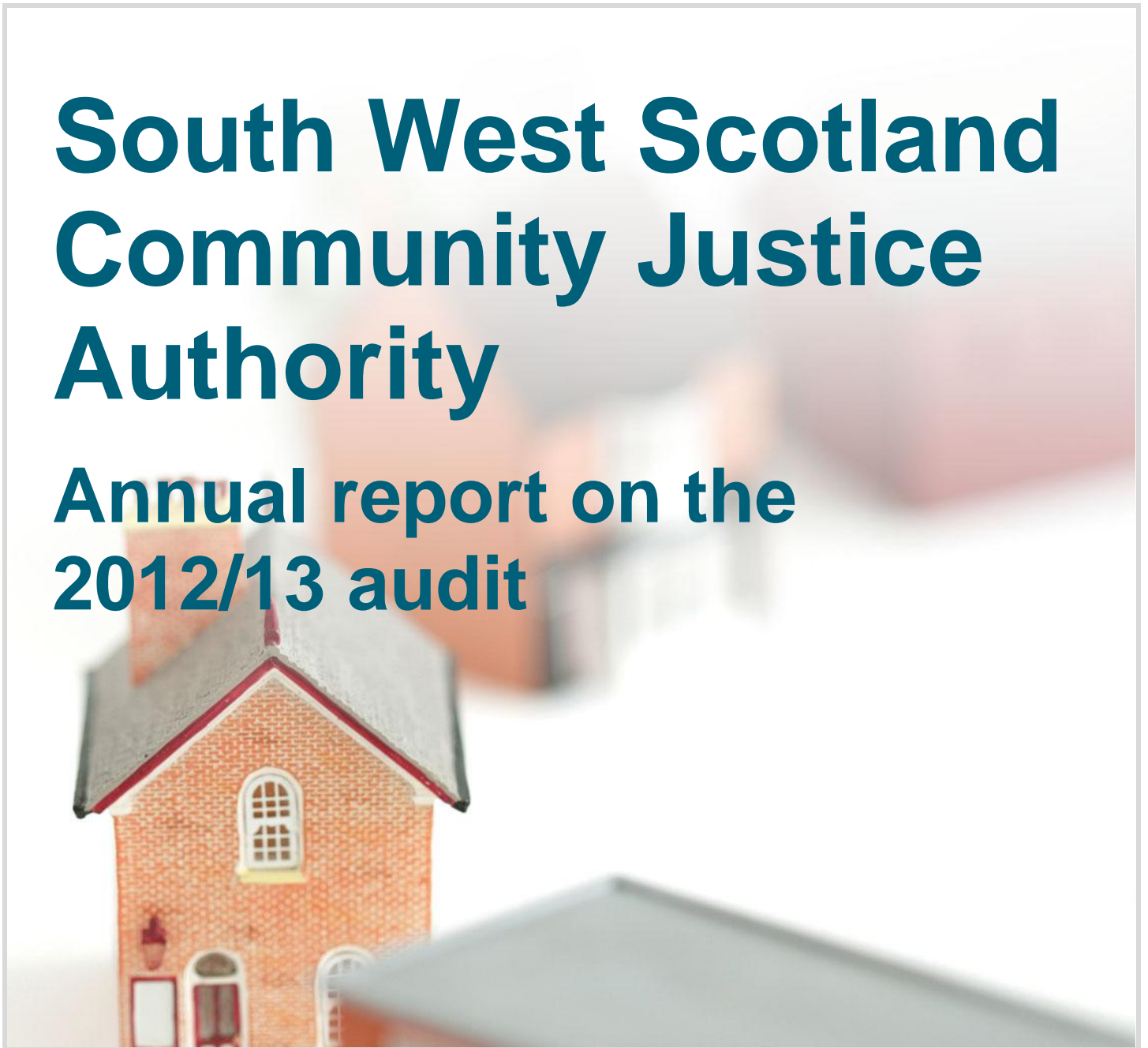


South West Scotland Community Justice Authority

Annual report on the 2012/13 audit



Prepared for Members of SW Scotland Community Justice Authority and Auditor General for
Scotland

October 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

| | |
|---|-----------|
| Key messages | 4 |
| 2012/13 | 4 |
| Outlook..... | 4 |
| Introduction | 5 |
| Financial statements | 6 |
| Audit opinion | 6 |
| Accounting issues | 7 |
| Financial position | 9 |
| Financial results | 9 |
| Outlook..... | 9 |
| Governance and accountability | 11 |
| Prevention and detection of fraud and irregularities..... | 12 |
| Standards of conduct and arrangements for the prevention/ detection of bribery and corruption | 12 |
| Performance Management and Improvement | 13 |
| Management Arrangements | 13 |
| Appendix A: action plan | 14 |

Key messages

2012/13

In 2012/13, we audited the financial statements of the South West Scotland 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.

We have given an unqualified opinion on the financial statements for 2012/13.

The comprehensive income and expenditure statement discloses a deficit of £1,000 for 2012/13. However, this includes a charge of £1,000 to reflect the cost to the authority of accumulated absences accrued during the year. This charge is reversed out of the movement in reserves statement (MIRS) in accordance with the approved statutory adjustment. Hence the MIRS demonstrated that the authority achieved a break-even position in 2012/13 and therefore had no usable reserves at the beginning or end of the year.

Outlook

Looking ahead, it is clear that the outlook for public spending will continue to create a challenging environment for service delivery. The authority's Section 27 grant allocation for 2013/14 is £9.517 million. This is a 1.6% increase on the 2012/13 base allocation (£9.369 million). The administration grant for 2013/14 is £0.224 million, an increase of £0.002 million (0.9%) from 2012/13. While these are increases in cash terms, they are not increases in real terms. This, combined with the increase in demand for the authority's services, will continue to stretch available resources.

The authority has entered the final year of the three year area plan which sets out national strategic aims and objectives. Progress against these continues to be monitored through the authority's Outcomes Framework and quarterly updates to the Board.

Preliminary work is currently taking place within the authority's themed groups for the basis of the next Area Plan commencing April 2014. The new Area Plan will cover the period 2014-17. The authority is also refreshing its Outcomes Framework as the overarching structure for the Area Plan and are currently finalising the six outcomes.

Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of South West Scotland 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. However the main focus is on the financial statements and any significant findings from our wider review of the authority.
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 the authority understands its risks and has 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.
3. This report is addressed to South West Scotland Community Justice Authority and the Auditor General and should form a key part of discussions with the Board, 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.
4. Audit is an essential element of accountability and the process of public reporting. This report will be published on our website after consideration by the Board.
5. 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

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. 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.
8. We review and report on, as appropriate, other information published with the financial statements, including the Explanatory Foreword, the Statement of Responsibility for the Accounts, the Remuneration 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

9. We have given an unqualified opinion that the financial statements of South West Scotland Community Justice Authority for 2012/13 give a true and fair view of the state of the body's affairs and its net operating cost for the year.
10. We confirmed that information given in the Chief Officer's report was consistent with the financial statements and also concluded that the Statement on the System of Internal Financial Control complied with guidance.

Legality

11. Through our planned audit work we consider the legality of the authority's financial transactions. This includes obtaining unqualified audit opinions for each of the criminal justice grant claims which form the basis for the authority's financial statements. In addition, as the host authority for financial services, North Ayrshire Council's Corporate Director (Finance & Corporate Support) has confirmed that, to the best of her knowledge and belief, the financial transactions of North Ayrshire Council were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to the Board's attention.

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 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 financial transactions are processed through North Ayrshire Council's financial systems. Our review of these systems was conducted as part of the audit of North Ayrshire Council, 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 authority has prepared a remuneration report which is in line with the issued guidance.

Chief Officer's Report

16. As part of the financial statements for a community justice authority, an Explanatory Foreword by the Chief Officer is required. This should provide the reader of the accounts an easy guide to the financial statements, an explanation of the income and expenditure, and further information of the impact of changes to the way in which the authority is funded. The report included in the financial statements covers these areas.

Pension Costs

17. International Accounting Standard (IAS 19) requires that the net liability for retirement benefits is recognised in the balance sheet and that the cost of retirement benefits is reflected in the net cost of services. However, the authority discloses only the employer's pension costs incurred during the year and does not consider it to be material or cost effective to account for retirement benefits in accordance with IAS 19 on the basis that the authority employed only three members of staff during the year and the cost of obtaining this information would outweigh any benefit.

Action Plan No. 1

Accounting issues

18. Community justice authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code). We are satisfied that the authority has prepared the 2012/13 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.
19. The Code requires bodies to provide for liabilities arising from employee benefits payable at the balance sheet date. This includes items such as untaken annual leave and flexitime. This has been properly reflected in the financial statements.

Accounts preparation & submission

20. The authority's unaudited financial statements were submitted to us by the deadline of 30 September 2013. The audit fieldwork was completed in October 2013 and matters arising from the work were reported to the Chief Officer. The audited financial statements were approved and issued on 28th October 2013.

Financial position

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

Financial results

Financial position

24. In 2012/13, the authority's net expenditure was £9.739 million. This was funded mainly from the Section 27 grant which is paid by the Scottish Government and is split between core and non-core services in accordance with the 2012/13 grant allocation.
25. The authority reported a net deficit of £0.001 million in its comprehensive income and expenditure statement for the year to 31 March 2013. This was due to the inclusion of a £0.001 million charge that related to the movement in the provision which is required to account for accumulated absences. This charge has then been reversed out in the Movement in Reserves Statement in line with local government statutory accounting adjustments and the Code. The authority therefore achieved break even for the year.
26. The statutory accounting adjustment means that the authority has an unusable reserve deficit of £0.004 million (an increase of £0.001 million from the previous year) at the end of the financial year.

Outlook

Budget 2013/14

27. Looking ahead, it is clear that the outlook for public spending will continue to create a challenging environment for service delivery. The authority's Section 27 grant allocation for 2013/14 is £9.517 million. This is a 1.6% increase on the 2012/13 base allocation of £9.369

million, however, this is not an increase in real terms. Similarly, the administration grant for 2013/14 is £0.224 million, a £0.002 million increase (0.9%) from 2012/13, but not in real terms.

Action Plan No. 2

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 host Authority

32. The authority has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice. As auditors we have responsibility to report on the authority's corporate governance arrangements and review the statement on the system of internal financial control.
33. As the host authority, financial transactions of South West Scotland Community Justice Authority are processed through North Ayrshire Council's financial systems. It is the responsibility of the council's management to maintain adequate financial systems and associated internal controls, both for the purpose of giving an opinion on the statements of accounts, and in order to report on the adequacy of such systems and controls.
34. Our review of these systems was conducted as part of the audit of North Ayrshire Council and was supplemented by specific audit work on the Community Justice Authority's financial statements. We concluded that North Ayrshire Council's financial systems are adequate for the purpose of producing the financial statements. No areas of significant concern were identified.
35. The statement on the system of internal financial control states that, in preparing the accounts, the authority have relied upon the statements of internal control within the accounts for each of the constituent bodies making up the community justice authority. We concur with this view.

Prevention and detection of fraud and irregularities

36. The arrangement established for the prevention of fraud and irregularities were considered during the audit of the host authority. We concluded that these were satisfactory and that the community justice authority is governed by them.

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

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 whether bodies have adequate arrangements in place.
38. For the purpose of South West Scotland Community Justice Authority, such arrangements have been considered during the audit of the host authority and are considered to be satisfactory.

Performance Management and Improvement

Management Arrangements

Performance Management

39. Each community justice authority is required to produce an area plan which is submitted to the Scottish Government. An Area Plan for 2011-14 was produced and approved in September 2010. Progress against this is reported to the Board on a quarterly basis through the Outcomes Framework which highlights areas of significant achievement and areas for improvement.
40. A year end annual report is produced. The 2012/13 annual report shows progress against outcome indicators. There are 17 indicators across the six local outcomes. Each indicator is allocated a red, amber or green status to show progress. Of the 17 indicators reported: nine have been awarded green status showing the authority has met its target; four indicators are classified as red where targets have not been achieved; and there are two amber indicators where the authority is close to target.
41. The authority carried out its first partnership self-assessment survey to reflect on the progress of the partnership in 2011/12. The results of this were shared with the Area Plan Implementation Group (APIG) and the CJA Board. No formal Improvement Plan was developed due to the authority focussing on the new Area Plan and the redesign of community justice arrangements. However, the results of the exercise have been used in forming the new Area Plan.
42. The results have helped inform the authority on how to improve the self-assessment survey process. The authority intends to carry out the process again in 2014/15 using a streamlined questionnaire with the aim of improving the response rate.

Outlook

43. The authority has entered the third year of the three year area plan which sets out national strategic aims and objectives. Progress against these will continue to be monitored through the authority's Outcomes Framework and quarterly updates to the Board.
44. Preliminary work is currently taking place within the authority's themed groups for the basis of the next Area Plan commencing April 2014. The new Area Plan will cover the period 2014-17. The authority is also refreshing its Outcomes Framework as the overarching structure for the Area Plan and are currently finalising the six outcomes within the framework.

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 | 17 | <p>IAS 19 Costs</p> <p>The authority does not account for retirement benefit costs in accordance with IAS19 and, instead, accounts only for the costs incurred during the year.</p> <p>Risk: <i>The authority's financial statements may not include all relevant costs or credits due to the pension costs not being disclosed in accordance with IAS 19.</i></p> | We will continue to monitor any potential significant impact of IAS 19 pension costs. | Chief Officer | 31 March 2014 |
| 2 | 27 | <p>Financial Outlook</p> <p>The Section 27 grant and administration grant have increased in cash terms in 13/14, but not in real terms. The demand for services continues to increase.</p> <p>Risk: <i>The authority may not be able to meet rising demand with its resources.</i></p> | We will continue to monitor all income, expenditure and the level of s27 grant distributed to constituent bodies. | Chief Officer | Ongoing |