

# Northern Community Justice Authority

## Annual report on the 2013/14 audit



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

October 2014

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# Key messages

1. We have given an unqualified opinion that the financial statements of Northern Community Justice Authority (the Authority) for 2013/14 give a true and fair view of the state of its affairs and of the income and expenditure for the year ended 31 March 2014.
2. Two significant areas were highlighted in our consideration of the Authority's financial statements and position as follows:
  - the accounting treatment for pensions and the recognition of a pension liability within the financial statements
  - the impact of this pension liability and how this would be funded when the liability crystallises (liability would crystallise either through no Authority's employees being involved in the scheme or the cessation of the Authority)
3. The Authority should consider the pension disclosures required in its 2014/15 financial statements and continue to seek confirmation that residual liabilities, such as pension liabilities, are appropriately funded.
4. On the basis of the audit testing undertaken, there were no issues of concern in relation to the operation of the Authority's governance or performance arrangements.
5. The Scottish Government has announced proposals to replace Community Justice Authorities with a new approach involving Community Planning Partnerships, local partners, and the creation of a new national body although the details and timescale have yet to be finalised. These proposals would result in the cessation of the Authority.

# Introduction

6. This report is the summary of our findings arising from the 2013/14 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. It summarises our opinions (i.e. on the financial statements) and conclusions and any significant issues arising.
7. 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.
8. 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. 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.
9. 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.
10. This report has been prepared for the use of the Authority and no responsibility to any third party is accepted. This report is also addressed to the Auditor General for Scotland and will be published on our website after consideration by the Consortium.
11. 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.

## Acknowledgements

12. We would like to express our thanks to the staff of Northern Community Justice Authority and the Aberdeen City Council accounting team, for their help and assistance during the audit which has enabled us to provide an audit report within the agreed timetable.

# Financial statements

## Conduct and scope of the audit

13. 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 Chief Officer in March 2014, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland.
14. 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 2013/14 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

15. We have given an unqualified opinion that the financial statements of Northern Community Justice Authority for 2013/14 give a true and fair view of the state of the Authority's affairs and its net operating cost for the year. The audit opinion was formally issued and signed on 30 October 2014.
16. We received the unaudited financial statements on 25 September 2014 in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team. Community justice authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the 2013/14 Code). We confirmed that:
  - the financial statements were properly prepared in accordance with the 2013/14 Code and in accordance with the Management of Offenders etc (Scotland) Act 2005 and regulations made thereunder by Scottish Ministers
  - information given in the Explanatory Foreword by the Chief Officer was consistent with the financial statements
  - the Annual Governance Statement complied with the 2013/14 Code
  - the parts of the Remuneration Report to be audited had been properly prepared in accordance with the Local Authority Accounts (Scotland) Regulations 1985.
17. 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.

## Accounting issues

### Audit adjustments

18. A few presentational and monetary adjustments were identified within the financial statements during the course of our audit. These adjustments had no impact on the net assets in the balance sheet or on the comprehensive income and expenditure account. All errors identified during the audit were corrected in the accounts and therefore there are no unadjusted misstatements to bring to your attention.

### Significant findings

19. In our view, the following issues require to be brought to your attention 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.
20. **Pension Liability:** The Authority continues to account for its participation in the North East Scotland Pension Fund as a defined contribution scheme. The Authority should in accordance with International Accounting Standard 19 (Employee Benefits) disclose local government pension schemes as a defined benefit scheme and recognise the Authority's pension liabilities in the year they are accrued. As the Authority only had two employees in the scheme at 31 March 2014, management do not believe that it is practical or represents value for money to seek to obtain an actuarial valuation of pension liabilities. Consequently, the Authority has not quantified its potential pension liabilities, noting that the values are immaterial in the context of the total resources of the Authority. In addition, the statutory set-up of the Authority makes it unclear whether the mitigation in respect of the impact of pension fund accounting through the movement in reserves statement, as set out in the Code of Practice, is applicable to the Authority. Following the audit the Authority revised the disclosures around pensions to reflect the current position and the reasons for disclosing the pensions as defined contribution schemes.
21. **Going concern:** The accounts of the Authority have been prepared on a going concern basis. The Authority is not permitted to hold reserves and the financial statements disclose a zero reserve balance as at 31 March 2014. As highlighted above the recognition of a pension liability would result in the Authority having net liabilities. There is also ongoing consultation on plans to redesign the Community Justice System which may result in the Authority ceasing to exist however the details and timings of this process are yet to be clarified. The cessation of the Authority would result in the pension liability crystallising. As part of the consultation the Authority is seeking confirmation from the Scottish Government that any residual liabilities on winding up the Authority would be met by the Scottish Government. The Chief Officer will provide formal assurance, in the letter of representation, as to the Authority's ability to continue as a going concern. We are satisfied that the process which the Authority has undertaken to consider its ability to continue as a going concern is reasonable.

**Action point 1**

## Remuneration report

22. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985. The disclosures within the 2013/14 financial statements include all eligible remuneration for the relevant council officers and elected members.

## Legality

23. Through our planned audit work we consider the legality of the Authority's financial transactions. In addition the Chief Officer has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries, the financial transactions of the Authority 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.

## Other information published with the financial statements

24. Auditors review and report on other information published with the financial statements, including the explanatory foreword, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.



# Financial position

## Background

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

## Financial results

27. In 2013/14, the Authority's total expenditure was £12.545 million. This was met mainly by the Section 27 criminal justice grant and administration grant totalling £12.544 million, paid by the Scottish Government.
28. The Section 27 grant expenditure final outturn was £12.376 million. This represents a £0.06 million overspend against the grant allocation for all services. When an overspend on Criminal Justice Social Work Services occurs, this is ultimately funded by the local authority that incurred the overspend.

## Financial planning

29. The Section 27 grant allocation for the Northern Community Justice Authority in 2014/15 has reduced by £0.083 million to £12.189 million (excluding cashback, invoicing and intensive support packages funding).
30. The Authority considered a monitoring report in September 2014 which projected 2014/15 an underspend of £0.044 million for 2014/15. The monitoring reports highlight an overspend of £0.51 million on Criminal Justice Social Work Reports which is offset by underspends of £0.285 million on Community Orders and £0.276 million on Reducing Reoffending Projects. The costs of these services are determined by volumes of work instructed by the courts.

# Governance and accountability

## Background

31. 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.
32. 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.
33. 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
34. In this part of the report we comment on key areas of governance.

## Internal control

35. 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.
36. 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.
37. Our annual audit plan highlighted a risk that members have inadequate opportunity to review and scrutinise risk. Since then the Authority's risk register has been considered at the Authority's meeting in September 2014 and will be considered at each quarterly meeting thereafter.
38. A review of the Authority's internal controls was undertaken by the internal auditors, PriceWaterhouse Coopers in 2012/13 and the results were found to be satisfactory. The authority intends to engage the internal auditors to undertake a review in 2014/15.

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

- 39.** 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.
- 40.** 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. 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

## Best Value

41. 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.
42. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. 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

43. 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.
44. The Authority's *Annual Report 2013/14* (draft) was considered by the Authority in September 2014. The report is based on Scottish Government guidance. For 2013/14 it has been highlighted to the members that not all of the points in the guidance were covered in the report as the draft was completed prior to the guidance being received. This report to Scottish Minister covers:
  - the activities and performance during the year of the Authority in discharging its functions under Section 3 of the Management of Offenders Act
  - the activities and performance of the local authorities, partner bodies and Scottish Prison Service in complying with or facilitating compliance with, the area plan
45. The draft Annual Report is currently being considered by the Scottish Government and will be available to the public on the Authority's website following its publication later this year. Reported performance information includes:
  - reconviction rate has fallen from 32.6% from the 2005/06 cohort of offenders to 28.9% for the 2010/11 cohort, according to the latest figures, published in June 2014
  - recorded crime rates, since 2006/07 have fallen by 39% from 57,025 down to 34,855
  - 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 173,642 in 2013/14
  - the development of community services in Her Majesty's Prison and Young Offenders Institution Grampian which opened in March 2014 as Scotland's only multi regime prison

holding adult males, adult females, young males, young females and the remand population (including a Community Integration Unit)

- three local authorities (Aberdeen City, Aberdeenshire and Highland) received grant funding to develop services for women offenders, in line with Women Offenders' Commission recommendations

46. The Authority has identified several areas where it and its partners will focus attention during 2014/15 including continuing to reduce reoffending rates with a focus on early intervention and prevention.
47. We are satisfied that the Authority's arrangements for performance management are satisfactory and we are not aware of any specific issues that we need to highlight in this report.

## Outlook

48. Following a consultation in 2013, the Scottish Government has proposed a new model for community justice, with Community Planning Partnerships central to the new arrangements. Under the proposed model:
- Community Justice Authorities will cease to exist
  - outcomes for community justice will be delivered by a range of local partnerships - including local authorities, NHS boards, PoliceScotland, Scottish Prison Service, and the third sector - working in partnership at a local level in the context of community planning
  - a new national body, with the suggested name of Community Justice Improvement Scotland, is established to provide independent professional assurance to Scottish Ministers on the collective achievement of community justice
  - elements of the transition will come into effect at different times throughout the period 2015-16 to 2016-17.

# 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	20 - 21	<p>The Authority continues to account for its participation in the North East Scotland Pension Fund as a defined contribution scheme. This is based on management's assertion that the cost of obtaining a report from the Fund actuary outweighs the benefit derived from obtaining the information, and an acknowledgement that the Authority had only two employees which are members of the fund.</p> <p>The inclusion of a pension liability would result in a net liability position within the Authority.</p> <p><i>Risk: The Authority cannot quantify and is unable to fund its potential pension liability.</i></p>	<p>Seek written confirmation from the Scottish Government Justice Department on their responsibility for pension liabilities of the Northern Community Justice Authority upon Pension liabilities crystallising. Thereby providing assurance to the Northern CJA that it will not have to meet the costs of pension liabilities from its current resources now or in the future.</p>	Treasurer	March 2015