

South West Scotland Community Justice Authority

Annual report on the 2013/14 audit



Prepared for Members of South West Scotland CJA and the Auditor General for Scotland
October 2014

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Key messages

2013/14

In 2013/14, 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 2013/14.

The comprehensive income and expenditure statement discloses a deficit of £0.001 million for 2013/14. However, this includes a charge of £0.001 million to reflect the cost of accumulated absences accrued during 2013/14. This charge is then reversed out of the movement in reserves statement (MIRS) to the accumulated absences adjustment account. Hence, the MIRS demonstrated that the authority achieved a break-even position in 2013/14 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 of £9.532 million for 2014/15 remains largely unchanged from the 2013/14 allocation of £9.517 million. The administration grant for 2014/15 will increase by 1% to £0.226 million. 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 Scottish Government announced the outcome of its consultation on 'Redesigning the Community Justice System' in December 2013. It is intended that by 2016/17 Community Justice Authorities will be disestablished, with local strategic planning and delivery of community justice services transferring from CJAs to local Community Planning Partnerships, and a new national body being created with an assurance and improvement function. Consultations with the Scottish Government are currently on-going.

The authority is in the first year of the newly developed Area Plan 2014-17. This sets out the authority's Outcomes Framework and delivery of the Plan which will run until the expected disestablishment of the Community Justice Authority in 2016/17.

Introduction

1. This report is the summary of our findings arising from the 2013/14 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

Conduct and scope of the audit

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.
9. 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 issued to the Board of the South West Scotland Community Justice Authority in February 2014, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
10. 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

11. We have given an unqualified opinion that the financial statements of South West Scotland Community Justice Authority for 2013/14 give a true and fair view of the state of the authority's affairs and its net operating expenditure for the year. The audit opinion was formally issued and signed on 28 October 2014.
12. 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

13. 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 Executive 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

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.

Report to Those Charged with Governance (ISA 260)

15. During the course of the audit we identified a number of small issues regarding the appropriateness of accounting estimates and judgements and the potential effect on the financial statements. These have been reported in the ISA260 attached to this annual audit report.

Statement on the System of Internal Financial Control

16. 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.
17. 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

18. The authority has prepared a remuneration report which is in line with the issued guidance.

Chief Officer's Report

19. 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

20. 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. This accounting treatment by the Authority is consistent with prior years.

Action Plan No. 1

Accounting issues

21. Community justice authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code). We are satisfied that the authority has prepared the 2013/14 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.
22. 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

23. The authority's unaudited financial statements were submitted to us by the deadline of 30 September 2014. The audit fieldwork was completed in October 2014 and matters arising from the work were reported to the Chief Officer. The audited financial statements were approved and issued on 28th October 2014.

Financial position

24. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
25. 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 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

27. The main financial objective for South West Scotland Community Justice Authority is to ensure that the financial outturn for the year is within the resource budget allocated by Scottish Ministers.
28. In 2013/14 the authority underspent its section 27 funding of £9.517 million by £0.029 million. The audited accounts therefore include a provision of £0.029 million against the 2013/14 section 27 retention monies still due from the Scottish Government to ensure that the expenditure incurred matches section 27 funding received.
29. The authority overspent its £0.224 million administration grant by £0.001 million. This was due to the requirement to provide for the £0.001 million increase in accruals for accumulated absences incurred in 2013/14. This meant that the authority reported a net deficit of £0.001 million in the Comprehensive Income and Expenditure Statement to the 31 March 2014. This was then reversed out through the Movement in Reserves Statement to an unusable accumulated absences reserve. Therefore the authority achieved break even for the year.
30. The accounting adjustment through the Movement in Reserves Statement demonstrates that the authority are being transparent in how it accounts for, and provides for, any potential accumulating compensated absence costs. This means that the authority now has an unusable accumulated absences reserve deficit of £0.005 million at 31 March 2014 (an increase of £0.001 million from the previous year).

Outlook

Budget 2014/15

31. 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 2014/15 is £9.532 million, a minor increase from the £9.517 million allocation for 2013/14. Similarly, the administration grant for 2014/15 is £0.226 million, a 1% increase from £0.224 million. Although these are increases on the base allocation in cash terms, it is not an increase in real terms.
32. Funding allocations by the authority to the constituent bodies are designed to support the Area Plan and are largely based on workload. The constituent bodies continue to review and reshape service provision to ensure objectives can be met from within reduced funding in real terms.

Governance and accountability

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

Relationship with host Authority

37. 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.
38. 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.
39. 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.
40. 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

41. 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

42. 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.
43. 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

44. Each Community Justice Authority is required to produce an area plan which is submitted to the Scottish Government. Progress against the 2011-14 Area Plan is reported to the Board on a quarterly basis through the Outcomes Framework which highlights areas of significant achievement and areas for improvement.
45. The 2013/14 annual report shows progress against outcome indicators relating to the previous Area Plan 2011-14. There are 17 indicators across the six local outcomes. Each indicator is allocated a red, amber or green status to show progress. At the time of the report three of the 17 indicators were not yet available from partner agencies. Of the remaining 14 indicators reported: ten were awarded green status showing the authority has met its target; two indicators (rate of domestic abuse cases reported; and the number of offenders on license recalled into custody) were classified as red where targets had not been achieved; and there were two amber indicators where the authority is close to its target.
46. The authority refreshed its approach to performance management when developing its new Area Plan 2014-17 to more appropriately assess the CJA's work and impact.
47. The authority carried out a partnership self-assessment survey to reflect on the progress of the partnership in 2012. The results of this were shared with the Area Plan Implementation Group (APIG) and the CJA Board.
48. The results helped inform the authority on how to improve the self-assessment survey process as well as its ongoing development whilst facilitating discussions by the Board. It was intended that the process may be conducted again in 2014/15. However it is now proposed that the exercise will be conducted in 2015/16 to inform the transition to the new community justice arrangements.

Outlook

49. A new Area Plan for 2014-17, which sets out national and local strategic aims and objectives was produced and approved in March 2014. It is based on a refreshed Outcomes Framework with six key outcomes identified. The outcomes have shifted to include a broader focus on community approaches and an enhanced focus on families. Progress against these will continue to be monitored through the authority's Outcomes Framework and quarterly updates to the Board. Progress against the authority's 'evidence' measures scorecard will be reported to the Area Plan Implementation Group on a quarterly basis and the CJA Board on an annual basis, with exceptions reported to the Board as required.

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	<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>	<p>We will explore the costs involved in obtaining the information required to comply with IAS19 in 2014/15.</p>	Chief Officer	31 March 2015