



Lothian and Borders Community Justice Authority

Annual audit report to
Members and the Auditor
General for Scotland

Prepared for LBCJA and the Auditor General
October 2015

The Auditor General for Scotland appoints external auditors to central government bodies (www.audit-scotland.gov.uk/about/ags). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

The Auditor General has appointed David McConnell as the external auditor of Lothian and Borders Lothian and Borders Community Justice Authority for the period to 2015/16.

This report has been prepared for the use of Lothian and Borders Community Justice Authority and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the authority. The information in this report may be used by Audit Scotland in any reporting to the Scottish Parliament.

Key contacts

David McConnell, Assistant Director
dmcconnell@audit-scotland.gov.uk

Allister Perston, Audit Manager
aperston@audit-scotland.gov.uk

David Wightman, Auditor
dwrightman@audit-scotland.gov.uk

Audit Scotland
4th floor (South Suite)
8 Nelson Mandela Place
Glasgow
G2 1BT




Telephone: 0131 625 1500

Website: www.audit-scotland.gov.uk

Contents

Key messages	4	Performance	15
Introduction	6	Appendix I – Significant audit risks	17
Audit of the 2014/15 financial statements	7	Appendix II: Planned audit outputs	20
Financial management and sustainability	9	Appendix III: Planned audit outputs	21
Governance and transparency	12	Appendix IV – Action plan	22

Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none">• Unqualified auditor's report on the 2014/15 financial statements.• The financial statements of the authority have been prepared on a going concern basis. We are not aware of any events or conditions that may cast significant doubt on the authority's ability to continue as a going concern, until the dissolution of CJAs in 2017.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• The financial management arrangements are satisfactory for an organisation of the size of the authority.• The financial position is sustainable currently, although rising demand for and costs of services will continue to place a strain on the authority's capacity to deliver services at the current levels.
 <p>Governance and transparency</p>	<ul style="list-style-type: none">• The framework in place for the governance of the authority is appropriate to the organisation.• There were no issues of concern in relation to the operation of the authority's financial control systems.• The authority has appropriate anti-fraud arrangements.



Performance

- An Area Plan is in place setting the authority's aims and objectives.
- The authority's performance measures in relation to reconviction rates is now showing an increasing trend, although total number of offenders decreased by 6.4%.



Outlook

- The Community Justice (Scotland) Bill proposed that community justice authorities will be dissolved. The Scottish Government have published a second consultation on the redesign of community justice, 'Future Model for Community Justice in Scotland'. It is anticipated that the Lothian and Borders Community Justice Authority will cease to exist from 1 April 2017. This is a significant change which, in the interim, brings with it potential risks relating to performance and the sustainability of services.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of Lothian and Borders Community Justice Authority (the authority). The report is divided into sections which reflect our public sector audit model.
2. The management of the authority is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of the authority, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of 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; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. The significant audit risks identified at the planning stage and how we address each risk at arriving at our opinion for the financial statements is set out in **appendix I**.
6. Both local and national reports have been issued by Audit Scotland during the course of the year. These reports, summarised at **appendices II and III**, include recommendations for improvements.
7. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that the authority understands its risks and has arrangements in place to manage these risks. The authority should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
8. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
9. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 financial statements

Submission of financial statements for audit

10. We received the unaudited financial statements on 17 September 2015. The working papers were of a good standard and staff provided good support to the audit team which assisted the delivery of the audit to deadline.

Overview of the scope of the audit of the financial statements

11. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our annual audit plan issued in February 2015.
12. 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 2014/15 agreed fee for the audit was set out in the annual audit plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
13. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of

judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our annual audit plan the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
17. We summarised our approach to materiality in our annual audit plan. Based on our knowledge and understanding of the

authority we revised our planning materiality for 2014/15 at £148,860 (1% of gross expenditure). Performance materiality was calculated at £133,974 to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level. We report all misstatements greater than £1,000.

- written representations requested by the auditor
- other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

20. We did not identify any issues during the course of our audit which in our view require to be communicated to you.

Evaluation of misstatements

18. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The overall effect of the adjustments made to the financial statements had no impact on the net position of either the comprehensive income and expenditure statement or the balance sheet.

Significant findings from the audit

19. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
- the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
 - significant difficulties encountered during the audit
 - significant matters arising from the audit that were discussed, or subject to correspondence with management

Financial management and sustainability

Financial management

21. In this section we comment on the authority's financial outcomes and assess its financial management arrangements.
22. The authority sets an annual budget to meet its service commitments for the forthcoming financial year. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

23. The authority's total expenditure in 2014/15 was £14.882 million. This was met by funding from the Section 27 criminal justice grant and administration grant £14.868 million and Financing and Investment Income of £14,000.
24. The Section 27 grant was disbursed to constituent councils
 - City of Edinburgh Council - £9.037 million
 - East Lothian Council - £1.293 million
 - Midlothian Council - £0.915 million
 - Scottish Borders Council - £1.142 million

- West Lothian Council - £2.283 million.

25. The 2015/16 section 27 grant allocations are:

- City of Edinburgh Council – £9.063 million
- East Lothian Council - £1.207 million
- Midlothian Council - £0.912 million
- Scottish Borders Council - £1.128 million
- West Lothian Council – £2.399 million.

This represents an overall increase of £0.148 million (1%) on the 2014/15 allocation.

26. The Scottish Government removed the Core/Non-Core distinction during 2013/14. CJAs are now free to allocate funds in accordance with their area plan. As a result there is an expectation that progress will be made in achieving national outcomes and reductions in reoffending.

Financial management arrangements

27. As auditors, we need to consider whether the authority has established adequate financial management arrangements. We do this by considering a number of factors, including whether:
 - financial regulations are comprehensive, current and promoted within the body
 - budget monitoring reports are regularly prepared and reported to members

- monitoring reports do not just contain financial data but are linked to information about performance.

28. The authority's financial transactions are processed through City of Edinburgh Council's main financial systems. Revenue budget monitoring reports are regularly provided to meetings of the Authority.
29. Overall we have concluded that the Authority's financial management arrangements are satisfactory.

Financial sustainability

30. Financial sustainability means that the authority has the capacity to meet the current and future demands for services. In assessing financial sustainability we are concerned with whether:
 - spending is being balanced with income in the short term
 - long term financial pressures are understood and planned for.

Effective long-term financial planning, and workforce planning are crucial to sustainability.

Going concern

31. We reported in our 2013/14 annual audit report that the Community Justice (Scotland) Bill proposed that the criminal justice system in Scotland was undergoing significant changes. Since then the Scottish Government had published a second

consultation on the redesign of community justice, 'Future Model for Community Justice in Scotland'.

32. The Government has already announced that from 2017, planning and delivery of community justice should transfer from the 8 Community Justice Authorities to Scotland's 32 Community Planning Partnerships. In Lothian and Borders there will be five Community Planning partnerships in the City of Edinburgh, Scottish Borders, Midlothian, East Lothian and West Lothian. A national body will also be created, to provide leadership and accountability for the new structure. This is a significant change which, in the interim, brings with it potential risks relating to performance and the sustainability of services.
33. The timescales which have been identified mean that community planning partnerships will assume responsibility under the new model in transition from 1 April 2016 for a shadow year. Full responsibility will be conferred from 1 April 2017. The existing community justice authorities will be disestablished on 31 March 2017.
34. The Transition Plan identifies key activities during the transition period to 31 March 2017 to ensure Lothian and Borders CJA continues to fulfil its statutory and regulatory responsibilities. It contains the LBCJA response to assisting Community Justice partners in understanding their role in the new model. The Transition Plan identifies key risks to LBCJA during the transition period and mitigation of these risks, such as the loss of staff.

35. The financial statements identify that it is appropriate to adopt a going concern basis for the preparation of the Financial Statements taking into account the Authority's overall financial resources, the risks identified, the arrangements in place to manage those risks and the agreement on future funding with the Scottish Government. LBCJA's view is that transfers of services under combinations of public sector bodies do not negate the presumption of going concern.

Key Risk Area, Action Plan 1

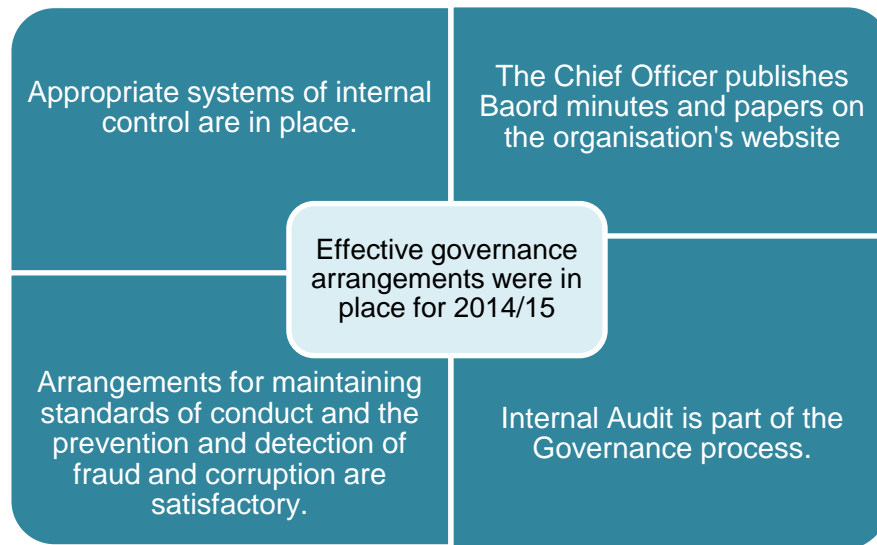
Financial budget 2015/16

36. The Section 27 grant allocation for the Lothian and Borders Community Justice Authority in 2015/16 is £14.709 million ,which is a 1% increase from the 2014/15 grant value.

Conclusion on financial sustainability

37. We conclude LBCJA has funding stable financial position for the immediate future.

Governance and transparency



Corporate governance

38. The Chief Officer, as Accountable Officer, is responsible for establishing arrangements for ensuring the proper conduct of affairs and for monitoring the adequacy of these arrangements.
39. The Chief Officer is accountable for the finances of the organisation to the Scottish Parliament and is the designated Accountable Officer.

40. Members and Management of the authority are responsible for establishing arrangements to ensure that business is conducted in accordance with the law and proper standards, that public money is safeguarded and for the monitoring the adequacy and effectiveness of these arrangements.
41. The Board meet every quarter in public and meetings are supported by detailed and comprehensive reports from officers. The main governing documents for the authority are its, members' code of conduct and the financial memorandum.
42. The Community Justice (Scotland) Bill was introduced to parliament in May 2015 and proposes that Community Justice Scotland will be established and the community justice authorities dissolved. It is anticipated that the Lothian and Borders Justice Authority will cease to exist from 31 March 2017. During any transition period it is vital that business continues as normal.

Transparency

43. The Scottish Government's On Board guidance (<http://www.gov.scot/Publications/2015/04/9736/0>), for board members of public bodies was updated and reissued in April 2015. This is an example of best practice. On Board states that boards should demonstrate high standards of corporate governance at all times including openness and transparency in decision making. It recommends boards should consider:
 - Holding an annual open meeting

- Holding board meetings in public unless there is a good reason not to
- Publishing summary reports and/or minutes of meetings
- Inviting evidence from members of the public in relation to matters of public concern
- Consulting stakeholders and users on a wide range of issues
- Making corporate plans and the annual report widely available.

44. Overall we concluded that the organisation is open and transparent and the annual report and a range of corporate plans and progress reports are published on the website. The Chief Officer should keep openness and transparency in decision making under review.

Internal control

45. 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.
46. No material weaknesses in the accounting and internal control systems were identified during the 2014/15 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.

Internal audit

47. 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 a number of areas including payroll controls. This not only avoided duplication of effort but also enabled us to focus on other key risk areas.

Arrangements for the prevention and detection of fraud

48. 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.
49. 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 the Chief Officer's overall arrangements for the prevention of fraud, irregularity and corruption are satisfactory, although it should be noted that no system can eliminate the risk of fraud, irregularity or corruption entirely.

Outlook

Change in LBCJA's Status

50. It is proposed that from 2016/17 Community Justice Authorities are to be replaced by a new structure where local strategic planning and delivery of community justice services is undertaken through Community Planning Partnerships (CPPs).
51. To provide national leadership; enhanced opportunities for innovation, learning and development; assurance on the delivery of improved outcomes; and improvement support where required, a new body called Community Justice Scotland will be established in October 2016 and will fully assume its functions from April 2017.
52. Awareness raising, the delivery of information from Community Justice Authorities to their respective Community Planning Partnerships and Community Justice Partners will occur during the transition process.
53. CJAs are to be formally dis-established from 31 March 2017 and Community Justice Scotland fully assumes its functions and the new model for community justice in Scotland comes fully into effect on 1 April 2017. Section 27 of the Social Work (Scotland) Act 1968 ring-fenced funding will go directly to the 32 Local Authorities for them to fund the Criminal Justice Social Work (CJSW) services and initiatives as identified by the Community Justice Partners as appropriate to the needs of the local area.
54. A transition workstream and working group have been established to facilitate the smooth transition of community justice arrangements.
55. Additional funding resource of £1.6 million per annum is to be made available to support the transition work, commencing 2015/16. This funding is being split equally, with £50,000 going to each Local Authority to be used across the CPP. It is expected that this funding will be available for 3 years. However, this will be reviewed in light of the next UK Comprehensive Spending Review (CSR).
56. The Third Sector also has an important role in the planning, delivery and evaluation of community justice and has been granted transitional funding through the Criminal Justice Voluntary Sector Forum of £50,000 per annum for 3 years. Again this is subject to the outcome of the CSR settlement.
57. Advice and support materials are being developed to help partners as they prepare for the transition. It is vital that CPPs and partners speak with their respective CJAs as regards current arrangements, services in place and progress in their local area.
58. The challenge for all those involved in community justice during this period of transition will be to ensure that the availability of services which reduce re-offending continues and that the structural transition does not disrupt existing good practices.

Key Risk Area, Action Plan 2

Performance

Best Value

- 59. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.
- 60. 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 Chief Officer, agree to undertake local work in this area.
- 61. We did not undertake any specific work in this area during 2014/15.
- 62. 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 number of offenders within the Lothian and Borders area for the 2012/13 cohort decreased by 6.4% compared to the 2011/12 cohort. The one year reconviction rate for the 2012/13 is 26.9%, an increase of 2.6% when compared to the 2011/12 cohort. This is 1.7% points below the Scottish average.

- 63. The average number of reconvictions per offender for the 2012/13 cohort for the Lothian and Borders area was 0.49, an increase on the 2011-2012 cohort which was 0.41. This performance information will 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 and are continuing to target an outcome of 5% below the national average.

National performance audit reports

- 64. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest. These are outlined in appendix II.
- 65. **Scotland's public finances** - a follow-up audit: Progress in meeting the challenges. This report was published in June 2014 and commented that, in setting budgets, public bodies need to focus more on their priorities, making clearer connections between planned spending and the delivery and measurement of outcomes.
- 66. **Update on developing financial reporting.** This update report published in March 2015 reviewed the principles of public financial management and provided an update on the actions the Scottish Government is taking to further develop financial reporting.
- 67. The report concludes that the Scottish Government and the public sector generally, have a good record of financial management and reporting. The Scottish Government has continued to improve and

develop its financial reporting framework since we last reported. The report highlights that consolidated accounts for the whole of the Scottish public sector would help provide an overall picture of its financial position to strengthen understanding and transparency.

Appendix I – Significant audit risks

The table below sets out the audit risks we identified in our annual audit plan and how we addressed each risk in arriving at our opinion on the financial statements.

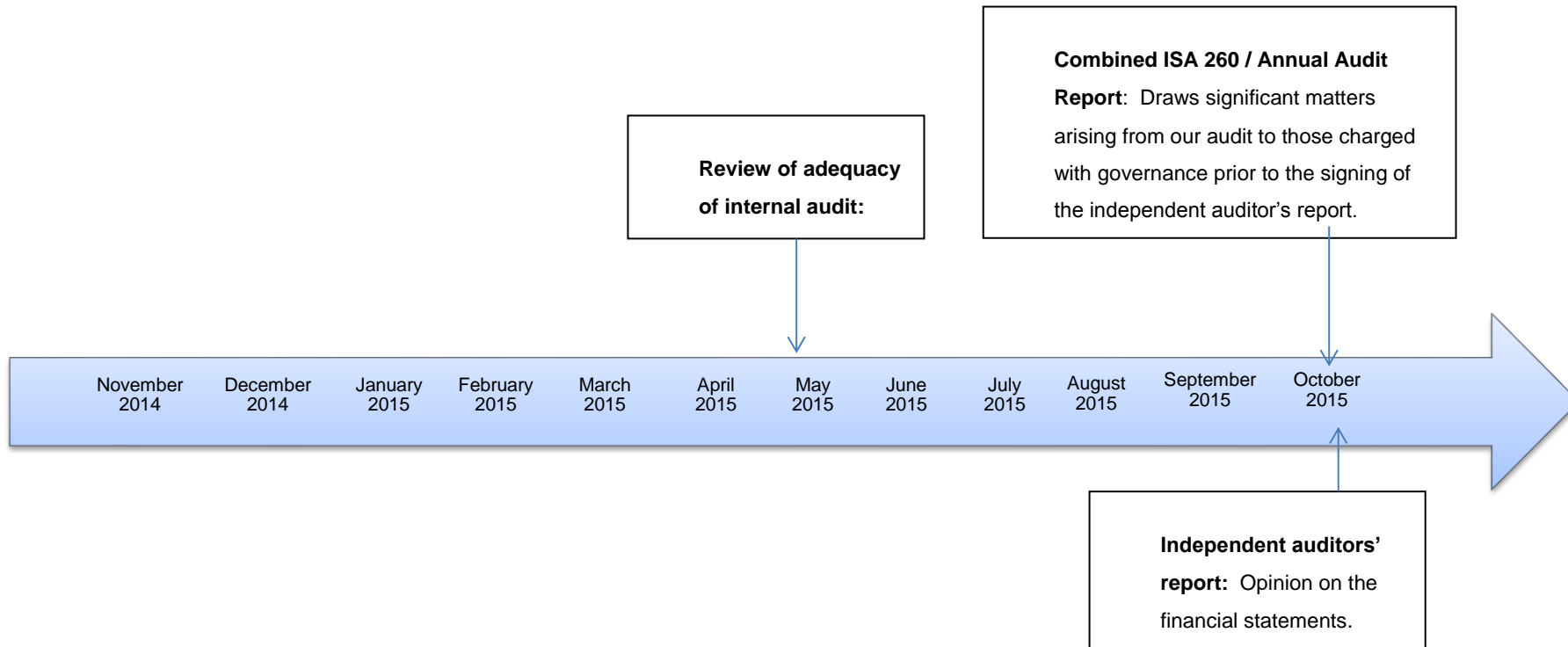
Audit Risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>Dissolution – due to the planned dis-establishment of the LBCJA in March 2017, there is a risk that staff may leave the organisation to take up other employment.</p>	<p>Audit Scotland monitored the activity during the year.</p>	<p>The Chief Officer is on a Fixed Term contract to 31st March 2017. Only one member of staff has left the authority since 31st March 2015.</p> <p>We will continue to monitor the LBCJA's staffing position.</p>
<p>Dissolution – members may not be fully focused on governance matters as the body's status has changed.</p>	<p>Audit Scotland monitored the activity during the year.</p>	<p>No issues have arisen in regards to governance matters.</p> <p>Audit Scotland will continue to monitor activity.</p>
<p>Dissolution – LBCJA's assets, rights and liabilities may not be fully established on transfer to a Succession Body.</p>	<p>Audit Scotland monitored the assets, rights and liabilities during the year.</p>	<p>Currently LBCJA assets are fully depreciated. There may be residual monies from interest received at the date of dissolution.</p> <p>The recognition of a pension liability could possibly result in the authority having net liabilities.</p> <p>We will monitor this area on an ongoing basis as part of our normal audit testing.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Risk Management - supports decision making and contributes to performance. The risk register is supported by the work on the governance framework and capacity building within 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 addressing all risks appropriately.</p>	<p>Audit Scotland monitored progress through review of minutes and board papers.</p>	<p>Risks are integrated into LBCJA's performance framework and this is reported on and monitored quarterly by senior managers in our partner agencies before going forward to our quarterly CJA Board meeting.</p> <p>The risks in the framework are integrated into LBCJA's annual planning. Our planning for 2016/17 starts in December 2015.</p> <p>Audit Scotland will continue to monitor progress through review of minutes and board papers.</p>
<p><i>Audit risk of material misstatement in financial statements</i></p>		
<p>Budgetary Pressures: the 2014/15 s27 funding has decreased marginally from 2013/14. Demand for services continues to increase and the on-going impact of welfare reform is yet to be fully understood. Future funding gaps may have an adverse impact on services and the ability to achieve objectives..</p>	<p>Audit Scotland monitored the body's budgetary control processes and the impact of funding reductions during the year.</p>	<p>We have monitored developments in this area through review of Board minutes, papers and discussions with finance staff. The financial position of LBCJA appears stable on the basis of its current financial reporting and budget projections. LBCJA is undertaking close monitoring of its financial position going forward to dissolution to identify and address any emerging budget pressures or projected overspends at an early stage. We would conclude that the Board recognises the</p>

Audit Risk	Assurance procedure	Results and conclusions
		financial challenge it faces and we will continue to monitor and report on the Board's performance.
<p>Management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing was undertaken of journal entries and accounting estimates. Evaluation carried out of any significant transactions that are outside the normal course of business.</p>	<p>No unusual or incorrect entries found from testing.</p>

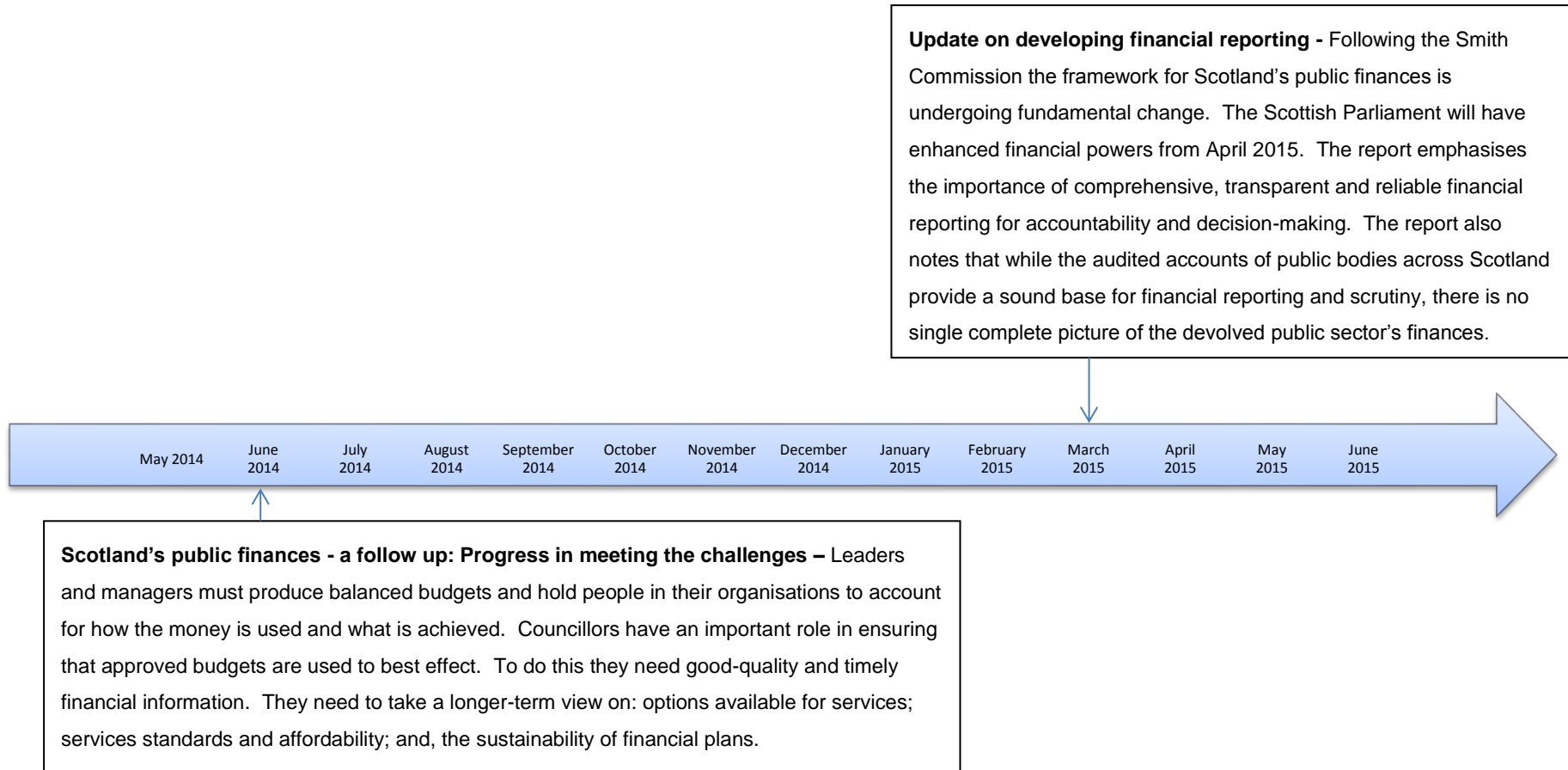
Appendix II: Planned audit outputs

The diagram below shows the key outputs planned for Lothian and Borders Community Justice Authority in 2014/15.



Appendix III: Planned audit outputs

Summary of Audit Scotland national reports 2014/15



Appendix IV – Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1/36	<p>Transfer of Assets/ Liabilities to Succession body on Dissolution</p> <p>On dissolution LBCJA's assets, rights and liabilities will transfer to a Succession Body.</p> <p>Risk</p> <p>There is a risk that assets/liabilities on transfer may not be fully established.</p> <p>Recommendation</p> <p>The LBCJA needs to establish assets and liabilities prior to dissolution.</p>	<p>The Chief Officer has produced a Community Justice Redesign Transition Plan which covers the identification of assets and liabilities to be transferred. There are ongoing discussions on the Transition Plan as it is an organic document that will be updated through consultation with key stakeholders over the course of the transition into the new Community Justice model.</p>	Chief Officer	Ongoing

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2/60	<p>LBCJA's Status</p> <p>During the process of LBCJA's dissolution members need to continue to recognise the importance of effective governance at this time of change.</p> <p>Risk</p> <p>LBCJA's members may not be fully focused on governance matters as the body's status is changed.</p> <p>Recommendation</p> <p>LBCJA's members need to ensure they continue to discharge their statutory obligations during the reorganisation process..</p>	<p>Members have signed up to a 'handling statement' for the reform period which recognises the need for statutory obligations placed on them to continue to be discharged until such times as reform is introduced. The Board and Chief Officer will work together and with partners to promote the need for strong governance arrangements to be maintained, particularly around risk, performance and finance processes.</p>	Chief Officer	Ongoing