

Lothian & Borders Community Justice Authority

Report to Members and the Auditor General on the 2007/08 Audit



Contents

Key Messages	1	Governance	6
Introduction	2	Performance	8
Financial statements	3	Final Remarks	9
Financial position	5	Appendix A: Action Plan	10



Key Messages

Introduction

Lothian and Borders Community Justice Authority (the authority) was established through the Management of Offenders etc (Scotland) Act 2005. The Act established eight community justice authorities to provide strategic bodies for planning, managing and reporting on the performance of local authorities and their statutory partners who co-ordinate offender services.

This report summarises the findings from the 2007/08 audit of Lothian and Borders Community Justice Authority. This is the first year of a four year appointment. We have audited the financial statements and looked at aspects of performance management and governance arrangements that have been developed during the first year of the organisation. This report sets out our main findings from the 2007/08 audit and the outlook for the period ahead.

Key outcomes from 2007/08 audit

We have given an **unqualified** opinion on the financial statements of the Lothian and Borders community Justice Authority.

Outlook for future audits

As a relatively new body the Lothian and Borders Community Justice Authority is continuing to develop a range of governance processes and policies and we will continue to monitor and review these.

The co-operation and assistance given to us by the Lothian and Borders Community Justice Authority and staff during the year is gratefully acknowledged.

**Audit Scotland
November 2008**



Introduction

1. This report summarises the findings from our 2007/08 audit of Lothian and Borders Community Justice Authority, the first year of a four year appointment. Findings are set out in four sections: financial statements; financial position; governance and performance.
2. Overall conclusions about the authority's management of key risks are discussed throughout this report. Appendix A sets out the key risks highlighted in this report which we wish to draw to the attention of members and the action planned by management to address them.



Financial statements

Introduction

3. In this section we summarise key outcomes from our audit of the authority's financial statements for 2007/08. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.
4. We audit the financial statements and give an opinion on whether:
 - they present a true and fair view, in accordance with the Management of Offenders etc (Scotland) Act 2005 and regulations made thereunder, of the state of affairs of the body as at 31 March 2008 and of its net operating costs and cash flows for the year then ended
 - they have been properly prepared in accordance with the Management of offenders etc (Scotland) Act 2005 and regulations made thereunder.
5. We also review the statement on the system of internal financial control by considering the adequacy of the process put in place by the authority to obtain assurances on systems of internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the authority.

Overall conclusion

6. We have given an **unqualified** opinion on the financial statements of Lothian and Borders Community Justice Authority for 2007/08.
7. The authority's unaudited financial statements were submitted to Audit Scotland on 8 October 2008 after the latest date specified within the Scottish Government Criminal Justice Directorate's financial memorandum of April 2008.

Action plan no. 1

8. Audited accounts were finalised by the target date of 31 October 2008. The audited accounts will be submitted to Scottish Ministers in order to be laid before the Scottish Parliament prior to the deadline of 31 December 2008.

Accounting practice

- Community justice authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice* (the 'SORP').



9. Overall, we were satisfied that the authority had prepared the accounts in accordance with the SORP.
10. The authority adjusted the financial statements to reflect our audit findings. We have reported to the Accountable Officer in line with International Standard on Auditing 260 (ISA 260) *communication of audit matters with those charged with governance*. There were no material weaknesses in the accounting and internal control systems identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data and no significant changes were required between the audited and unaudited accounts.
11. We note that no provision has been made in the accounts for pension liabilities under Financial Reporting Standard (FRS) 17 – retirement benefits. We understand the reasons for this to be the immateriality of any such provision, as well as the cost involved in obtaining a FRS 17 valuation from the actuary. Although the authority employs only two members of staff, there is a risk that, over time, pension liabilities will become significant and that the accounts will be misstated.

Action plan no. 2

Regularity

12. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

Financial reporting outlook

IFRS adoption

13. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2009/10. The intention is that local government bodies will adopt IFRS for 2010/11. As yet it is unclear when the community justice authorities will adopt IFRS given that they are central government bodies following local government accounting practice. This issue will require further clarification during 2008/09.

Action plan no. 3



Financial position

Introduction

14. In this section we summarise key aspects of the authority's reported financial position to 31 March 2008, including our views on potential financial risks. Our findings and key messages are set out in this section, highlighting the significant challenges being faced by the authority in managing ongoing financial pressures in funding existing service delivery and future improvement.

Operating performance 2007/08

15. The authority's total expenditure in 2007/08 was £13.8 million. This was funded through the Scottish Government Section 27 Criminal Justice Grant of £13.6 million and an administration grant of £0.184 million. The Section 27 grant is split between core and non-core services in accordance with the 2007/08 grant allocation. The authority disbursed the Section 27 grant to constituent councils as follows:

- City of Edinburgh Council - £8.692 million
- East Lothian Council - £0.907 million
- Midlothian Council - £0.932 million
- Scottish Borders Council - £1.264 million
- West Lothian Council - £1.830 million

16. The authority received an allocation of £13.724 million from the Scottish Government for Section 27 expenditure. This was restricted to £13.625 million primarily reflecting underspends in some non-core projects. The overall spend in relation to core and non-core Section 27 projects and overheads was £13.934 million. There was a difference of £0.309 million between the Section 27 grant received and the actual expenditure incurred. This was funded directly by the constituent councils.

Financial outlook

17. The authority's Section 27 grant allocation for 2008/09 is £14.705 million, an increase of £1 million from 2007/08.



Governance

Introduction

18. In this section we comment on key aspects of the authority's governance arrangements during 2007/08.

Overview of arrangements in 2007/08

19. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours. In the Statement on the System of Internal Financial Control the authority reported that it has a "framework of regular management information, financial regulations, administration procedures (including segregation of duties), management supervision and a system of delegation and accountability".

20. The Scottish Government community justice directorate issued a financial memorandum in April 2008 that defines the expected policies and procedures to be introduced by authorities.

Action plan no. 1

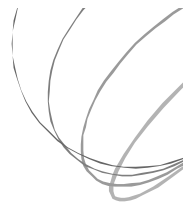
21. We noted that the authority's Standing Orders were formally adopted in June 2008. A draft Scheme of Delegation (in respect of the chief officer) and a draft risk register have been prepared but have not been formally approved yet.

Action plan no. 5

22. The City of Edinburgh Council provides financial and internal audit services to the authority. We are advised that work is ongoing to prepare a service level agreement to define the relationship between the City of Edinburgh Council and the authority. Such an agreement detailing the services to be provided, the standards to be delivered, performance indicators, legal compliance and procedures for the resolution of problems and/or disputes would enhance the governance of the authority by allowing members to ensure that the service provided by the City of Edinburgh Council supports continuous improvement and best value. The City of Edinburgh Council would also benefit from having a clearly documented remit.

23. We also note that there are no formal agreements in place with the constituent authorities' social work departments. In addition, we noted that constituent authorities do not always have service level agreements in place with voluntary bodies for services provided. There is therefore no assurance that the cost and quality of services to be provided have been agreed between the authority and its providers.

Action plan no. 4



Governance outlook

24. As a relatively new body the Lothian and Borders Community Justice Authority is continuing to develop a range of governance processes and policies and we will continue to monitor and review these during 2008/09.



Performance

Introduction

25. In this section we summarise how the authority is developing performance measures.

Overview of performance in 2007/08

26. The National Strategy for the Management of Offenders outlined a set of outcomes that the community justice authorities should achieve for communities, offenders and the justice system. The Scottish Government Justice Department has been developing measures for the past two years that will determine the progress authorities have made against these outcomes. This work is still underway and it is anticipated that the national framework will be in place from April 2009.

27. The authority has prepared a three year Area Plan 2008-2011 setting out the strategic direction for the management and development of offender services and a range of short to medium term outcomes agreed with partner agencies. An action plan has been prepared to support the delivery of the desired outcomes.

28. The authority's 2007/08 Annual Report documents how the work of the authority supports the delivery of the fourteen outcomes of the national strategy. The progress made in 2007/08 is detailed in the 2007/08 action plan. The report also highlights the work done in developing leadership, vision, direction and improvement. The need to integrate the authority's planning process with that of the constituent authorities' community planning partnerships is identified as an area for improvement in 2008/09. This will support the delivery of the Single Outcome Agreement between the Scottish Government and local authorities.

Performance outlook

29. The local performance framework is at an early stage and we will consider the effectiveness of this new approach as part of our 2008/09 audit.

30. As part of its proposed national study programme Audit Scotland has met with community justice authority chief officers to discuss a study on "Reducing Re-Offending". These discussions are expected to influence the scope and timing of any future study.



Final Remarks

31. Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of members. In response, officers have considered the issues and have agreed to take the specific steps set out in the column headed 'planned management action'. On occasion, officers may choose to accept the risk and take no action. Alternatively, there may be no further action that can be taken to minimise the risk. Where appropriate, the action plan clearly sets out management's response to the identified risks.
32. Appropriate mechanisms should be considered and agreed by members for monitoring the effectiveness of planned action by officers. We will review the operation of the agreed mechanism as part of the 2008/09 audit.
33. The co-operation and assistance given to us by Lothian and Borders Community Justice Authority and City of Edinburgh Council staff is gratefully acknowledged.



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.	7., 20.	<p>The authority's financial statements were not submitted until after the final deadline determined in the Scottish Government community justice directorate's financial memorandum.</p> <p>Risk – weaknesses in governance arrangements impact on the authority's ability to demonstrate accountability. Accounts may fail to be laid before Parliament by the specified date.</p>	<p><i>A recommendation will be considered by the CJA at its meeting on 4th December 2008 that each Chief Social Work Officer and the Finance Director of the constituent councils be advised of this Action point and the associated risks.</i></p> <p><i>Quarterly reporting from each constituent council, consolidated by the CJA financial manager has now been regularised and these reports are reported to the CJA and accountability established.</i></p>	<p>Chris Hawkes</p> <p>Chris Hawkes</p>	<p>4/12/08</p> <p>ongoing</p>
2.	11.	<p>No provision has been made in the accounts for pension liabilities under Financial Reporting Standard (FRS) 17 – retirement benefits on the grounds of materiality.</p> <p>Risk – over time, pension liabilities may become significant and the accounts may therefore be misstated.</p>	<p><i>2.1 Advice will be sought during 2009 in order to find an appropriate remedy to this situation.</i></p>	<p>Chris Hawkes</p>	<p>2009</p>
3.	13.	<p>As yet it is unclear when the community justice authorities will adopt IFRS as these are central government bodies following local government accounting practice. This issue will require further clarification during 2008/09.</p> <p>Risk – changes in the accounting environment of the authority are not planned for and managed.</p>	<p><i>3.1 Advice will be sought during 2009 in order to find an appropriate remedy to this situation.</i></p>	<p>Chris Hawkes</p>	<p>2009</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4.	23.	<p>There are no formal service level agreements in place which would clearly identify the cost of and quality expected in respect of service provided to the authority.</p> <p>Risk – services purchased by the authority may not deliver value for money or meet the service specifications expected.</p>	<p>4.1 <i>A service level agreement will be in place between the CJA and City of Edinburgh Council in respect of Section 27 financial Administration commencing April 2009.</i></p> <p>4.2 <i>The CJA will require that each Section 27 contract is conditional on a service level agreement between the constituent councils and external providers.</i></p>	<p>Chris Hawkes</p> <p>Chris Hawkes</p>	<p>April 2009</p> <p>2009</p>
5.	21.	<p>We noted that the authority's Standing Orders were formally adopted in June 2008. A draft Scheme of Delegation (in respect of the chief officer) and a draft risk register have been prepared but have not been formally approved yet.</p> <p>Risk – as a new organisation, governance processes may not be fully embedded leading to potential weaknesses in controls.</p>	<p>5.1 <i>Both Scheme of Delegation and risk register will be submitted to the CJA for formal adoption on 4th December 2008</i></p>	<p>Chris Hawkes</p>	<p>4/12/08</p>