

# Lanarkshire Community Justice Authority

## Annual Report to Members and the Auditor General for Scotland – Final Report

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# Executive Commentary

Lanarkshire Community Justice Authority (“CJA”) is an independent statutory body established by the Management of Offenders etc (Scotland) Act 2005. CJAs have a range of planning, monitoring and reporting functions aligned to their key tasks: reducing re-offenders and improving the management of offenders. The membership of the Lanarkshire CJA is elected members of both South Lanarkshire Council and North Lanarkshire Council.

Our overall responsibility as the external auditor of the Lanarkshire Community Justice Authority (“CJA”) is to undertake our audit in accordance with the principles contained in the Audit Scotland Code of Audit Practice revised and published in March 2007.

## **Audit Process and Financial Position (Section 2)**

We are pleased to report that our opinion (true and fair) on the financial statements for the year ended 31 March 2009 is **unqualified**.

The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of financial statement working papers provided and internal review process undertaken by management were of a reasonable standard.

Our audit of the financial statements identified a number of minor disclosure and financial adjustments which have now been amended by Management in the final financial statements.

## **Financial Position 2008/09**

The financial statements consist of five primary statements as set out within the Local Government SORP 2008: Income and Expenditure account for the year ended 31 March 2009, the Statement of Movement on the General Fund, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash Flow Statement. In addition, in accordance with Scottish Government guidance the Lanarkshire CJA Social Work Services Annual Financial Statement has been included within the Financial Statements as an appendix.

Total expenditure for the year ended 31 March 2009 was £10.897 million. This expenditure is matched with income from the Scottish Government of £10.902 million. There is a small surplus on the Income and Expenditure Account of £6,000 due to interest arising on pension costs and return pension assets, as required by accounting treatment under Financial Reporting Standard (FRS) 17: Retirement benefits. This balance is reversed out in the Statement of Movement on the General Fund in accordance with SORP guidance resulting in a zero general fund balance carried forward into 2009/10.

The principal assets and liabilities of Lanarkshire CJA reflected within the balance sheet are pension assets and liabilities, a debtor with the Scottish Government of £0.484 million and creditors and accruals of £0.484 million due to the Scottish Government, North Lanarkshire Council and South Lanarkshire Council.

### **Governance and Internal Financial Control (Section 3)**

The Authority utilises the key financial systems in place at South Lanarkshire Council in particular general ledger, payroll, accounts payable and accounts receivable. Therefore appropriate systems audit work has been undertaken as part of our 2008/09 audit of South Lanarkshire Council.

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30 November 2009

# 1. Introduction

## Background to the Lanarkshire Community Justice Authority

- 1.01 Lanarkshire Community Justice Authority (“CJA”) is an independent statutory body established by the Management of Offenders etc (Scotland) Act 2005. CJAs have a range of planning, monitoring and reporting functions aligned to their key tasks: reducing re-offenders and improving the management of offenders. The membership of the Lanarkshire CJA is elected members of both South Lanarkshire Council and North Lanarkshire Council. South Lanarkshire Council are the lead authority for the Lanarkshire CJA.

## Responsibilities of Lanarkshire CJA and our external audit responsibilities

- 1.02 Our overall responsibility as the external auditor of Lanarkshire Community Justice Authority (“the Authority”) is to undertake our audit in accordance with the principles contained in the Audit Scotland Code of Audit Practice revised and published in March 2007.
- 1.03 The Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector, involving assurance on the financial statements but also consideration of areas such as regularity, performance and achievement of Best Value.
- 1.04 Set out below for information is a summary of our responsibilities as your external auditor and the responsibilities of the Authority and the Chief Officer.

Responsibility of the Authority and the Chief Officer	Responsibilities of External Audit
<ul style="list-style-type: none"><li>• Ensuring proper administration of the Authority’s financial affairs.</li><li>• Managing the Authority’s affairs to secure economic, efficient and effective use of resources and safeguard its assets.</li><li>• Selecting suitable accounting policies and applying them consistently.</li><li>• Making judgements which are prudent, and estimates that are reasonable and prudent in line with the CIPFA/LAASAC Code of Practice on local authority accounting in the United Kingdom.</li><li>• Maintaining proper accounting records.</li></ul>	<ul style="list-style-type: none"><li>• Issuing an audit report (opinion) on whether the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year ended.</li><li>• Determining whether the financial statements have been prepared in accordance with relevant legislation, accounting standards and other reporting requirements.</li><li>• Considering whether in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by Scottish Ministers.</li></ul>

- 1.05 Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260: "Communication of audit matters to those charged with governance", we are required to communicate audit matters arising from our audit of financial statements to those charged with governance of an entity. This report discharges our requirements set out under ISA 260.

### **Acknowledgements**

- 1.06 We would like to thank all management and staff involved for their assistance throughout the audit process.

## 2. Audit Process and Financial Position

### Our Audit Opinion

- 2.01 The Public and Finance and Accountability (Scotland) Act 2000 requires that, following the completion of an audit, the auditors shall place on the abstract of accounts a certificate which sets out the basis on which they have formed their audit opinion. Our opinion on the accounts states:
- That the audit has been conducted in accordance with the requirements of the Public and Finance and Accountability (Scotland) Act 2002 and the Code of Audit Practice;
  - The respective responsibilities of management and auditors in relation to the accounts; and
  - Whether, in the auditors' opinion, the accounts give 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 authority as at 31 March 2008.
- 2.02 We are pleased to report that our opinion (true and fair) on the financial statements for the year ended 31 March 2009 is **unqualified**.

### Audit Process

- 2.03 The financial statements for the Authority have been prepared in accordance with the accounting requirements set out in the Code of Practice on Local Authority Accounting in the UK 2008 – A statement of recommended practice (“SORP”).
- 2.04 The accounts were approved by the Chief Officer for issue on 30 September 2009 and presented to Audit Scotland and the Scottish Government by 30 September 2009. The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of supporting working papers provided and internal review process undertaken by management were of a reasonable standard.
- 2.05 Overall we believe an efficient audit process was achieved and an effective working relationship exists with the South Lanarkshire Council finance staff.

### **Adjustment to the draft Financial Statements**

- 2.06 Our audit of the financial statements identified a number of minor disclosure and financial adjustments which have now been amended by Management in the financial statements.
- 2.07 Under international auditing standard (“ISA”) 260 – “Communication of audit matters to those charged with governance” we are required to report all unadjusted errors identified during the course of our audit to Members of the Lanarkshire Community Justice Authority, in their governance role. We are pleased to report that all adjustments proposed have been agreed with management and are reflected in the financial statements.

### **Financial Statements and Financial Position for 2007/08**

- 2.08 The financial statements consist of five primary statements as set out within the Local Government SORP 2008: Income and Expenditure account for the year ended 31 March 2009, the Statement of Movement on the General Fund, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash Flow Statement. In addition, in accordance with Scottish Government guidance the Lanarkshire CJA Social Work Services Annual Financial Statement has been included within the Financial Statements as an appendix.
- 2.09 Total expenditure for the year ended 31 March 2009 was £10.897 million. This expenditure is matched with income from the Scottish Government of £10.902 million. There is a small surplus on the Income and Expenditure Account of £6,000 due to interest arising on pension costs and return pension assets, as required by accounting treatment under Financial Reporting Standard (FRS) 17: Retirement benefits. This balance is reversed out in the Statement of Movement on the General Fund in accordance with SORP guidance resulting in a zero general fund balance carried forward into 2009/10.
- 2.10 The principal assets and liabilities of Lanarkshire CJA reflected within the balance sheet are pension assets and liabilities, a debtor with the Scottish Government of £0.484 million and creditors and accruals of £0.484 million due to the Scottish Government, North Lanarkshire Council and South Lanarkshire Council.

### **Allocation of Costs**

- 2.11 Currently expenditure incurred is allocated to individual CJA projects and it is this allocation which is reported in the annual grant claim. Where costs cannot be directly allocated (in their entirety) for example staff costs, these are allocated on a percentage basis. However, during the course of our testing we identified that the percentage basis used has not been reviewed for the last three years to ensure that the apportionment of indirect costs continues to be accurate.

**Action Point 1**



# 3. Governance and Internal Financial Control

- 3.01 It is part of management's overall responsibility to design and maintain an appropriate system of internal controls to provide reasonable assurance that the accounting systems provide timely, accurate and reliable financial information and to safeguard Lanarkshire Community Justice Authority's assets.
- 3.02 As auditors, we obtain a sufficient understanding of internal controls to plan the audit. The understanding includes knowledge about the design of policies and procedures and whether they have been implemented, but does not necessarily extend to evaluating the operating effectiveness of all such policies and procedures. We only evaluate, and test, those internal controls on which we plan to rely on during our audit and which are required in relation to our Code of Audit Practice responsibilities. Accordingly, an audit would not usually identify all matters of interest to management in discharging its responsibilities.
- 3.03 The Authority utilises the key financial systems in place at South Lanarkshire Council in particular general ledger, payroll, accounts payable and accounts receivable. Therefore appropriate systems audit work has been undertaken as part of our 2008/09 audit of South Lanarkshire Council. During the course of our interim controls work we noted a number of exceptions in respect of the Council's financial systems, which have been discussed and agreed with management. Agreed actions are reflected in a detailed action plan monitored by South Lanarkshire Council officers.

## **Internal Financial Controls Statement**

- 3.04 Included within the financial statements is a statement on the systems of internal financial control, signed by the Chief Officer for the Lanarkshire CJA. As the Lanarkshire CJA further develops it is recognised that this statement will be enhanced to reflect all key areas of financial controls considered.

**Action Point 2**

## **Fraud and Corruption Arrangements**

- 3.05 For the financial year ended 31 March 2009, no frauds were reported for the Lanarkshire Community Justice Authority.

# Appendix 1 – Action Plan

Action	
Action Point 1	<p>Management should review on an annual basis the apportionment percentage used to allocate costs to the various CJA Projects, as recorded in the grant claim for example staff costs. This will ensure that the apportionment basis is accurate.</p> <p><b>Management Comments:</b> Agree. The apportionment percentage will be reviewed on an annual basis.</p> <p><b>Responsible Officer:</b> Brenda Doyle, Finance</p> <p><b>Timescale for Implementation:</b> On going, to be reviewed for 2009/10 Financial Statements</p>
Action Point 2	<p>For the 2009/10 Lanarkshire Community Justice Financial Statements management should consider the statement of internal financial control to ensure that all areas of assurance are reflected within the statement and that the statement is forward looking where applicable. In accordance with the SORP, this statement should also be enhanced to cover the Authority's wider governance and risk management arrangements.</p> <p><b>Management Comments:</b> Agree. Management will ensure that the statement of internal financial control reflects all areas of assurance and covers the Authority's wider governance and risk management.</p> <p><b>Responsible Officer:</b> Tony McNulty, Chief Officer</p> <p><b>Timescale for Implementation:</b> To be implemented for the 2009/10 Financial Statements</p>



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