

Lothian & Borders Community Justice Authority

**Report to Members and the Auditor General on the 2008/09
Audit**

November 2009



 **AUDIT SCOTLAND**



Lothian & Borders Community Justice Authority

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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 offenders' services.

This report summarises the findings from the 2008/09 audit of Lothian and Borders Community Justice Authority. This is the second 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 since the authority's inception. This report sets out our main findings from the 2008/09 audit and the outlook for the period ahead.

Key outcomes from 2008/09 audit

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

Outlook

The authority, like other public sector bodies will face significant challenge delivering services within increasing financial constraints. Forthcoming changes in how the section 27 grant is calculated will place additional pressures on already tight budgets.

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



Introduction

1. This report summarises the findings from the 2008/09 audit of Lothian and Borders Community Justice Authority. Findings are set out in four sections: financial statements; financial position; governance and accountability and performance management and improvement.
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 the 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 2008/09, 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 2009 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 the systems of internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the authority.

Audit Opinion

6. We have given an unqualified opinion on the financial statements of Lothian and Borders Community Justice Authority for 2008/09.
7. The authority's unaudited financial statements were submitted to Audit Scotland on 2 October 2009 after the latest date specified within the Scottish Governments Criminal Justice Directorate's financial memorandum of April 2008. Implementation of the service level agreement between the authority and City of Edinburgh Council should improve this process in future years.

Action plan no. 1

8. The accounts were certified by the target date of 31 October 2009. 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 2009.



Accounting issues

9. 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). 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 Chief 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 unaudited and audited accounts.
11. We note that no provision has been made in the accounts for pension liabilities under Financial Reporting Standard (FRS) 17 – Retirement Benefits. Under the SORP, an authority which can be considered a minor non-principle authority for a defined benefit scheme, can account for its pensions liabilities as if it were a defined contribution scheme. Based on the immaterial nature of such a provision and cost involved in obtaining an FRS 17 valuation from the actuary, the authority has opted to account for their pension liabilities as if it were a defined contribution scheme.

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 Scottish Ministers. 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 enactments and guidance. No significant issues were identified for disclosure.

Financial reporting outlook

IFRS adoption

13. Local government will move from UK Generally Accepted Accounting Principles (UK GAAP) to International Financial Reporting Standards (IFRS) from 2010/11. As Community Justice Authorities are required to prepare their financial statements in accordance with the local government accounting framework, Community Justice Authorities will also be expected to adopt IFRS in 2010/11.



14. The main changes following transition to IFRS will relate to accounting for employee benefits and leases. It is important that the authority starts the transition period in 2009/10, as a restated balance sheet as at 1 April 2009 will be required. This will be followed by IFRS compliant accounts in 2010/11.

Action plan no. 2



Financial position

Introduction

15. In this section we summarise key aspects of the authority's reported financial position to 31 March 2009, 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.

Financial Position 2008/09

16. The authority's total expenditure in 2008/09 was £14.4 million. This was funded through Scottish Government Section 27 Criminal Justice Grant of £14.2 million and an administration grant of £0.2 million. The Section 27 grant is split between core and non-core services in accordance with the 2008/09 grant allocation. The authority disbursed the Section 27 grant to constituent councils as follows:

- City of Edinburgh Council - £9.017 million
- East Lothian Council - £0.936 million
- Midlothian Council - £0.926 million
- Scottish Borders Council - £1.379 million
- West Lothian Council - £1.946 million

17. The authority received an allocation of £14.6 million from the Scottish Government for Section 27 expenditure. This was restricted to £14.2 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 £14.6 million. There was a difference of £0.4 million between the Section 27 grant received and the actual expenditure incurred. This was funded directly by the constituent councils.

Outlook

18. The authority's Section 27 grant allocation for 2009/10 is £14.3 million, an increase of £0.1 million from 2008/09.



Governance and accountability

Introduction

19. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our findings arising from a review of the authority's arrangements.

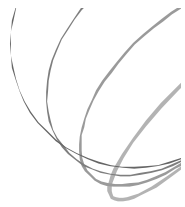
Overview of Arrangements

20. 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 Chief Officer reported that the authority has a "framework of regular management information, financial regulations, administrative procedures, management supervision and a system of delegation and accountability".
21. During the course of 2008/09, the authority has implemented the expected policies and procedures required by the Scottish Government's Community Justice Directorates financial memorandum of April 2008.
22. The City of Edinburgh Council provides financial and internal audit services to the authority. With effect from April 2009, the authority entered into a service level agreement with the City of Edinburgh Council to define the services to be provided and the standards to be expected. Implementation of the service level agreement will assist in supporting continuous improvement and best value.
23. An element of our governance review considered the completeness and accuracy of the register of elected members' interests. We note that the authority has a register in place; however this is not regularly reviewed and updated. Elected members should be encouraged to update the register at least annually.

Action plan no. 3

Public performance reporting

24. The authority produces an annual performance report. It is published on the authority's website and available in hard copy on request. The report presents a balanced and informative picture of the authority's performance against its area plan priorities and national outcomes. The annual report is supplemented by an interactive CD and summary booklet package. Information on achievements of local community service projects is provided by the authority's annual newsletter.



Prevention and detection of fraud and irregularities

25. At the corporate level, the authority has in place codes of conduct for both elected members and officers as part of their arrangements for the prevention and detection of fraud. The authority should consider developing and implementing a whistle blowing policy and corporate anti-fraud and corruption policy and response plan to strengthen existing arrangements.

Action plan no. 4

Outlook

26. We will continue to monitor the effectiveness of the service level agreement between the authority and City of Edinburgh Council.



Performance management and improvement

Introduction

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

Overview of performance

28. 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 that will determine the progress authorities have made against these outcomes. This work introduced a national framework with effect from April 2009.
29. 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. A one year progress update is included within the 2009/10 action plan, with reasonable progress being noted.
30. The authority's 2008/09 Annual Report documents how the work of the authority supports the delivery of the fourteen outcomes of the national study. The report highlights the work done in developing leadership, vision, direction and improvement. The report also provides information on areas of corporate developments including working in partnerships, supporting the workforce, communication and use of resources.
31. The authority understands the need for continuous improvement, three key areas have been identified as priorities:
- the ability to integrate planning with that of other statutory bodies, recognising the shared ambition of the Single Outcome Agreement and the national outcomes in offender management
 - improve the collection of information that relates to performance and reporting both qualitative and quantitative data
 - cost management performance where an increasing high level of workload demand, which may not necessarily be matched by sufficient resources.



32. The authority is also considering whether to undertake a review of the arrangements that constituent local authorities have in place to provide both core and non-core services. It is envisaged that this review will be conducted during 2010.

Risk Management

33. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks. Risk management supports decision making and contributes to performance.
34. Risk management was considered an area for improvement during the 2007/08 audit. Following this, work has been ongoing within the authority to develop and monitor a risk register. The first risk register for the authority was produced in October 2008. The authority had planned to review the risk register biannually; however timescales have slipped slightly with the updated risk register being approved by committee in July 2009.
35. The authority is aware that further development of the risk management framework is required and is currently undertaking work on contingency planning and business continuity.

Outlook

36. The local performance framework is at an early stage and we will continue to consider the effectiveness of this approach as part of our 2009/10 audit. We will continue to monitor the authority's risk management arrangements.



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	<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 – weakness 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>A report was submitted to the CJA meeting on 22nd October 2009 by the Finance Manager where he reported the late submission and stated that the submission date of 30th September will be met for all future years' accounts.</p> <p>The new Finance Service Level Agreement (SLA) commenced in April 2009 and this includes the target for final accounts to be submitted by 30th September each year. This SLA is reviewed quarterly by the Chief Officer and Finance Manager.</p>	Chris Hawkes / Graeme Stenhouse	Ongoing
2	13	<p>As Community Justice Authority's prepare accounts on the basis of the local government SORP, transition from UK GAAP to IFRS is expected in 2010/11.</p> <p>Risk – insufficient planning and preparation may result in difficult transition.</p>	<p>City of Edinburgh Council have agreed to provide expert advice on the IFRS requirements for both Section 27 and CJA Administration accounts, as part of their financial support.</p>	Chris Hawkes / Iain Shaw	By March 2010
3	22	<p>In accordance with best practice the register of members' interests should be regularly updated.</p> <p>Risk – without a regularly updated register of member's interests, this is impeding the authority's corruption arrangements.</p>	<p>A quarterly review and update of all LB CJA website content will be carried out by the Administrator.</p>	Chris Hawkes / Sally Crighton	July / October / January / April



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4	24	<p>The authority has in place codes of conduct for elected members and officers as part of their arrangements for the prevention and detection of fraud. The authority should consider developing and implementing a whistle blowing policy and corporate anti-fraud and corruption policy and response plan to strengthen existing arrangements.</p> <p><i>Risk – without comprehensive prevention and detection arrangements, the authority are leaving themselves open to fraud and corruption.</i></p>	<p>The development of these policies will be considered by LB CJA after reviewing the best practice across all 8 CJAs in Scotland and other similar Boards.</p>	Chris Hawkes	March 2010