



HENDERSON LOGGIE

Northern Community Justice Authority

**Report to Members and the
Auditor General**

2008/09

External Audit Report No: 2009/02

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Restriction on Use

This report has been prepared in accordance with our responsibilities under International Standards on Auditing and Audit Scotland's *Code of Audit Practice* for the audit of Northern Community Justice Authority's statement of accounts. Our audit does not necessarily disclose every weakness and for this reason the matters referred to in this report may not be the only shortcomings which exist.

We take this opportunity to remind you that:

- This report has been prepared for the sole use of Northern Community Justice Authority and its Committee Members and will be shared with the Auditor General and Audit Scotland; and
- No responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes.



Executive Summary

1.1 Introduction

1.1.1 Northern Community Justice Authority ('NCJA') is an independent statutory body established by the Management of Offenders etc (Scotland) Act 2005. NCJAs have a range of planning, monitoring and reporting functions on the delivery of offender services. The membership of the NCJA comprises elected members of Aberdeen City, Aberdeenshire, Eilean Siar, Highland, Moray, Orkney Islands and Shetland Islands Councils.

1.2 Finance

1.2.1 The audit of the 2008/09 statement of accounts has been completed within the timescale advised by Audit Scotland. Our opinion on the statement of accounts is unqualified. The statement of accounts give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of the NCJA and have been properly prepared in accordance with the Management of Offenders etc. (Scotland) Act 2005 and regulations made thereunder.

1.2.2 On 30 October 2009 we issued to the Chair of the Committee our report *2009/01 Report to those charged with Governance on the Audit of Northern Community Justice Authority 2008/09*. The report provides audit comment on the key issues and audit opinion arising from the audit of the statement of accounts and of the system of internal financial control.

1.2.3 One significant and two trivial audit adjustments were identified and adjusted during the course of our audit.

1.2.4 We have made some recommendations which are intended to address the issues identified during the course of the audit and improve the audit process for future years. They are included in an Action Plan at Appendix II. We have also followed up the Action Plan agreed in 2007/08 and progress on these recommendations is included at Appendix III.

1.3 Governance

1.3.1 The NCJA has developed a number of documents and initiatives which reflect examples of good governance practices. Further enhancements to its processes were introduced in 2008/09.

1.3.2 The NCJA's Statement on the System of Internal Financial Control identifies areas for improvements in internal control systems including provision of an internal audit function and a more robust accounting system to record the transactions of the NCJA.

1.4 Performance

1.4.1 The NCJA has prepared a detailed three year plan for 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.

1.4.2 The NCJA's 2008/09 Annual Report sets out the actions planned for the year, the progress made on each action, and a year-end update for each action point. The report also notes areas where improvements can be made and which are to be addressed in 2009/10.



Introduction

2.1 Introduction

- 2.1.1 We are pleased to submit our second annual report covering significant matters arising during the course of our audit of Northern Community Justice Authority ('NCJA') for the year ended 31 March 2009.
- 2.1.2 The framework under which we operate under appointment by Audit Scotland and the audit scope is as outlined in our *Report to those charged with Governance on the Audit of Northern Community Justice Authority 2008/09*, Report 2009/01, issued on 30 October 2009. The respective responsibilities of the Authority's Members, Officers and Auditors are set out in Appendix I to this report.
- 2.1.3 Broadly the scope of our audit was to:
- provide an opinion on the Statement of Accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission;
 - review and report on the Authority's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, prevention and detection of corruption, and the Authority's financial position; and
 - review and report on the Authority's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources and in securing Best Value.
- 2.1.4 Our audit approach focused on the identification of financial risks impacting on the authority.

2.2 Audit Activity and Reporting

- 2.2.1 As part of our overall planning approach to the NCJA's annual audit we carried out a review of the key financial risks, national and local, facing the NCJA and have continued to monitor them during the year through attendance at Committee meetings, review of minutes and discussions with officers. To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff. Except to the extent necessary for the purposes of the audit, this information has not been independently verified.
- 2.2.2 In accordance with our planning approach we reviewed the NCJA's key internal controls and have raised some issues during the course of our audit including matters highlighted in our *Report to those charged with Governance on the Audit of Northern Community Justice Authority 2008/09*.
- 2.2.3 We have made some recommendations which are intended to address the issues identified during the course of the audit and improve the audit process for future years. They are included in an Action Plan at Appendix II. We have also followed up the Action Plan agreed in 2007/08 and progress on these recommendations is included at Appendix III.
- 2.2.4 We take this opportunity to remind you that external auditors do not act as a substitute for the NCJA's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used efficiently, economically and effectively.



Introduction

2.3 Acknowledgement

- 2.3.1 Our audit has brought us in contact with officers within the Authority and the Treasurer. We would like to take this opportunity to place on record our appreciation of the co-operation and assistance extended to us in the discharge of our duties.



3.1 Audit Completion and ISA 260 Report

- 3.1.1 We are pleased to report that the target date of 30 October 2009 for the audit completion and certification of the annual accounts was met.
- 3.1.2 The NCJA's unaudited statements of accounts were submitted to external audit on 6 October 2009, after the latest date specified within the Scottish Government Criminal Justice Directorate's financial memorandum of April 2008. (R1, Appendix II)
- 3.1.3 In accordance with International Standard on Auditing (ISA) 260 we issued our *Report to those Charged with Governance on the Audit of Northern Community Justice Authority*, which was discussed with the Treasurer and the Chair of the Committee on 30 October 2009. The report included our proposed audit certificate and detailed the agreed adjustments to the draft accounts arising from the audit.

3.2 Accounts Certification

- 3.2.1 On 30 October 2009 we issued our audit report expressing an unqualified opinion on the statement of accounts of the NCJA for the year ended 31 March 2009.
- 3.2.2 We set out below a summary of the audit certification issues:

Statement of accounts

- the statement of 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 body as at

31 March 2009 and of its net operating cost and cashflows for the year then ended; and

- the statement of accounts have been properly prepared in accordance with the Management of Offenders etc (Scotland) Act 2005 and regulations made thereunder.

Regularity

- In our opinion in all material respects the expenditure and receipts shown in the statement of accounts were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

- 3.2.3 One significant and two trivial audit adjustments were identified during the course of our audit of the statement of accounts. The Authority agreed to adjust the accounts for these. Definitions of material, significant and trivial are provided at Appendix IV.

3.3 Financial Position

- 3.3.1 The NCJA's Income and Expenditure Account records a breakeven position for the year. Income of £12.391 million was received in the year, from funding from the Scottish Government. The NCJA distributed the receipts from the Scottish Government to the constituent local authorities. Operating Expenditure of £246,346 was incurred in the year, comprising largely of employee costs of £159,470. Accommodation was rented from Aberdeenshire Council and much of the day to day costs were incurred by Aberdeen City Council and Aberdeenshire Council and recharged to the NCJA.



3.4 Accounting Systems

Audited Returns from Member Local Authorities

- 3.4.1 The signed audited returns from the member Local Authorities were not all received by the due date of 30 September, with one not received until 30 October. This resulted in the figures in the draft accounts not agreeing to the individual returns from the Local Authorities. We have therefore recommended that all Local Authorities be reminded of their requirement to submit returns timeously. **(R2, Appendix II)**

Trial Balance

- 3.4.2 For the 2008/09 accounting year the NCJA's accounts were recorded using a 'Q' code in the e-financials system of Aberdeen City Council. This element of the e-financials system is used to keep accounts of trusts etc., and allows an independent set of accounts to be produced. All transactions are processed through e-financials and a set of accounts produced at year end.

Creditors

- 3.4.3 The statement of accounts include a creditor balance of £155,419 in the Balance Sheet at 31 March 2009 relating to monies owed to Aberdeenshire Council for disbursements made on behalf of the NCJA in the period to 31 March 2008. This creditor balance is now over one year old, however evidence showed that it has been cleared post year end. The Treasurer has indicated that Aberdeenshire Council is now submitting invoices on a regular basis. This position should be monitored to ensure it continues. **(R3, Appendix II)**

Bank Account

- 3.4.4 The NCJA does not have its own bank account, and all cash balances are held within the Loans Fund of Aberdeen City Council. The Council maintains a separate 'Q' code for the NCJA within its e-financials system and all transactions are separately identifiable. To date no interest on balances held has been paid by Aberdeen City Council. We have therefore recommended that the Authority liaise with Aberdeen City Council to ensure that its funds, and any resulting interest from their investment, are ring-fenced and identifiable as being those of the Authority. **(R4, Appendix II)**

Governance

4.1 General

4.1.1. Corporate governance is concerned with structures and processes for decision-making, accountability, controls and behaviours. The Scottish Government Community Justice Directorate issued a financial memorandum in April 2008 that defines the expected policies and procedures to be introduced by the authorities.

4.2 Committee Membership and Meetings

4.2.1 The membership of the NCJA comprises elected members of Aberdeen City, Aberdeenshire, Eilean Siar, Highland, Moray, Orkney Islands and Shetland Islands Councils.

4.2.2 The Committee holds four meetings per year. In 2008/09 it received reports which included financial monitoring updates on the development of offender management and other matters of relevance to the role and work of the NCJA.

4.3 Progress with Governance

4.3.1 During 2008/09 the NCJA continued to develop its governance framework, building on the work carried out during its first year.

4.3.2 A number of staff related policies have been introduced and these are linked to those of Aberdeenshire Council. They include the following:

- Absence Management
- Alcohol & Drug Misuse
- Dignity at Work
- Disciplinary
- First Aid
- Health & Safety
- Recruitment & Selection

4.3.3 A number of enhancements have been made to the operational procedures of the NCJA including the following:

- The quarterly performance and monitoring report have been revised to allow greater scrutiny by members
- An Accountability & Reporting Structure has been approved which clarifies and formalises roles and strengthens links between operational and strategic aspects
- Quarterly ICM performance reports have been expanded to include more information for members.

4.3.4 Additionally a one day partnership conference was held in March 2009 with one of the aims being to raise the profile of the NCJA.

4.3.5 This level of progress reflects a continuing commitment to making a difference in the promotion of better quality, more cooperative and integrated services to manage offenders.



Governance

4.4 Support Services

- 4.4.1 The NCJA's support services are provided by Aberdeen City Council and Aberdeenshire Council, with the accounting function being hosted by Aberdeen City Council. A service level agreement is in place with Aberdeenshire Council for the provision of Personnel and ICT and Law and Administration services. During 2008/09 improvements have been made to services provided by Aberdeen City Council. The accounting processes have changed and now the NCJA is treated in the same manner as Trusts, whereby the accounts are completely separate to those of the Council. NCJA funds are now held by the Loans Fund of Aberdeen City Council and consequently are more readily identifiable.

4.5 System of Internal Controls

- 4.5.1 The NCJA's Statement on the System of Internal Financial Control identifies areas for improvements in its internal control systems including a lack of specific internal audit work and the need for a review of the accounting arrangements between the NCJA and Aberdeen City Council and Aberdeenshire Council. We will continue to monitor the NCJA's progress in addressing these issues as part of our 2009/10 audit. (R5 Appendix II)



Performance

5.1 Aims of the Authority

5.1.1 The aims of the NCJA are to contribute to reducing re-offending and increase community safety and public protection.

5.2 Overview of Performance in 2008/09

5.2.1 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. Based on the outcomes the 2008/09 plan was expanded to 42 defined action points to be reported on in the Annual Report 2008/09 to the Cabinet Secretary for Justice by 12 June 2009. The report noted the following:

- 29 actions satisfactorily achieved
- 12 actions progressing but failed to meet original timescales
- 1 action having made no progress

5.2.2 The NCJA has prepared its three year 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. A detailed action plan for 09/10 has been prepared which continues to support the delivery of the desired outcomes. This will be reviewed during future audits.

5.2.3 The NCJA's Annual Report for 2008/09 set out the actions for the year addressing each of the five identified strategic outcomes. The Report identifies the timescale for each action, the partner agencies involved and the status of the action. An end of year update is provided for each action. The report identified the need to integrate the NCJA's planning process with that of the constituent authorities' community planning partnerships as an area for improvement in 2009/10. This will support the delivery of the Single Outcome Agreement between the Scottish Government and local authorities.



Appendix I – Respective Responsibilities

Respective Responsibilities of Members, Officers and Auditors

Each public sector body is accountable for the way in which it has discharged its stewardship of public funds. Stewardship is a function of both executive and non-executive management and, therefore, responsibility for effective stewardship rests upon both Members and Officers of a public sector body.

That responsibility is discharged primarily by the establishment of sound arrangements and systems for the planning, appraisal, authorisation and control over the use of resources, and by the preparation, maintenance and reporting of accurate and informative accounts.

It is our responsibility to undertake an independent appraisal of the discharge by management of its stewardship responsibilities, to enable us to give an assurance that those responsibilities have been reasonably discharged.

The Authority and the Chief Officer's responsibilities for the Statement of Accounts are set out on page 6 of the annual statement of accounts. Our responsibility is to form an independent opinion, based on our audit, on the financial statements and report that opinion to you.

We are required to review whether the Authority's Statement on the System of Internal Financial Control reflects compliance with the 2008 SORP, and we report if, in our opinion, it does not. We are not required to consider whether this statement covers all risk and controls, or form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.



Appendix II – 2008/09 Action Plan

Observation and Risk	Planned Management Action	Management Response	
<p>1.1 The NCJA's financial statements were not submitted until after the final deadline determined in the Scottish Government Community Justice financial memorandum issued in April 2008.</p>	<p>R1 A timetable requires to be prepared in conjunction with the Chief Social Worker and the Finance Director of the constituent Local Authorities to ensure accounts of the NCJA are able to be completed in a timely manner.</p>	<p>A timetable had been prepared for the accounts preparation however not all the relevant data was available on the stated dates therefore to reinforce the timetable setting process for 2009/10 is agreed.</p> <p>To be actioned by: Treasurer</p> <p>No later than: 31 March 2010</p>	
		Grade	A
<p>1.2 The signed audited returns from the member Local Authorities were not all received by the due date of 30 September. The NCJA accounts could therefore not be completed until all the audited returns had been received.</p>	<p>R2 All Local Authorities should be reminded of their requirement to submit returns timeously.</p>	<p>Agreed.</p> <p>To be actioned by: Treasurer</p> <p>No later than: 31 March 2010</p>	
		Grade	B
<p>1.3 A sum of £155,419 remained unpaid at the financial year end for transactions from 2007/08. These creditor balances were over one year old but we note that they have now been cleared and that Aberdeenshire Council are producing charges on a regular basis.</p>	<p>R3 The NCJA should ensure that Aberdeenshire Council continue to process their charges on a regular basis.</p>	<p>NCJA will remind Aberdeenshire again of the need to maintain regular charging throughout the year in order to ensure there is little delay in recording NCJA expenditure in the accounts.</p> <p>To be actioned by: Treasurer</p> <p>No later than: 31 December 2009</p>	
		Grade	C



Appendix II – 2008/09 Action Plan

Observation and Risk	Planned Management Action	Management Response	
<p>1.4 The NCJA's funds are held within the Loans Fund of Aberdeen City Council, however, to date, no interest has been paid by the Council.</p>	<p>R4 The Authority should liaise with Aberdeen City Council to ensure that its funds, and any resulting interest from their investment, are ring-fenced and identifiable as being those of the Authority.</p>	<p>Agreed, interest will be paid on NCJA funds in 2009/10.</p> <p>To be actioned by: Treasurer</p> <p>No later than: 31 March 2010</p>	
		Grade	B
<p>1.5 The NCJA's Statement on the Systems of Internal Financial Control identifies that there is a lack of internal audit work which would provide a review of the robustness of the internal control system. It is understood that arrangements have been made to ensure that an internal audit review is undertaken during 2009/10.</p>	<p>R5 The NCJA should take action to address identified weaknesses in internal controls.</p>	<p>Agreed, Internal Audit work will be carried out during 2009/10.</p> <p>To be actioned by: Treasurer</p> <p>No later than: 31 March 2010</p>	
		Grade	B



Appendix III – Follow-up 2007/08 Action Plan

Recommendation	Management Response	Progress at November 2009		
<p>R1 A timetable requires to be prepared in conjunction with the Chief Social Worker and the Finance Director of the constituent local authorities to ensure accounts of the NCJA are able to be completed in a timely manner.</p>	<p>Agreed</p> <p>To be actioned by: Treasurer</p> <p>No later than: 31 March 2009</p> <table border="1" data-bbox="705 740 1220 773"> <tr> <td data-bbox="705 740 995 773">Grade</td> <td data-bbox="995 740 1220 773">A</td> </tr> </table>	Grade	A	<p>A draft timetable was prepared and was issued to the Finance Contacts in the 7 Local Authorities. Receipt of the draft criminal justice social work grant claims in line with the timetable was not achieved with the last one being received on 2 October 2009.</p> <p>Auditor Comment: While a timetable was put in place in 2008/09, the draft accounts were still submitted after the deadline. Further work is therefore required to improve this for 2009/10. (See R1 – Appendix II, 2008/09 Action Plan).</p>
Grade	A			
<p>R2 The NCJA should liaise with Aberdeenshire Council to pay these balances during 2008/09.</p>	<p>Agreed</p> <p>To be actioned by: Treasurer</p> <p>No later than: 31 March 2009</p> <table border="1" data-bbox="705 1162 1220 1192"> <tr> <td data-bbox="705 1162 995 1192">Grade</td> <td data-bbox="995 1162 1220 1192">C</td> </tr> </table>	Grade	C	<p>Invoices for 2006/07 have been discussed with Aberdeenshire and invoices for outstanding charges have been raised and paid. There remains an amount in the creditors balance for administration costs for financial year 2007/08 amounting to £161,000 this being because of the late receipt of an invoice from Aberdeenshire, which has been paid in 2009/10 and the amount due to Audit Scotland for the external audit fee, which has also been paid in 2009/10.</p> <p>Auditor Comment: As this was not fully resolved during 2008/09 we have made a further recommendation that this be monitored to ensure that charges are received on a regular basis. (see R3 – Appendix II, 2008/09 Action Plan).</p>
Grade	C			



Appendix III – Follow-up 2007/08 Action Plan

Recommendation	Management Response	Progress at November 2009		
<p>R3 Advice should be sought from the actuary for the production of the 2008/09 accounts so that appropriate disclosure can be made.</p>	<p>Agreed</p> <p>To be actioned by: Treasurer</p> <p>No later than: 31 March 2009</p>	<p>The Aberdeen City Council Pension Fund actuary has provided specific advice in relation to accounting for retirement benefits and due to the scale of the organisation and because the Pension Fund does not identify the specific assets and liabilities relative to the NCJA they have provided a specific disclosure note that will be incorporated into the 2008/09 accounts and accounting will be undertaken on that basis. This has been incorporated into the draft accounts.</p>		
<p>R4 The NCJA should take action to address identified weaknesses in internal controls.</p>	<p>Agreed</p> <p>To be actioned by: Treasurer</p> <p>No later than: 31 March 2009</p>	<p>Specific action is planned in relation to this with Aberdeen City Council internal audit, however, they cannot schedule any work at this time due to restriction on resources, it has been agreed with them that a scope will be agreed and there will be work carried out during the latter part of 2009/10.</p> <p>Auditors Comment: As this has not been resolved during 2008/09 we have made a further recommendation in the current year action plan (see R5 - Appendix II, 2008/09 Action Plan).</p>		
	<table border="1"> <tr> <td data-bbox="705 740 999 1096">Grade</td> <td data-bbox="999 740 1220 1096">B</td> </tr> </table>	Grade	B	Fully Implemented
Grade	B			
	<table border="1"> <tr> <td data-bbox="705 1096 999 1102">Grade</td> <td data-bbox="999 1096 1220 1102">A</td> </tr> </table>	Grade	A	
Grade	A			



Appendix III – Follow-up 2007/08 Action Plan

Recommendation	Management Response	Progress at November 2009
<p>R5 The NCJA should undertake a review of its financial management arrangements and should consider arrangements for:</p> <ul style="list-style-type: none"> • Banking; • Recording its transactions within Aberdeen City Council’s ledger; and • Managing transactions between Aberdeen City Council, Aberdeenshire Council and the NCJA. 	<p>Agreed</p> <p>To be actioned by: Treasurer</p> <p>No later than: 31 March 2009</p>	<p>The flow of financial information from the NCJA office has been clarified in relation to payment of invoices and Aberdeen City Council has reviewed its approach to providing staffing resources to administer and account for the NCJA. Further to R2 above, Aberdeenshire has been advised of their requirements for invoicing in a timely manner. Aberdeen City Council has separated the accounting transactions relating to the NCJA and itself and monies retained by the NCJA are invested with the Aberdeen City Council Loans Fund. A timetable has been issued for data to be collected from all local authorities.</p> <p>Fully Implemented (subject to fully implementing R2 above).</p>
	Grade	A



Appendix IV – Definition of Material, Significant and Trivial in Relation to the Audit Adjustments

We are required to express an opinion on whether the accounts give a true and fair view of the financial position of the Board. In arriving at that opinion we need to assess any weaknesses, misstatements and errors discovered during our audit testing. Additional information or events in the period between the balance sheet date and the date we sign our audit report must also be considered.

In order to help us to assess the impact of errors we classify them as material, significant or trivial.

Materiality is set at the start of the audit using statistical formula and following consideration of risk. The value for significant and trivial are set in relation to the materiality figure.

Material misstatement and adjustments

Material misstatements are misstatements that, in our opinion, mean that the accounts do not give a true and fair view. Material misstatements discovered during our audit are discussed with management and agreement reached over the required revision for the final audited accounts. Where no agreement is reached to make a material adjustment we would need to consider qualifying our audit opinion.

Significant misstatements and adjustments

Significant items are lower in value than material items, but still of a size that might give rise to the financial statements not giving a true and fair view, particularly if there are several of them, which in total would become material. The Board has the option of adjusting for significant misstatements or not. The impact of any significant misstatements not adjusted for in the final audited accounts would need to be considered and where the combined impact of non-adjusted items was material, this could lead to a qualified opinion. Reasons for non adjustment of significant misstatements are required to be reported to the members.

Trivial errors and adjustments

Trivial errors are those with a fairly low value, and which do not affect the true and fair view of the financial statements. These are recorded and summarised during the audit and the overall total net impact is considered. Individual trivial errors would not require adjustment. If the net total of trivial errors becomes significant or material then there will be an issue to be considered for our report unless the Board agrees to adjust the errors.

