

Key Issues Memorandum

Fife and Forth Valley Community Justice Authority

For the year ended 31 March 2010

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To the Accounts Commission and the Fife and Forth Valley Community Justice Authority (FFVCJA)

The purpose of this memorandum is to highlight the key issues affecting the results of FFVCJA and the preparation of the financial statements for the year ended 31 March 2010. It is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We take responsibility for this memorandum, which has been prepared on the basis of the limitations set out in 'The small print' (Section 6).

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

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1 Executive summary

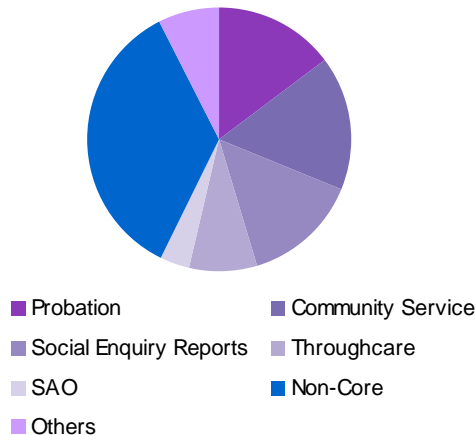
Financial statements	
Audit Opinion	<ul style="list-style-type: none"> We intend to give an unqualified opinion on both the financial statements for the FFVCJA for 2009-10 and on the regularity of transactions undertaken during the financial year.
Financial Statements	<ul style="list-style-type: none"> The draft Financial Statements and supporting working papers were presented for audit on the 24th September 2010 and were of a good standard. This meant that only one audit adjustment was made to the accounts. A number of minor presentational adjustments were made to the notes to the accounts.
Governance issues	
International Financial Reporting Standards	<ul style="list-style-type: none"> The implementation of IFRS remains a key risk for 2010-11, and the Authority must ensure that shadow 2009-10 accounts are prepared as a matter of urgency.
Attendance	<ul style="list-style-type: none"> We noted one occasion where the Authority was inquorate in year. This can lead to inefficiencies and delays. The Authority has taken steps to mitigate the risk of this happening again by approving a protocol for board member attendance at FFVCJA.
Performance issues	
Local Performance Framework	<ul style="list-style-type: none"> The Authority has a well developed performance management framework which includes outcome measures and trend information.

2 Financial reporting

2.1 Financial statements

	2010 £'000	2009 £'000
Gross Expenditure	11,883	11127
Income	(11,896)	(11127)
Surplus for the year	12	-

2.2 Analysis of 2009-10 Expenditure



Financial Performance

The Authority's Income and Expenditure Account for the year records a surplus of £11,997. The Authority is responsible for the disbursement of the Section 27 grant from the Scottish Government to the four constituent authorities, Fife, Stirling, Falkirk and Clackmannanshire Councils. The Section 27 allocation for 2009-10 was £11,669k. The Authority also spent an additional £317k in relation to Section 27 activities. This overspend was met by the constituent authorities.

The Authority also receives an administration grant from the Scottish Government of £207k. In 2009-10, the Authority incurred a minor overspend, which will be repaid to the Scottish Government.

Analysis of 2009-10 Expenditure

Our analysis of expenditure notes that expenditure categories were broadly in line with spending in 2008-09. Spending has increased in Community Service by 11%, and Throughcare by 16%, in line with government priorities. The Authority's general fund reserve at 31 March 2010 now stands at £553,008.

3 Financial statements

3.1 Introduction

In the conduct of our audit, we have not had to alter or change our audit plan, which we communicated to you in our Audit Approach Memorandum.

Our response to the matters identified at the planning stage are detailed below.

Status of audit

The draft Financial Statements and supporting working papers were presented for audit on 24 September 2010 and were generally of a good

standard. This meant that only one audit adjustment was required to be made to the accounts.

3.2 Audit opinion

We are able to conclude that the FFVCJA financial statements give a true and fair view of the financial position for the period from 1 April 2009 to 31 March 2010 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance. We confirm that information which comprises the management commentary, included with the Annual Report, is consistent with the financial statements.

3.3 Matters identified at the planning stage

	Issue	Auditor response and conclusion
1	<p>International Financial Reporting Standards (IFRS) Bodies which prepare their accounts under the local authority SORP will be required to prepare their accounts on the basis of IFRS from 2010-11, with shadow IFRS-based accounts required for 2009-10.</p>	<p>We held a planning meeting with the Finance team within Clackmannanshire Council to discuss progress in implementing IFRS.</p> <p>Key IFRS areas were covered in the joint workshop held in March 2010 to address areas of risk early in the year. Key areas for the Authority in converting to IFRS are:</p> <ul style="list-style-type: none"> • leases which may be classified as finance leases • holiday pay and flexi-time accruals. <p>During the audit we noted concerns about the level of preparedness for IFRS. The Authority has not yet produced a shadow balance sheet as at 31 March 2009. We have therefore raised this as a key area of risk with the Finance team.</p> <p style="text-align: right;">Refer to Audit Action Point 1</p>

	Issue	Auditor response and conclusion
2	<p>Employment Tribunal The Employment Tribunal was noted from the prior year. This related to the former Chief Officer's application for unfair dismissal. Whilst this application was unsuccessful, wanted to ensure that no further appeal had been made which may impact the current year audit.</p>	<p>The Employment Tribunal case was settled in October 2009. The FFCJVA were compensated by the Scottish Government to cover the legal costs the Authority incurred in defending the case. We understand that there are no further grounds for appeal.</p>

3.4 Matters identified during audit fieldwork

	Issue	Auditor response and conclusion
3	<p>Reconciliation to audited grant claim One of the procedures we undertake during the audit is to reconcile the figures shown in the Annual Financial Statement (ie, the consolidated grant claim) to each Council's respective audited grant claims. We noted discrepancies under the 'Invoicing' part of the consolidated claim as we were unable to trace these figures back to each Council's claim.</p>	<p>The revised Annual Financial Statement template (which included the new 'Invoicing' section) was not provided to the FFFVCJA until 24 June 2010.</p> <p>Before this point, neither the FFVCJA or the respective Councils were aware that these amounts were part of the grant claim. There is a role for the FFVCJA to play in co-ordinating information about grant returns to each of the constituent authorities, to ensure that discrepancies of this nature are resolved in advance of audit.</p> <p style="text-align: right;">Refer to Audit Action Point 2</p>

4 Audit adjustments

4.1 Misstatements

Only one adjusting misstatement was identified during the course of the audit. There were no unadjusting errors. Details of the adjustment are set out below.

4.2 Adjusted misstatements

		I&E		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
Double-counted income					
Adjustment to reverse the overstatement of expenditure relating to Intensive Support Package.	DR Expenditure CR Debtors	11 -	- -	- -	- 11

4.3 Disclosure amendments

In addition to the adjustments noted above, we also suggested enhancements to disclosures in the financial statements, including:

- Additional disclosures were made regarding prior year comparators and pension contributions, in line with the SORP
- A "Major Changes in Accounting Policy" note was included to explain the part move to IFRS accounting

5 Governance and performance

5.1 Introduction

During 2009-10, we carried out a review of the governance and performance reporting arrangements in place at the Authority. This section summarises our findings.

5.2 Attendance

The Fife and Forth Valley Community Justice Authority includes elected members from the four constituent authorities, Fife, Stirling, Falkirk and Clackmannanshire Councils. The Authority also invite a number of key partners to attend the quarterly Authority meetings.

We noted that attendance at Authority meetings is generally good, but the meeting on 8th September was inquorate as only 5 of the Authority members attended the meeting. This can mean that resources are used inefficiently to prepare for the meeting. Inquorate meetings can also result in delays to planned developments. As a result, the Authority has introduced a Protocol for Board Members Attendance at the FFVCJA. This helps to ensure that nominated substitutes are in place for unavoidable absences.

5.3 Performance Monitoring

The FFVCJA has recently published its Area Plan which sets out the local priorities and objectives for the period 2011-14. This explains how the Authority fits into Scotland Performs national priorities, and works with partner organisations to deliver outcomes within Single Outcome Agreements. The Area Plan is supported by an annual action plan to allow the Authority to measure progress. Nationally, Community Justice Authorities have been tasked with reducing re-offending rates by 2%. The key priorities for the FFVCJA are also:

- the implementation of the Criminal Justice and Licensing (Scotland) Bill, which will introduce the use of Community Payback Orders
- Young offenders
- Substance use, especially alcohol
- the transfer of health responsibilities from the Scottish Prison Service to local Health Boards
- Domestic Abuse.

The Authority recognises the need to provide evidence of the impact of its work. This is discharged through quarterly performance reports presented to the Authority, and the Annual Report. The performance reports cover a range of outcome measures, and include trend information.

The annual report for 2009-10 outlines a number of key successes, including a reduction in the volume of crime over the last three years in the Fife and Forth Valley area. Individuals receiving prison sentences in the area has also decreased, despite a national trend of increases.

6 Action Plan




6.1 Accounting system and internal control



We have applied our risk methodology to your audit. This approach allows us to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. See 'The small print' for further details of our approach.

We have set out any control weaknesses that became apparent to us during our audit fieldwork. Our interim report issued in May 2010 included control findings from that audit and also a follow up on all prior year recommendations.

Key to assessment of internal control deficiencies

-  Material weakness - risk of material misstatement
-  Significant deficiency - risk of significant misstatement
-  Deficiency - risk of inconsequential misstatement

	Assessment	Issue and risk	Recommendation
1		All bodies which prepare their accounts under the local authority SORP will be required to prepare their accounts on the basis of IFRS from 2010-11, with shadow IFRS-based accounts required for 2009-10.	The Finance Team should take steps to produce shadow accounts for the Authority for 2009-10 as soon as possible. This will allow the Authority to demonstrate that they are prepared for revised requirements in 2010-11.
2		One of our procedures is to reconcile the figures shown in the Annual Financial Statement to each Council's respective audited grant claims. We noted discrepancies under the 'Invoicing' part of the consolidated claim as we were unable to trace these figures back to each Council's claim. The revised Annual Financial Statement template (which included the new 'Invoicing' section) was not provided to the FFFVCJA until 24 June 2010.	There is a role for the FFVCJA Finance Team to play in co-ordinating information about grant returns to each of the constituent authorities, to ensure that discrepancies of this nature are resolved in advance of audit.

7 The small print

Purpose of memorandum

This Key Issues Memorandum has been prepared for the benefit of discussions between Grant Thornton and Fife and Forth Valley Community Justice Authority.

The purpose of this memorandum is to highlight the key issues affecting the results of the Group and the preparation of the Authority's financial statements for the year ended 31 March 2010.

This document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the Authority.

This memorandum is strictly confidential and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the Authority arising under our audit engagement letter.

The contents of this memorandum should not be disclosed to third parties without our prior written consent.

Responsibilities of the Chief Officer and Auditors

The Chief Officer is responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the Chief Officer confirm that our understanding of all the matters in this memorandum is appropriate, having regard to their knowledge of the particular circumstances.

Clarification of roles and responsibilities with respect to internal controls

The Chief Officer is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Authority that she has done so.

The Chief Officer is required to review the Authority's internal financial controls. In addition, the Chief Officer is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Authority should receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive

special examination might identify.

We would be pleased to discuss any further work in this regard with the Authority.

Independence and robustness

Ethical standards require us to give you full and fair disclosure of matters relating to our independence.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

In accordance with best practice, we analyse our fees below:

	£
Audit	5,120

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- significant findings from the audit