

Lothian & Borders Community Justice Authority

**Report to Members and the Auditor General on the 2009/10
Audit**

29 October 2010



 **AUDIT SCOTLAND**

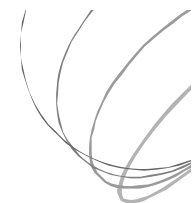


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Key Messages

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, Scottish Prison Service and their statutory partners who co-ordinate offenders' services.

This report summarises the findings from the 2009/10 audit of Lothian and Borders Community Justice Authority. This is the third 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 and since the authority's inception. This report sets out our main findings from the 2009/10 audit and the outlook for the period ahead.

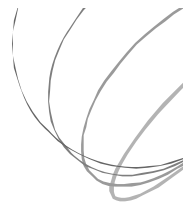
Key outcomes from 2009/10 audit

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

Outlook

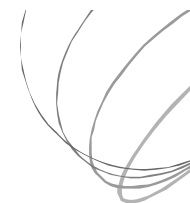
The authority, like other public sector bodies will face significant challenge delivering the Area Plan 2011-14 recently approved by Ministers, within increasing financial constraints. In the past individual councils have subsidised some aspects of provision of criminal justice social work services but this is unlikely to be sustainable going forward in the current economic climate. Work to establish a cost baseline to inform the equitable distribution of Section 27 grant funding to the constituent councils is ongoing.

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 2009/10 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

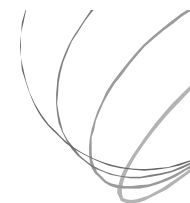
3. In this section we summarise key outcomes from our audit of the authority's financial statements for 2009/10, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.
4. We audit the financial statements and give an opinion on whether:
 - they 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 2010 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 2009/10.
7. The authority's unaudited financial statements were submitted to Audit Scotland on 29 September 2010 ahead of the latest date specified within the Scottish Governments Criminal Justice Directorate's financial memorandum of April 2008.
8. The accounts were certified by the target date of 31 October 2010. 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 2010.

Accounting issues

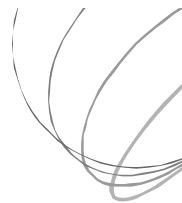
9. Community Justice Authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice* (the SORP). Overall, we were satisfied that the authority had prepared the accounts in accordance with the SORP.



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. Two relatively significant changes were required between the unaudited and audited accounts as follows:
- Fixed assets were sufficiently material in 2009/10 to be included in the balance sheet for the first time. This required adoption and disclosure of relevant accounting policies relating to the recognition, valuation and depreciation of those assets
 - City of Edinburgh Council's audited grant claim included interest earned on the CJA bank account of £2954 within their allocation as a contribution towards the costs of the Service level agreement between them and the CJA. The consolidated return was adjusted to reflect this treatment. (see also paragraph 14 below.)
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.
13. In 2009, the CJA sought approval from the Scottish Government to part fund the Finance Service Level Agreement (SLA) from a one-off payment from an underspend on the CJA Administration budget, with the remainder being met from the interest earned on the Section 27 bank account. The Chief Officer alerted Members to the Scottish Government's approval which stated that any such use of the CJA Administration funding in future should be avoided and the usual approach would be that the management of Section 27 monies is paid from Section 27 monies.
14. The 2009/10 accounts include a creditor of £18,000 due to City of Edinburgh Council in relation to the SLA. Part of this amount will relate to the management of s27 funds, and part relates to Lothian and



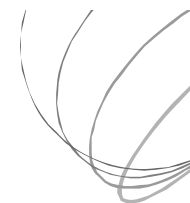
Borders CJA financial services such as budget monitoring and accounts preparation. It is important to identify the two amounts so that the management of s27 funds are properly funded from the s27 allocation in line with the Scottish government guidance. LBCJA need to determine the relative amounts to be paid from each of the funding sources. It should also be noted that the interest from the CJA bank account has already been incorporated into the CEC allocation, leaving a balance of £15,000 approximately due to be paid to City of Edinburgh Council.

Action point 1

Financial reporting outlook

IFRS adoption

15. 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.
16. The main changes following transition to IFRS will relate to accounting for employee benefits and leases. Full IFRS-compliant accounts will be required in 2010/11.



Financial position

Introduction

17. In this section we summarise key aspects of the authority's reported financial position to 31 March 2010, 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 2009/10

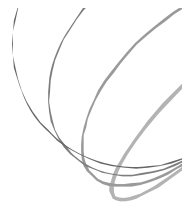
18. The authority's total expenditure in 2009/10 was £14.9 million. This was funded through Scottish Government Section 27 Criminal Justice Grant of £14.7 million and an administration grant of £0.2 million. The Section 27 grant is split between core and non-core services in accordance with the 2009/10 grant allocation. The authority disbursed the Section 27 grant to constituent councils as follows:

- City of Edinburgh Council - £9.380 million
- East Lothian Council - £1.026 million
- Midlothian Council - £0.876 million
- Scottish Borders Council - £1.434 million
- West Lothian Council - £1.957 million

19. The authority received an allocation of £14.7 million from the Scottish Government for Section 27 expenditure. This comprised an initial allocation of £14.2million and additional project funding of £0.5million. This was disbursed to the constituent councils as noted above, although City of Edinburgh council have included an additional £2945 as part of their allocation as explained in paragraph 10. Actual expenditure incurred was £0.04 million higher than the Section 27 grant received and this was funded directly by the constituent councils.

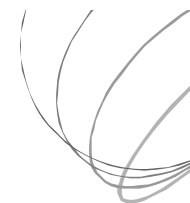
Outlook

20. The authority's Section 27 initial grant allocation for 2010/11 is £14.1 million, a decrease of £0.1 million from 2009/10 due in part to the winding down of certain support programmes. Additional funding for other specific projects as in previous years is also anticipated during 2010/11, and at the end of the first quarter, the allocation had increased to £14.3 million. As at the end of Quarter one, four of the five Councils are reporting a forecast overspend. In the past individual councils have



subsidised some aspects of provision of criminal justice social work services but this is unlikely to be sustainable going forward in the current economic climate. More accurate and timely quarterly reporting of expenditure by the Councils would assist the CJA to more accurately monitor its financial position throughout the year.

Action point 2



Governance and accountability

Introduction

21. 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.

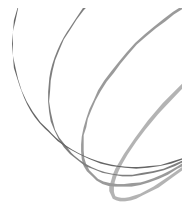
Overview of Arrangements

22. 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".
23. During the course of 2009/10, the authority has continued to implement the expected policies and procedures required by the Scottish Government's Community Justice Directorates financial memorandum of April 2008.
24. 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. We will continue to monitor the effectiveness of the service level agreement between the authority and City of Edinburgh Council.
25. 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 and that it is regularly reviewed and updated.

Outlook

26. As explained in paragraphs 13 and 14, the Service Level Agreement with City of Edinburgh Council, in respect of the provision of financial services, has been charged against the authority's Administration budget in 2009/10. In order to comply with Scottish Government guidance, the management of Section 27 funds should be funded through the S27 allocation. It is important for regularity purposes to ensure that funds are applied for the purposes intended. A split of the SLA between s27-related and non-section 27-related activities will be required in order to achieve this. We will monitor the outcome.

Action point 1



27. The Chief Officer is retiring at the end of December 2010. His successor will take up post officially from 1st January 2011 but should be in post by mid - November for a handover period to facilitate a smooth transition. In addition, the Strategic Development Coordinator is scheduled to be on maternity leave for the first quarter of 2011 which could also put pressure on available resources. .

Action point 3

Public performance reporting

28. The authority achieves a high standard of public performance reporting. It produces an annual performance report which 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 bi-annual newsletter.

Prevention and detection of fraud and irregularities

29. 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.



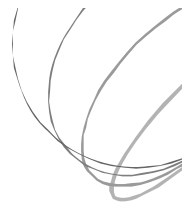
Performance management and improvement

Introduction

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

Overview of performance

31. 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.
32. Lothian and Borders CJA have now published their Area Plan 2011-14. The Plan was submitted to the Scottish Government for approval in May 2010 and received formal approval and sign off by the Cabinet Secretary, without amendment, in September 2010, following their scrutiny process. The Plan, which was circulated widely for consultation across a wide range of partner agencies, sets 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 for 2011-12 setting out the Authority's top 5 priorities has also been prepared and submitted to the Government in September for approval.
33. In addition to demonstrating progress against the priorities set out in the Area Plan 2008 -11 and the associated 2009-10 Action plan, the authority's 2009/10 Annual Report also documents how the work of the Authority adds value and highlights a number of local developments and successes. The report also provides information on areas of corporate developments including managing resources and communication.
34. The authority understands the challenges ahead resulting from the severe financial pressures and budget reduction which it and its partner bodies are facing. The need for good partnership working is also acknowledged in order to achieve more from limited resources, and ensure value for money and efficiencies are demonstrated. Key future developments include:
- Development of women-centred approaches to female offending behaviour and their wider needs which will require a multi-disciplinary response. This will involve developing strategic relationships with colleagues in CH(C)Ps to ensure needs are planned for.



- Development of clear channels of communication and consultation on the progress of the Criminal Justice and Licensing bill through Parliament as Community Payback and a presumption against short term custodial sentences may lead to an increase in the number of people placed on community service.
 - Development of a performance management and quality assurance system will continue to be a priority for 2010/11. It is hoped that a means of measuring offender outcomes can be agreed in 2010/11 and aligned to the function of the planned Performance Information Group.
35. The authority also appointed Baker Tilley to undertake a review and report on the cost base for each of the 12 core services with a view to providing a sound basis for future resource allocation. It was envisaged that this review would report in time to inform the basis of resource allocation for 2010/11. However, this timescale proved over-ambitious as the complexity of the work became apparent. At the meeting on 21st October 2010, the Directors agreed that further work would be required in order to agree a revised allocation formula. A cross-council working group has been established to complete this work in early 2011. We will monitor the outcome of this exercise.

Action point 4

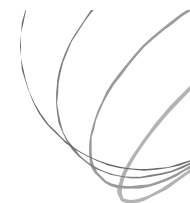
Risk Management

36. 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.
37. 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 with the updated risk register being approved by committee in July 2009. It was decided to defer the next review until after the Appointment of the new Chief Officer in November 2010.
38. The authority formally adopted its' Business Continuity Plan in January 2010



Outlook

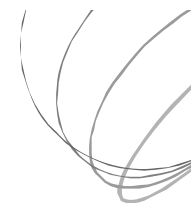
39. The local performance framework is at an early stage and we will continue to consider the effectiveness of this approach as part of our 2010/11 audit. We will continue to monitor the authority's risk management arrangements.



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	13 & 14	<p>Funding of CJA admin costs and management of s27 funds</p> <p>In line with Scottish Government guidance, the management of Section 27 funds should be funded through the S27 allocation. A split of the SLA between s27-related and non-section 27-related activities will be required in order to achieve this.</p> <p><i>Risk – possible regularity issue if grant monies applied for unauthorised purposes</i></p>			
2	20	<p>Sustainability of service delivery</p> <p>In the past individual councils have subsidised some aspects of provision of criminal justice social work services but this may no longer be sustainable in light of the forthcoming budget cuts. More accurate and timely quarterly reporting of expenditure by the Councils would assist the CJA to more accurately monitor its financial position throughout the year.</p> <p><i>Risk – The CJA may be unable to deliver the required level of service</i></p>			
	27	<p>The authority's Chief Officer retires at the end of December 2010. In addition, the Strategic Development Coordinator is scheduled to be on maternity leave for the first quarter of 2011.</p> <p><i>Risk –Possible pressure on staff resources could impact on the authority's governance arrangements</i></p>	<p><i>Successor will be in post by mid November for handover period.</i></p> <p><i>An existing staff member and the new Chief Officer have been designated to cover the key duties of the coordinator</i></p>		



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4	35	Core service unit cost review A cross-council working group has been established to complete this work in early 2011. <i>Risk- the complexities of the work involved may lead to further delays in agreeing a revised resource allocation formula</i>			