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Chartered Accountants

Northern Community Justice Authority

**Report to Members and the
Auditor General**

2009/10

External Audit Report No: 2010-01

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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
- no responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes

1. Executive Summary

Introduction

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

Finance

2. 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 2009 SORP, of the financial position of the Authority and have been properly prepared in accordance with the Management of Offenders etc. (Scotland) Act 2005 and regulations made thereunder.
3. The Authority's Income and Expenditure Account records a breakeven position for the year. Income of £12.55 million was received in the year, from funding from the Scottish Government. The Authority distributed the receipts from the Scottish Government to the constituent local authorities.

Governance

4. The Authority has developed a number of documents and initiatives which reflect examples of good governance practices. These are published on the Authority's website.
5. The Authority's Statement on the System of Internal Financial Control identifies a requirement for the provision of an internal audit review and it intends to seek a solution to this during the financial year 2010/11.

Performance

6. The Authority 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. A plan for 2011-14 has been developed and published on the Authority's website.
7. The Authority's 2009/10 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 2010/11.

Acknowledgement

8. 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.

2. Introduction

Introduction

9. We are pleased to submit our annual report, covering significant matters arising during the course of our audit of the Authority for the year ended 31 March 2010. This year's report combines the issues covered in our two separate reports in previous years: **Report to Those Charged with Governance** and **Report to Members and the Auditor General**.
10. Our overall responsibility as the external auditor of the Authority is to undertake our audit in accordance with the principles contained in the Audit Scotland Code of Audit Practice. 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. The respective responsibilities of the Authority's Members, Officers and Auditors are set out in Appendix I to this report.
11. 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.
12. As part of our overall planning approach to the Authority's annual audit we carried out a review of the key financial risks, national and local, facing the Authority 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.
13. 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 Section 6. We have also followed up the Action Plan agreed in 2008/09 and progress on these recommendations is included at Section 7.
14. We take this opportunity to remind you that external auditors do not act as a substitute for the Authority'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.

3. Finance

Financial Statements Audit

15. We are pleased to report that the target date of 31 October 2010 for the audit completion and certification of the annual accounts was met. We have given an unqualified opinion on the statement of accounts for the year ended 31 March 2010.
16. 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 2010 and of its net operating cost and cashflows for the year then ended
 - 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.
17. Non-compliance with statute or regulations may materially affect the financial statements. Our audit procedures include the following:
- reviewing minutes of relevant meetings
 - enquiring of senior management the position in relation to litigation, claims and assessments
 - detailed testing of transactions and balances
18. We confirm that we did not identify any instances of concern with regard to the legality of transactions or events.
19. We also request written confirmation from the Treasurer that the Authority's financial transactions accord with relevant legislation and regulations. He has confirmed that he is not aware of any actual or potential non-compliance with laws and regulations that could have a material effect on the ability of the Authority to conduct its business and therefore on the results and financial position to be disclosed in the statement of accounts for the year ended 31 March 2010.
20. Under International Standard on Auditing (ISA) 260, we are required to communicate certain matters arising from the audit to those charged with governance. The areas considered are summarised in the table below:



3. Finance

Table 1: ISA260 Reporting

Area	Key Messages
Nature and Scope of the Audit	We have planned our audit in accordance with International Auditing Standards and the Code.
Integrity and objectivity of the audit engagement partner and audit staff	As external auditors, we are required to communicate on a timely basis all facts and matters that may have a bearing on our independence. We provided no consultancy or non audit services to Northern Community Justice Authority during the year and can confirm that we have complied with the Auditing Practices Board Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.
Accounting Policies and Practices	In our opinion there are no issues that require to be brought to the Authority's attention regarding the appropriateness of the accounting policies.
Material Risk and Exposure	The Authority has confirmed that it has no material risks and exposures which should be reflected in the Statement of Accounts and the Treasurer has confirmed this in the Letter of Representation.
Audit Adjustments	<p>Two significant audit adjustments were identified during the course of our audit, both of which were agreed and adjusted in the final audited accounts.</p> <ol style="list-style-type: none"> 1. A sum of £52,286 was adjusted to gross up both the Debtors and Creditors balances to correct the amounts due to/ from individual authorities for previous years. 2. A sum of £17,742 was adjusted to recognise the interest received from Aberdeen City Council's in respect of amounts invested in its Loans Fund. The income was not spent in the current year, therefore in line with the regulation which states that <i>'there is no provision to carry forward underspend to the following financial year'</i>, this has been disclosed as an amount due to be repaid to the Scottish Government, with the corresponding grant figure reduced accordingly. <p>Definitions of Material, Significant and Trivial audit adjustments are provided at Appendix II to this report.</p>
Unadjusted Misstatements	There were no unadjusted misstatements (other than those which are trivial).
Material Uncertainties	There are no material uncertainties relating to events and conditions that cast significant doubt on the Authority's ability to continue as a going concern. .
Fundamental Disagreements	There are no areas of disagreement with management that, individually or in aggregate, have a significant impact on the statement of accounts and our audit report.
Modifications to our audit report	There are no modifications to our audit report.
Material Weaknesses	No material weaknesses in the accounting and internal control systems were identified during the audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts.
Other matters relevant to the audit	Included in the accounts are debtor and creditor amounts brought forward from 2007/08 and 2008/09. These sums relate to amounts owed by or to member Local Authorities and the Scottish Government. We have requested that they be fully reconciled and sums outstanding settled (see R3 at Section 6).

3. Finance

Financial Position

21. The Authority's Income and Expenditure Account records a breakeven position for the year. Income of £12.55 million was received in the year, from funding from the Scottish Government. The Authority distributed the receipts from the Scottish Government to the constituent local authorities. Operating Expenditure of £205,945 was incurred in the year, comprising largely of employee costs of £124,844. 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 Authority.

Audited Returns from Member Local Authorities

22. The signed audited returns from the member Local Authorities were not all received by the due date of 30 September. This resulted in the draft accounts including only the unaudited figures from the individual returns from the Local Authorities. A similar issue arose as part of the 2007/08 and 2008/09 audit and was subject of audit comment in our reports in previous years. We have therefore recommended that all Local Authorities be reminded again of their requirement to submit returns timeously. (R2, Section 6)

Creditors/Debtors

23. The statement of accounts includes creditor and debtor balances brought forward from 2007/08 and 2008/09. These balances have arisen as a result of over and underpayments to member Local Authorities, mainly as a result of increases to the grant funding during the year or payments made directly by the Scottish Government to Local Authorities. The Treasurer has agreed that a reconciliation of the balances should be undertaken and the appropriate payments made to extinguish the balance. (R3, Section 6)

Financial Performance

24. Financial performance is measured against the financial budget set by the Authority for 2009/10. In this regard the Authority reported an underspend for the financial year of £30,454 against a budget of £220,875. This variance arose as a result of a combination of expenditure being lower than budgeted (£14,930) and income greater than budgeted (£15,524). Explanation for these variances is provided in the Explanatory Foreword to the statement of accounts.
25. The budget for 2010/11 has set expenditure at £220,875. The estimated outturn as at the end of quarter two is that a small underspend will be achieved in the current year.

Reserves and Balances

26. CJA's cannot carry a balance on their General Fund as, due to the way they are funded, income is restricted by statute to the amount of the expenditure. Accordingly the balance on the General Fund at 31 March 2010 is nil.

Pensions

27. The Northern CJA participates in the Aberdeen City Council Pension Fund which is part of the Local Government Pension Scheme (Scotland). Note 10 to the Statement of Accounts gives full information relating to pensions.

4. Governance

General

28. 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.
29. The membership of the Authority comprises elected members of Aberdeen City, Aberdeenshire, Eilean Siar, Highland, Moray, Orkney Islands and Shetland Islands Councils.
30. The Committee held five meetings in 2009/10 when 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 Authority.
31. In previous years the Authority has introduced good reporting structures and policies and these continue to provide good quality, cooperative and integrated services to manage offenders.
32. A number of developments have taken place during 2009/10, including the following:
 - Review of Core Funding
 - Single Outcome Agreement – Delivering shared outcomes
 - Review of the NCJA Communications Strategy
 - Proposed model for supported accommodation services

Internal Control

33. The Authority'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. The accounting processes of Aberdeen City Council treat the Authority in the same manner as Trusts, whereby the accounts are completely separate to those of the Council. The Authority's funds are held by the Loans Fund of Aberdeen City Council and consequently are more readily identifiable.

Annual Governance Statement

34. In June 2007, CIPFA in association with SOLACE published the revised Framework – Delivering Good Governance in Local Government. This recommends that the review of the effectiveness of the system of internal control should be reported in an Annual Governance Statement. The Authority has opted not to introduce this during 2009/10. While this has not been designated as statutory proper practice, the Authority should be encouraged to include an Annual Governance Statement within its statement of accounts for 2010/11.

Recommendation 1:

Consideration should be given to producing a single Annual Governance Statement for inclusion within the 2010/11 Statement of Accounts.

4. Governance

Internal Audit

35. The Authority utilises the internal audit service of Aberdeen City Council, however owing to Changes within the Internal Audit function in 2009/10, no work was undertaken.
36. The Authority's Statement on the System of Internal Financial Control identifies a lack of specific internal audit work and the need for a review of the accounting arrangements between the Authority and Aberdeen City Council and Aberdeenshire Council. This situation also reflects the position at March 2009. We will continue to monitor the Authority's progress in addressing these issues as part of our 2010/11 audit. (R5 Appendix II)

Fraud and Irregularity

37. As external auditors we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities.
38. The Authority has appropriate arrangements in place to help prevent and detect fraud and irregularity. These arrangements include anti-fraud and corruption strategies, a whistle blowing policies and codes of conduct for elected members and staff. Overall we concluded that arrangements were generally satisfactory to prevent and detect fraud and other irregularities.
39. We are required to have arrangements in place to be notified of all frauds over £5,000 and to submit reports to Audit Scotland. No such frauds were reported during 2009/10.

5. Performance

Overview of Performance in 2009/10

40. 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 plan for 2009/10 included a total of 29 actions and the annual report noted the following:
- 23 actions satisfactorily achieved
 - 5 actions progressing but failed to meet original timescales
 - 1 action having made no progress
41. During 2009/10 the Authority prepared its three year Area Plan 2011-2014 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 2010/2011 has been prepared which continues to support the delivery of the desired outcomes. This will be reviewed during future audits.
42. In 2008/09 we reported on the identified need to integrate the Authority's planning process with that of the constituent authorities' community planning partnership. The Authority's Annual Report for 2009/10 includes a positive update on the progress made in this area, whilst acknowledging that difficulties have been encountered and that further efforts will continue



6. Action Plan

Observation and Risk	Recommendation	Management Response	
<p>1. In 2009/10, the Authority has continued to publish a Statement on the Systems of Internal Financial Control, in line with the statutory requirements.</p>	<p>R1 Consideration should be given to producing a single Annual Governance Statement for inclusion within the 2010/11 Statement of Accounts.</p>	<p>During the remainder of the year, consideration will be given to voluntarily including an Annual Governance Statement in the Statement of Accounts.</p> <p>To be actioned by: Treasurer and Chief Officer</p> <p>No later than: 31 March 2011</p>	
		Grade	B
<p>2. The signed audited returns from the member Local Authorities (LAs) were not all received by the due date of 30 September. The NCJA return cannot be completed until all the audited returns have been received.</p>	<p>R2 All LAs should be reminded of their requirement to submit returns timeously.</p>	<p>A reminder will be sent to all LA's Directors of Finance asking that the matter be given suitable emphasis in the audit planning process, thus ensuring timely completion of the audit certificate.</p> <p>To be actioned by: Treasurer</p> <p>No later than: 30 November 2010</p>	
		Grade	B
<p>3. A number of Debtors and Creditors have been brought forward from 07/08 and 08/09. These balances have resulted from confusion over additional grant received, allocation of additional grant, direct payments for ISP.</p>	<p>R3 A full reconciliation of all the prior year debtor and creditor figures should be prepared to accurately reflect the position and the necessary adjustments to funding made. Payments can then be requested from and made to appropriate bodies (SG and LAs).</p>	<p>A statement has been sent to the LA's with the prior year position for each and requesting that payment be made where appropriate or seeking confirmation of agreement to funding due to them so that the matter can be concluded in early course.</p> <p>To be actioned by: Treasurer</p> <p>No later than: 30 November 2010</p>	
		Grade	B



6. Action Plan

Observation and Risk	Recommendation	Management Response	
4. No internal audit review has been undertaken during the financial year 2009/10.	R4 An internal audit review should be undertaken during 2010/11.	An initial discussion has taken place with the internal auditors with agreement to an audit being carried out in the current year. To be actioned by: Treasurer No later than: 31 March 2011	
		Grade	B

To aid the use of the action plan, our recommendations have been graded to denote the level of importance that should be given to each one. These gradings are as follows:

- A Fundamental issues that require immediate consideration of senior management
- B Significant issues that required the attention of line management.
- C Less significant matters that do not require urgent attention but which should be followed up within a reasonable timescale.



7. Follow-up 2008/09 Action Plan

Recommendation	Management Response		Progress Update at October 2010
<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 Authority 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>		<p>The accounts were provided to the auditor by the appropriate date.</p> <p>Fully Implemented</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>		<p>The audited returns for 2009/10 were not available for inclusion in the draft accounts at 30 September 2010.</p> <p>Fully Implemented but requires to be re-enforced – see R2 in 2009/10 Action Plan.</p>
	Grade	A	
	Grade	B	

7. Follow-up 2008/09 Action Plan

Recommendation	Management Response	Progress Update at October 2010
<p>R3 The Authority should ensure that Aberdeenshire Council continue to process their charges on a regular basis.</p>	<p>The Authority will remind Aberdeenshire again of the need to maintain regular charging throughout the year in order to ensure there is little delay in recording Authority expenditure in the accounts.</p> <p>To be actioned by: Treasurer</p> <p>No later than: 31 December 2009</p>	<p>Charges have been invoiced by Aberdeenshire Council on a regular monthly basis.</p> <p>Fully Implemented</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 the Authority funds in 2009/10.</p> <p>To be actioned by: Treasurer</p> <p>No later than: 31 March 2010</p>	<p>Funds are identifiable and interest has been paid to the Authority.</p> <p>Fully Implemented</p>
<p>R5 The Authority 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>	<p>No Internal Audit work was carried out during 2009/10.</p> <p>Not Implemented – see R4 in 2009/10 Action Plan.</p>



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 7 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 2009 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 – Definition of Material, Significant and Trivial in relation to 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 Authority. 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 Authority 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 Authority agrees to adjust the errors.



Appendix III – Acronyms

CIPFA	Chartered Institute of Public Finance and Accounting
CJA	Community Justice Authority
ICT	Information Communication Technology
ISA	International Standards on Auditing
ISP	Intensive Support Package
LA	Local Authority
SG	Scottish Government
SOLACE	Society of Local Authority Chief Executives
SORP	Statement of Recommended Practice