

South West Scotland Community Justice Authority

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

November 2010



 **AUDIT SCOTLAND**



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Key messages

Introduction

South West Scotland 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 the local authorities and their statutory partners who co-ordinate offender services.

In 2009/10 we audited South West Scotland Community Justice Authority's financial statements and governance arrangements. This report sets out our main findings, summarising key outcomes 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 authority.

The authority has developed its governance processes and produced a governance framework and related action plan. The authority's area plan 2008-2011 was approved in April 2008. We have been advised that significant progress has been made in delivering the plan.

Outlook for future audits

The authority is required to breakeven. We noted that in 2008/09 there was a cumulative surplus of £2k. In 2009/10 the authority returned a surplus of £5k, resulting in a cumulative surplus of £7k. We acknowledge that, in practice, there will be small balances on the income and expenditure account and the authority should continue to monitor its financial position.



November 2010



Introduction

1. This report summarises the findings from our 2009/10 audit of South West Scotland Community Justice Authority ('the authority'). The report focuses mainly on the authority's financial statements and addresses any significant findings that have arisen throughout the year. The scope of the audit was set out in our annual audit plan issued on 11 February 2010.
2. The financial statements are the means by which the authority accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. It is the responsibility of the authority to prepare financial statements that give a true and fair view of the state of affairs of the body as at 31 March 2010, and of its net operating cost and cash flows for the year then ended, and that the expenditure and receipts were incurred or applied in accordance with enactments and guidance.
3. Members and officers are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
 - the authority's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests
 - the authority has adequate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability
 - the systems of internal control provide an appropriate means of preventing or detecting material misstatement, error, fraud or corruption.
4. This report is addressed to members of the authority and the Auditor General for Scotland.



Financial statements

Introduction

5. In this section we summarise key outcomes from our audit of the authority's financial statements for 2009/10.
6. We audit the financial statements and give an opinion on:
 - whether they 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 cash flows for the year then ended
 - whether they have been prepared properly in accordance with the Management of Offenders etc. (Scotland) Act 2005 and regulations made thereunder.
7. 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 systems of governance and internal financial control, and assessing whether disclosures in the statement are consistent with our knowledge.

Audit opinion

8. We have given an **unqualified** opinion that the financial statements of South West Scotland Community Justice Authority for 2009/10 give a true and fair view of the state of affairs of the body as at 31 March 2010, and of its net operating cost and cash flows for the year then ended and that the expenditure and receipts were incurred or applied in accordance with enactments and guidance.
9. We were satisfied with disclosures made in the statement on the system of internal financial control and the adequacy of the process put in place by the authority to obtain assurances on systems of control.
10. The statements on the systems of internal financial control for three out of four of the constituent authorities highlighted some weaknesses. The authority's statement acknowledges these weaknesses have been identified and states that these are not related to criminal justice social work expenditure.
11. The authority's unaudited financial statements were submitted to external audit by the deadline of 30 September 2010. There were a number of presentational errors in the initial draft of the accounts that had to be amended as part of the audit process. Audited accounts were finalised prior to the target date of 31 October 2010 and will be submitted to Ministers in order to be laid before the Scottish Parliament prior to the deadline of 31 December 2010. The financial statements are an essential



means by which the authority accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

Accounting issues

12. Community justice authorities (CJAs) 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). No major changes were introduced by the 2009 SORP. We were satisfied that the authority prepared the accounts in accordance with the 2009 SORP.

Pension disclosures

13. Financial reporting standard (FRS) 17 requires that the cost of retirement benefits be recognised in the net cost of services. However it was not considered to be material or cost effective to include this cost for 2009/10 as the authority only employed three members of staff during the year.
14. We understand that one other community justice authority in Scotland has included FRS 17 costs in their annual accounts. Officers have agreed to monitor this position to ensure consistency with the remaining community justice authorities.

Action Point 1

Regularity

15. 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 the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the accountable officer as to her view on adherence to enactments and guidance. No significant items were identified for disclosure.

Financial reporting outlook

16. Central government and NHS bodies moved from UK generally accepted accounting principles to international financial reporting standards (IFRS) with effect from 2009/10. The intention is that local government will adopt IFRS for 2010/11. Although the community justice authority is a central government body, it follows local government accounting practice so it is expected to adopt IFRS for 2010/11.

Action Point 2



Financial position and use of resources

Operating performance 2009/10

17. In 2009/10, the authority's total expenditure was £9.434 million. This was funded mainly from the s27 grant which is paid by the Scottish Government and is split between core and non-core services in accordance with the 2009/10 grant allocation.
18. The authority returned a surplus of £5k at the year end. We noted that in 2008/09 there was an accumulated surplus of £2k, resulting in a cumulative carry forward of £7k. We acknowledge that, in practice, there will be small balances on the income and expenditure account, and the authority should continue to monitor its financial position.

Action Point 3

Outlook

19. The authority's s27 grant allocation for next year (2010/11) is £9,717,302, representing a 6.9% increase on the 2009/10 allocations.



Governance and accountability

Overview of arrangements in 2009/10

20. We believe that an effective organisation is committed to high standards of probity and can demonstrate high standards of governance and accountability. It has effective political and managerial structures and processes to govern decision-making and the exercise of authority within the organisation, supported by mature and effective relationships between members and officers.
21. The authority has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements. As external auditors we have responsibility to report on the authority's corporate governance arrangements and review the statement on the system of internal financial control.
22. The authority's support services are provided by North Ayrshire Council. The authority has adopted the policies and procedures of the host authority, where appropriate. Service level agreements are in place with North Ayrshire Council for the provision of support services. In addition service level agreements were in place with South Ayrshire Council for the provision of legal services.



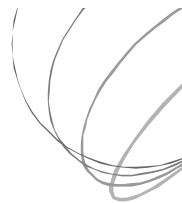
Performance management and improvement

23. The Scottish Government Justice Department has developed measures that determine the progress authorities have made against the outcomes set out in the national strategy for the management of offenders.
24. The South West Scotland Community Justice Authority area plan 2008-2011 was approved in April 2008. We have been advised that significant progress has been made in delivering the plan. The authority's annual report 2009/10 lists a total of 65 actions and allocates a red, amber green status to each of them. Of these actions 52 (80%) were rated as green, '*action progressing as expected or ahead of schedule*', 9 (14%) amber, '*some progress but not progressing as expected*'. The remaining 4 (7.7%) were rated as red '*no or very limited progress*'. We plan to monitor the progress of the authority's action plan throughout our audit appointment.

Action Point 4

Outlook

25. The South West Scotland CJA has now established its area plan for 2011/14. This sets out a series of national strategic aims for the first time, which will be used to develop a national action plan in conjunction with the other CJAs.
26. The national strategy for management of offenders has been superseded by *Protecting Scotland's Communities: Fair, Fast and Flexible Justice*. This sets out the current national direction for offender management policy. This is reflected in the authority's area plan for 2011 – 2014.



Final remarks

27. Attached to this report is an action plan setting out the key risks identified during the audit which we are highlighting for the attention of members. In response, officers have considered the issues and have agreed to take the specific steps set out in the column headed 'planned management action'. On occasion, officers may choose to accept the risk and take no action. Alternatively, there may be no further action that can be taken to minimise the risk. Where appropriate, the action plan clearly sets out management's response to the identified risks.
28. Appropriate mechanisms should be considered and agreed by members for monitoring the effectiveness of planned action by officers. We will review the operation of the agreed mechanism as part of the 2010/11 audit.
29. The co-operation and assistance given to us by South West Scotland Community Justice Authority staff and members and staff in North Ayrshire Council as host authority is gratefully acknowledged.





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	FRS17 costs For 2009/10 it was considered not necessary to include FRS 17 pension costs in the accounts due to cost and materiality issues. One other community justice authority requested separate FRS 17 figures from the actuaries and included these in their financial statements. Risk: The authority's financial statements may not include all relevant costs due to the exclusion of FRS 17 liabilities.	Monitor this position to ensure consistency with the remaining community justice authorities.	Chief Officer	31.3.11
2	16	IFRS The authority needs to make arrangements for the introduction of IFRS. Risk: The authority may not be prepared for producing IFRS compliant financial statements.	Adopt IFRS for 2010/11 in line with local government accounting practice.	Chief Officer	31.3.11



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	18	<p>Financial position A surplus of £7k has been carried forward to 2010/11. The authority should continue to monitor its financial position to ensure breakeven in future years.</p> <p>Risk: <i>The authority fails to make the necessary monitoring arrangements, resulting in a large surplus or deficit in future years.</i></p>	The authority will continue to monitor its financial position.	Chief Officer	31.3.11
4	24	<p>Performance framework The authority should continue to progress the actions identified their 2009/10 annual report.</p> <p>Risk: <i>Failure to complete the approved action plan may result in a loss of confidence of stakeholders leading to a reduction in funding.</i></p>	The authority will continue to implement its Area Plan through its 2010-11 Action Plan, with progress tracked through quarterly monitoring.	Chief Officer	31.3.11