

North Strathclyde Community Justice Authority

Annual report on the 2010/11 audit



Prepared for Members of North Strathclyde Community Justice Authority and the Auditor General
for Scotland

November 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Key messages	4
2010/11	4
Outlook.....	4
Introduction	5
Financial statements	6
Audit opinion	6
Accounting issues	7
Outlook.....	8
Financial position	9
Financial results	9
Outlook.....	10
Governance and accountability	11
Performance	13
Appendix A: Action plan	14

Key messages

2010/11

In 2010/11, we audited the financial statements and looked at aspects of governance within North Strathclyde Community Justice Authority (NSCJA). This report sets out our main findings.

Overall, we found the financial stewardship of NSCJA during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- An unqualified opinion has been issued on the financial statements for 2010/11.
- Final accounts preparation procedures and working papers were of a good standard and this enabled the audit to progress smoothly.
- NSCJA has a sound corporate governance framework.

Renfrewshire Council provide internal audit services to NSCJA. The Statement on the System of Internal Financial Control for the year 2010/11, signed by the Treasurer and the Director, concluded that NSCJA has in place a sound system of internal financial control with no identified material weaknesses. Our audit work resulted in findings consistent with that opinion.

Outlook

Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in the UK Comprehensive Spending Review indicate that significant budget reductions will be required in these years.

In addition the Audit Scotland Report "Scotland's Public Finances - addressing the challenges" contained a number of key messages for councils and other local government bodies to consider given the financial constraints being faced.

Introduction

1. The members and officers of NSCJA 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 financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed.
 - NSCJA'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.
 - NSCJA has adequate corporate 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.
 - NSCJA has proper arrangements for securing best value in its use of resources.
2. This report summarises the most significant issues arising from our work during 2010/11.

Financial statements

3. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
4. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
5. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, statement on the systems of internal financial control and the remuneration report. This section summarises the results of our audit of the financial statements.

Audit opinion

6. We have given an unqualified opinion on the financial statements of NSCJA for 2010/11, concluding that the financial statements:
 - 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 2011 and of its net operating cost and cash flows for the year then ended
 - have been properly prepared in accordance with the Management of Offenders etc. (Scotland) Act 2005 and regulations made thereunder.

Legality

7. Through our planned audit work we consider the legality of the joint committee's financial transactions. In addition the Treasurer has confirmed that, to the best of her knowledge and belief the financial transactions of NSCJA were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Statement of the System of Internal Financial Control

8. We are satisfied with the disclosures made in the Statement of the System of Internal Financial Control and the adequacy of the process put in place by NSCJA to obtain the necessary assurances. The statement reports that NSCJA has in place a sound system of internal financial control which is in line with findings from our tests of controls and also with the findings of internal audit. In addition, this finding is in line with our findings from the audit of the host authority, Renfrewshire Council, where we found no significant weaknesses in the systems which are used by NSCJA.

Remuneration report

9. Guidance was issued by the Scottish Government stating that a remuneration report was not a requirement for community justice authorities (CJAs) in 2010/11 as these bodies are not covered by the relevant statutory requirements. The Scottish Government did however suggest that CJAs should consider including these reports voluntarily from 2011/12. NSCJA opted not to include such a report in 2010/11 however should consider it for inclusion in 2011/12.

Accounting issues

10. CJAs are required to prepare accounts in line with the Scottish Government Criminal justice Directorate's Guidance Note Two: Management Statement / Financial Memorandum. The memorandum (which dates from 2008) also states that the accounts should be prepared in line with the local authority Code of Practice – A Statement of Recommended Practice (the SORP). Local authorities in Scotland are now required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010 Code). This Code is essentially the 2010/11 equivalent of the SORP. We are satisfied that NSCJA has prepared the 2010/11 financial statements in accordance with the 2010 Code with one observation.
11. NSCJA has not included an accrual in respect of employees' untaken leave at year-end (which is a requirement of the Code). Such accruals have been introduced into the accounts for the host council and the various joint boards/committees administered by Renfrewshire. Statutory guidance has been issued which allows for an adjustment account to be created for these bodies to ensure that this accrual has no impact on the level of reserves held. No such guidance has been issued regarding CJAs and as a result officers were reluctant to include an accrual. In addition the amounts involved were considered immaterial.

Accounts preparation & submission

12. The financial memorandum states that CJAs are required to submit their accounts to their external auditor by 30 September. NSCJA financial statements were submitted to us well in advance of this timescale with a later adjustment in light of the audited returns for the various member authorities also provided prior to 30 September.
13. The 2010 Code saw the full implementation of Internal Financial Reporting Standards (IFRS) for the first time. In local authorities and joint boards/committees this saw the introduction of new and revised primary statements such as the Movement in Reserves statement. The financial memorandum (referred to in paragraph 10) sets out what primary statements are required for CJAs. This document has not been updated in light of the new Code, therefore the statements presented remain in line with previous years.
14. Final accounts preparation procedures and working papers were generally of a good standard. The audit resulted in mainly presentational and other minor changes. One late change arose as a result of an observation by the Scottish Government concerning an amount of section 27 grant expenditure which appeared to have been omitted. The expenditure related to Renfrewshire Council and should have been reported in the grant return. It was

omitted as both the income and expenditure were posted to the same code in the financial ledger and thus were not appropriately identified.

15. We issued our report on the audit of the financial statements (in compliance with the International Auditing Standard 260) on 24 October 2011 which indicated our intention to give an unqualified opinion on the financial statements for the joint committee. The audit certificate was duly signed off by ourselves on 27 October 2011.

Pension costs

16. CJAs differ from other joint boards/committees which are administered by Scottish councils in that they are deemed to be non-principal authorities in relation to the local government pension scheme. This allows CJAs to account for the pension scheme on a defined contribution basis, which essentially means that there are no adjustments required to the superannuation costs and no resultant pension asset/liability in the balance sheet (with a matching reserve).

Outlook

Audit appointment for 2011/12

17. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment and we would like to thank officers and members for their assistance during the last five years. The procurement process for the next five years was completed in May 2011. From next year (2011/12) Audit Scotland will again be the appointed auditor for NSCJA but a different audit team will be in place. We look forward to continuing the good working relationships that exist.

Financial position

18. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
19. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
20. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

Budgetary control

21. The 2010/11 Income & Expenditure Account for NSCJA reports a surplus of £3,862. This is mainly made up from interest earned on grant income received from the Scottish Government prior to this being disbursed amongst the member councils. In 2010/11 this was reported as £5,634 which has been off-set by a small overspend in administration costs of £1,772. This overspend has been caused by overspends in relation to property costs, supplies and services and payments to other bodies which has been partially off-set by underspends on other expenditure headings (with the exception of section 27 payments).
22. It should be noted that section 27 expenditure always matches income received and therefore does not impact on the overall financial result. On occasions where a member council overspends its allocation (and this cannot be covered by underspends elsewhere in NSCJA subject to agreement) then that council must bear the cost of such an overspend. Exhibit 1 provides an analysis of section 27 expenditure for each member authority and highlights an overall underspend. Such underspends are not retained by NSCJA.

Exhibit 1: Section 27 expenditure

Description	2010/11 s.27 revised allocation (£)	2010/11 s. 27 expenditure (£)	Variance (£) under/(over)
Renfrewshire Council	4,177,564	4,133,283	44,281
East Renfrewshire Council	1,181,349	1,189,786	(8,437)
Inverclyde Council	1,897,518	1,867,009	30,509
Argyll & Dunbartonshire Partnership	3,681,966	3,675,259	6,707
Total	10,938,397	10,865,337	73,060

Source: NSCJA 2010/11 financial statements and audited grant returns for the above mentioned bodies

Financial position

23. The NSCJA balance sheet position reflected closing revenue reserves of £27,178. These reserves are mainly the result of the build up of several years' worth of interest earned on balances held during the year and not unspent grant funding. Officers have confirmed that NSCJA is entitled to hold onto these funds.

Outlook

2011/12 budget

24. Two sources of grant funding are made available to NSCJA from the Scottish Government. The first of these is known as section 27 funding which is in turn allocated out to each of the member authorities in order to carry out the criminal justice service and projects. The initial allocation of this funding from NSCJA to the member authorities was approved on 4 March 2011 with a total value of £10,763,859. This represents a 1.4% reduction from the total allocation as per exhibit 1. Projected year-end spend from the most recent budget monitoring report is £10,737,006 which would produce an overspend of £26,853. As reported in paragraph 22, any such overspend would be borne by the member authorities unless NSCJA opted to provide additional funds from the revenue reserve balance (discussed in paragraph 23).
25. The second source of grant funding concerns the administration costs of NSCJA. The 2011/12 allocation is £219,721 and remains unchanged from 2010/11 where there was a small overspend (see paragraph 21). The most recent budget monitoring report forecast a year-end small underspend of £606.

Governance and accountability

26. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. In previous years, we have concluded that the NSCJA has many aspects of a sound corporate governance framework in place and have reached the same conclusion this year subject to issues raised in paragraphs 27, 28 and 32 below.
27. In 2009/10 we noted that the scheme of delegation and procedural standing orders had been updated and approved in the year but that the financial regulations had not. We note again that these have still to be reviewed although we also note that internal audit have listed this as an item in their 2011/12 plan. We would therefore anticipate that the financial regulations will be updated and approved over the coming year.

Refer Action Plan no. 1

Internal control

28. Internal audit plays a key role in NSCJA's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. Internal audit's programme of work is based on a five year cyclical approach based on an assessment of risk. In 2010/11 internal audit carried out a follow up of 6 recommendations from a report on governance arrangements dating from 2009. Internal audit found that only 2 of these were fully resolved with the remaining 4 still in progress.
- Refer Action Plan no. 2**
29. The annual report from internal audit contained the annual assurance statement. This confirmed that there were no material weaknesses in the financial controls for NSCJA.
 30. Internal audit also reviewed Renfrewshire Council's payroll, business continuity, financial management and cash and banking (which are all used by or have an impact for NSCJA) and found these to be satisfactory. The annual assurance statement is largely based upon this work.
 31. We have also reviewed Renfrewshire Council's main financial systems as part of our annual work and our findings are consistent with those of internal audit with only a small number of minor issues highlighted in a management letter issued to the Director of Finance and Corporate Services in June 2011. We have also undertaken an overview of internal audit (as reported in a management letter in January 2011) and found that the section has appropriate resources, documentation standards and reporting procedures to allow us to review and place reliance on aspects of their work during the year.

Relationship with host authority

32. Renfrewshire Council is the host authority for NSCJA, and as such provides various support services (such as finance, personnel, legal and administration). The host authority in turn charges NSCJA for the provision of these services. We understand that an agreed arrangement has been in place to date but that this does not take the form of a formalised and signed service level agreement although we understand that there are plans to introduce such a set up.

Refer Action Plan no. 3

Performance

33. As in previous years, we have monitored the 2010/11 action plan and noted that there were four actions which were not completed on time. The covering report highlighted that of this four, three were due to circumstances outwith the control of NSCJA which appeared reasonable upon review of the actions in question. The other outstanding action however relates to the formation of a joint plan with NHS Greater Glasgow & Clyde. From discussion with officers we now understand that this action no longer applies due to the transition of health services in prisons to the NHS.
34. In the most recent 2011/12 action plan progress report it was noted that all have either been achieved or it is expected that they will be achieved within timescales. We noted again that these actions are linked back to National Outcomes in the National Performance Framework (NPF).
35. We note the joint efforts (with other CJAs, the Association of Directors of Social Work, Scottish Prison Service and the Convention of Scottish Local Authorities) to produce a national action plan in order to achieve progress against the national aims. These national aims being:
 - To improve joint working practices
 - To improve information sharing
 - To improve community integration
 - To improve the shared management of resources and policy development.
36. From the review of papers submitted to the meetings of the NSCJA we noted that there is a planned event to take place in November to identify national actions for this national plan. We would anticipate future progress reports are submitted to NSCJA.

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	27	<p>Financial Regulations approval</p> <p>The financial regulations are currently under review after which they will require to be approved appropriately.</p> <p><i>Risk - The financial regulations in place are not aligned with the current structure of NSCJA.</i></p>	Renfrewshire Council and CJA staff are currently progressing this item.	Renfrewshire Council: Finance Manager	End March 2012
2	28	<p>Outstanding audit actions</p> <p>A follow up review by internal audit found 4 recommendations from 2009 which have not been fully implemented.</p> <p><i>Risk - The body remains exposed to previously identified risks.</i></p>	Renfrewshire Council and CJA staff are currently progressing this item with two complicated items being deferred to 2014.	Renfrewshire Council: Finance Manager	End March 2012 (excluding two complicated items)
3	32	<p>Service Level Agreements (SLAs)</p> <p>There are a number of SLAs in place with the host authority, however these do not cover all areas of service provision.</p> <p><i>Risk - Payments to the host authority exceed the level of service provided.</i></p>	Renfrewshire Council and CJA staff are currently progressing this item.	Renfrewshire Council: Finance Manager	End March 2012