

South West Scotland Community Justice Authority

Annual report on the 2010/11 audit



Prepared for SW Scotland Community Justice Authority and the Auditor General for Scotland

October 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.

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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 2010/11 we audited the authority's financial statements and governance arrangements. This report sets out our main findings, summarising key outcomes from the 2010/11 audit and the outlook for the period ahead.

2010/11

We have given an unqualified opinion on the financial statements of the authority.

The authority is required to breakeven. We noted that in 2009/10 there was a re-stated cumulative surplus of £6k. In 2010/11 the authority reported a deficit of £6k, resulting in the cumulative total of zero. This means that the authority have cumulatively achieved their breakeven target.

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. A new area plan for 2011-14 has also now been approved by the Scottish Government.

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. The authority should continue to monitor its financial position going forward.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of South West Scotland Community Justice Authority ('the authority'). The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinion (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model. However, the main focus is on the financial statements and any significant findings from our wider review of the authority.
2. Appendix A is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed 'planned management action'. We do not expect all risks to be eliminated or even minimised. What we expect is that the authority understands its risks and has arrangements in place to manage these risks. The authority and accountable officer should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
3. This report is addressed to members of the authority and the Auditor General and should form a key part of discussions with members of the authority, either prior to or as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
4. The authority is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

5. 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.
6. 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
 - the regularity of the expenditure and income.
7. Auditors review and report on, as appropriate, other information published with the financial statements, including the management commentary, statement on the system of internal control and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinion

8. We have given an unqualified opinion that the financial statements of South West Scotland Community Justice Authority for 2010/11 give a true and fair view of the state of the authority's affairs and of its net operating cost for the year.
9. The authority is required to follow the 2010 Code of Audit Practice on Local Authority Accounting in the United Kingdom (the code) including for the first time in 2010/11 the full application of International Financial Reporting Standards (IFRS). We confirm that financial statements have been properly prepared in accordance with the code.

Regularity

10. In accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000, we have also provided an opinion, that in all material respects, the expenditure and receipts in the financial statements were incurred or applied in accordance with applicable enactments and guidance. 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.

Remuneration report and statement on internal control

11. In our opinion, the audited part of the remuneration report has been properly prepared and the remaining elements of the remuneration report and management commentary are consistent with the financial statements.
12. We also confirm that we have no issues to report to you on the statement on the system of internal financial control and its compliance with the code.

Accounting issues

Accounts submission

13. The financial statements were submitted for audit by the deadline of 30 September 2011, in accordance with the pre-agreed timetable. The audit fieldwork was completed in October 2011 and matters arising from this work were reported to the chief officer on 17 October 2011 and discussed on 25 October 2011.

Presentational and monetary adjustments to the unaudited accounts

14. A number of presentational changes were required to the financial statements as a result of our review of the disclosures required by the code. The authority had not included a movement in reserves statement in the financial statements. The audited financial statements have been adjusted to reflect these issues.

Pension costs

15. International Accounting Standard (IAS) 19 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 2010/11 as the authority only employed three members of staff during the year.

Refer Action Plan No. 1

Outlook

16. Looking ahead, from 1 January 2013 changes to international financial reporting standards (IFRSs) will become effective. This includes the introduction of:
 - IFRS 9 - financial instruments (replacing IAS39)
 - IFRS 10 - consolidated financial statements (replacing IAS27)
 - IFRS11 - joint arrangements (replacing IAS31)
 - IFRS12 - disclosure of interest in other entities (replacing IFRS12)
 - IFRS 13 - fair value.

Audit appointment for 2011/12

17. Audit appointments are made by the Auditor General, 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. The procurement process for the next five years was completed in May 2011. From next year (2011/12) the Auditor General has appointed a new audit team from Audit Scotland to audit the authority. We look forward to continuing the good working relationship that exists.

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 position at 31 March 2011

21. In 2010/11, the authority's net expenditure was £9.819 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 2010/11 grant allocation.
22. The authority reported a deficit of £6k at the year end. This was matched by an accumulated surplus of £6k from 2009/10 (after re-statement for IFRS purposes), resulting in a cumulative carry forward of zero. We acknowledge that, in practice, there may be small balances on the income and expenditure account. The authority should continue to monitor its financial position.

Refer Action Plan no. 2

Outlook

23. 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. The authority should continue to monitor its financial position going forward.

2011/12 budget

24. The authority's s27 grant allocation for next year (2011/12) is £9,526,991, representing a 2% decrease on the 2010/11 allocations.

Governance and accountability

25. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
26. Through its accountable officer, the authority is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
27. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.

Corporate governance

28. 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 are in place with South Ayrshire Council for the provision of legal services.

Refer Action Plan no. 3

Performance management and improvement

Management arrangements

Performance management

29. 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.
30. 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. The authority's annual report 2010/11 identifies a total of 77 actions, of which 69 were reported on at the year end, and allocates a red, amber, green or 'other' status to each of them. The report shows that 44 (64%) were rated as green, 'action progressed as expected or ahead of schedule', 16 (23%) amber, 'some progress but not as expected'. The remaining 9 (12%) were rated as 'other', with 4% being 'rolled forward to 2011-12 work plan', 7% 'on hold awaiting national action', and 1% 'closed (cannot be progressed)'. We would expect the new auditor to monitor the progress of the authority's action plan throughout the new audit appointment.

Refer Action Plan no. 4

Outlook

31. The authority has established its area plan for 2011-14. It sets out a series of national strategic aims which will be used to develop a national action plan in conjunction with other CJAs, and a set of Local Outcomes which will drive local developments.
32. The National Strategy for the Management of Offenders has been superseded by 'Protecting Scotland's Communities: Fair, Fast and Flexible Justice'. This, together with the Scottish Government's Reducing Reoffending Programme, set out the current national direction for offender management policy and are reflected in the authority's area plan for 2011 - 2014.

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	15	<p>IAS 19 Costs</p> <p>For 2010/11 it was considered unnecessary to include IAS19 pension costs in the accounts due to cost and materiality issues. This issue was also raised in the 2009/10 audit.</p> <p>Risk: <i>The authority's financial statements may not include all relevant costs due to the exclusion of IAS19 costs.</i></p>	Continue to monitor	chief officer	31 March 2012
2	22	<p>Financial Position</p> <p>A cumulative surplus of zero has been carried forward to 2011/12. The authority should continue to monitor its financial position to ensure breakeven in future years.</p> <p>Risk: <i>The authority fails to make necessary monitoring arrangements, resulting in a large surplus or deficit in future years.</i></p>	Continue to monitor	chief officer	31 March 2012
3	28	<p>Corporate Governance</p> <p>The authority should ensure that the corporate governance arrangements are still relevant and up to date.</p> <p>Risk: <i>If the policies and</i></p>	The SWSCJA Scheme of Delegation confirms that the CJA follows the policies and procedures of its host local authority. Policy and procedural support is provided when required	chief officer	31 March 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<i>procedures used are irrelevant to the CJA, effective corporate governance may not be achieved.</i>	by the host authority through a Service Level Agreement. This position will continue.		
4	30	<p>Performance Framework</p> <p>The authority should continue to progress the actions identified in their 2010/11 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>	<p>Within the Area Plan 2011-14, the annual CJA action plan has been replaced by a revised Performance Management Framework. This includes an Outcomes Framework based on our six Local Outcomes; rolling work plans for each of the CJA groups; and a set of performance measures to measure progress. Performance reports will continue to be presented to the CJA Board and CJA Area Plan Implementation Group.</p>	chief officer	31 March 2012