



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

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Ministry of Justice

Financial Management Report 2011

Key facts

£10.4bn

the amount spent by the Ministry of Justice and its arm's-length bodies in 2010-11

93%

the amount of the Ministry's money that is spent on courts and tribunals, legal aid and offender management

23%

the real terms funding cut the Ministry of Justice will undergo by 2014-15

£120 million

the amount of expenditure commitments in 2011-12 that the Ministry was able to bring forward through identifying potential underspends in 2010-11.

38 per cent

the proportion of Ministry expenditure made up of staffing costs.

74 per cent

the proportion of Ministry staff working in the National Offender Management Service.

80 per cent

the amount of court costs recovered in fees in 2010-11.

25 per cent

the increase in the amount of fines outstanding between 2006-07 and 2010-11.

Summary

The Ministry of Justice

1 The Ministry of Justice (the Ministry) is responsible for setting and delivering government policy on the criminal, civil and family justice systems. The Ministry was created in May 2007, bringing responsibility for the whole criminal and civil justice systems of England and Wales under one Secretary of State for the first time. The Ministry has a departmental board, chaired by the Secretary of State for Justice, which sets the Ministry's strategic direction.

2 The Ministry of Justice (referred to as the 'core' Ministry) is relatively small compared with the various organisations it sponsors. In particular, the Ministry's two largest executive agencies,¹ the National Offender Management Service and Her Majesty's Courts and Tribunals Service,² are both considerably larger than the Ministry. It also has some small but functionally important arm's-length bodies such as the Parole Board for England and Wales and the Judicial Appointments Commission. One of its arm's-length bodies, the Legal Services Commission, also deals with a bigger budget than the core Ministry.

3 The Ministry was formed from parts of other departments and has complex functions. Its services are demand led and the types and functions of bodies it sponsors are varied. These factors mean that it is challenging for the Ministry to achieve high quality financial management.

¹ Executive Agencies are part of the Department but have their own executive functions.

² HM Courts and Tribunals Service was formed through the merger of HM Courts Service and the Tribunals Service on 1 April 2011. Throughout this report we refer to HM Courts and Tribunals Service, except where our findings specifically relate to HM Courts Service prior to this date.

The Ministry's financial management

4 Our report in 2010³ was critical of the Ministry's financial management in three main areas:

- a The consistency of the Ministry's financial management approach** The Ministry's differing financial management processes in its arm's-length bodies reduced the efficiency of its financial management and affected the departmental board's ability to monitor the full range of financial and operational risks.
- b The Ministry's understanding of its costs** The Ministry's incomplete knowledge of the costs of its activities and policy proposals reduced its ability to make decisions on the efficient allocation of resources.
- c The Ministry's financial management systems and processes** The Ministry's multiple financial systems and incomplete financial reports affected the board's ability to monitor its overall budgetary position and its awareness of the full range of the Ministry's assets, liabilities and future cash requirements.

5 The Committee of Public Accounts (PAC) considered our report and made nine recommendations. These emphasised the need to improve costing data, enhance business planning, improve fee collection, implement better performance measures for collecting fines, streamline financial management processes and quantify and reduce the volume of errors in legal aid. The Committee also requested that the Ministry report to them on progress in improving financial management by September 2011.

Our review

6 We have examined the steps taken by the Ministry of Justice to improve its financial management since July 2010 and have assessed financial management against our maturity model.⁴ We have also assessed progress against the implementation of the PAC' report recommendations.⁵ A full description of our methodology is provided in Appendix One.

³ Report by the Comptroller and Auditor General, *Ministry of Justice: Financial Management Report*, Session 2010-2011, HC 187, National Audit Office, July 2010, http://www.nao.org.uk/publications/1011/moj_financial_management.aspx.

⁴ http://www.nao.org.uk/help_for_public_services/financial_management/fmmm.aspx

⁵ Public Accounts Committee, *Ministry of Justice Financial Management*; Sixteenth Report Session 2010-2012, 18 January 2011.

Key findings

Financial management at the centre of the Ministry

7 The Ministry has effective new governance structures in place. Finance is represented at senior levels including the new departmental board, the executive management committee, which supports the board, and through the financial management committee, which includes finance directors from all of the Ministry's major delivery arms. Financial management is now much more central to the Ministry's operations and awareness of financial management has been raised through targeted training and communications. The Ministry has plans in place to address its gaps in financial reporting skills and the improvements required to underlying systems.

8 The Ministry has enhanced its oversight of its arm's-length bodies. It has carried out a structured risk assessment to identify the sponsored bodies that pose the greatest risks, and has sound governance arrangements in place to manage those risks and work with those sponsored bodies more generally.

9 The Ministry has developed a good financial planning model which, combined with data provided by its workload models on criminal, family and civil justice, allows it to estimate the financial implications of potential future workloads. The Ministry has made good progress in this area, and continues to refine its modelling approach. The use of these models has given decision-makers greater transparency, clearly identifying the financial impact of delivery options and the extent of the remaining funding pressures. These important developments mean the Ministry is well placed to understand the implications of its financial planning and adapt accordingly.

10 The Ministry has managed its money much more effectively during the 2010-11 financial year, meaning it could redeploy funds to meet long-term liabilities and to meet other spending priorities. The financial management committee used collated data from different accounting systems to identify likely areas of underspend and make use of these funds, reducing funding pressures in 2011-12 and beyond.

11 The Ministry was one of only two government departments that did not produce their financial accounts by the 2011 summer Parliamentary recess. There were several factors behind the Ministry's problems, although the most immediate cause was that accounts for the National Offender Management Service were produced late, leaving little time to consolidate them into those of the wider Ministry family. There was also insufficient senior control and oversight of the accounts production process both in the Ministry and in its largest agency, the National Offender Management Service. Producing accounts for 2011-12 on time will be an even greater challenge due to the requirements of the clear line of sight initiative.

Financial management needs for the front line

12 The Ministry understands its costs more thoroughly and has used work to date to help drive improvement, but there is much work remaining with its most detailed costing work before the benefits can be realised fully. Detailed costing work is complex and resource intensive, but the Ministry has used its higher-level costing information to identify areas for efficiency improvements in its operations.

13 The Ministry's procurement function is expanding its coverage of Ministry expenditure and continues to identify and make savings. The Ministry is continuing to build on the strength of its predecessor function which was moved in from the National Offender Management Service, and has recently been re-accredited by the Chartered Institute of Purchasing and Supply.

14 For a third consecutive year, the Legal Services Commission's accounts were qualified due to material errors in respect of payments made to providers. In addition, it was necessary to limit the scope of the audit opinion on the balances owed to the Commission as there was not sufficient evidence to support these. The Commission needs to make substantial improvements to the quality of records supporting the money owed to it, primarily from clients who have benefitted from legal aid. The Commission has made progress in reducing the level of estimated error in payments made to providers, which has reduced by a third, but it remains too high.

15 The Ministry raises significant amounts through charging fees for court services, but does not currently achieve full cost recovery in line with HM Treasury guidance. The Ministry is aiming to achieve full cost recovery for these services by 2014-15, after a period of restructuring within HM Courts and Tribunals Service which should reduce costs. In the interim, the Ministry is now raising fees in line with inflation. In 2010-11, the Ministry recovered 80 per cent of associated costs in fees.

16 The Ministry has designed new and better indicators for measuring how well it is performing in collecting fines. The previous 'payment rate' was a weak performance indicator, criticised by the PAC. The Ministry has now started reporting these data to its departmental board although more trend data will be required before it will be of most use for performance reporting.

17 There has been little change to how the Ministry monitors and collects assets due under confiscation orders, with the amount of outstanding debt increasing by £388m in 2010-11 according to the Ministry's records. This is a difficult area as the collection of assets under confiscation orders is shared between different parties, although all of the liabilities sit in the Ministry's accounts. The Ministry estimates that much of the value of these cannot be recovered and at present, there is no statutory solution to irrecoverable balances.

Managing assets and liabilities

18 The Ministry is using balance sheet information more and has reduced its cash balances to a more appropriate level. It has recently started using balance sheet reporting and more work needs to be done to produce accurate monthly balance sheet data.

Conclusion on value for money

19 Since our last report, the Ministry has improved considerably the prominence, quality and consistency of financial management in the department as measured against our financial management maturity model. The quality and consistency of financial planning and forecasting have improved; financial management is led from the top and financial information for decision-making is more relevant and useful. The Ministry is now achieving clear benefits from these improvements, which is crucially important given the Ministry's target for cost reductions under the 2010 Spending Review settlement. They have achieved these benefits while reducing the number of finance staff by a quarter. The Ministry's work on improving financial management has therefore delivered good value for money.

20 In some important areas, however, the Ministry still has a great deal to do and it has recognised that in its forward plans. For instance, although there are plans in place to improve income collection, these will take some years to achieve. Remaining challenges include completing costing work and integrating this into business as usual, and the Ministry and its wider family improving the timeliness, and in some areas the quality, of their financial reporting. The Legal Services Commission needs to continue to reduce the error levels on legal aid. The Ministry's approach to financial management suggests that it is much more strongly placed to deliver these improvements than at the time of our previous report.

Recommendations

21 Our recommendations take into account the progress that the Ministry has made since our last report, and assume that the Ministry will continue to implement its financial improvement programme and embed improvements into business as usual.

- a There is room for improvement in the collection of income.** The Ministry should make more progress dealing with the strategic difficulties that hinder improvements in collecting fees, fines and assets under confiscation orders.
- b The Ministry needs to produce next year's resource accounts in a more timely way, the first under the clear line of sight initiative.** The Ministry needs to develop and implement a robust, properly resourced and cohesive project plan, including mapping the key interdependencies in the accounts production process in order to deliver its 2011-12 resource accounts in a more timely way.