

Community Justice Scotland

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Community Justice Scotland and the Auditor General for Scotland

October 2023

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Key messages

2022/23 annual report and accounts

- 1 The financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- 2 The audited part of the remuneration report, management commentary and the annual governance statement were properly prepared in accordance with the applicable requirements.

Wider-scope

- 3 Community Justice Scotland operated within its revised budget for 2022/23, reporting a small underspend of £0.12 million
- 4 The organisation is yet to develop a longer-term financial plan

Introduction

1. This report summarises the findings from the 2022/23 annual audit of Community Justice Scotland ('CJS'). The scope of the audit was set out in an Annual Audit Plan presented to the 19 June 2023 meeting of the Audit and Risk Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of CJS' annual report and accounts
- wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#), which for less complex bodies includes conclusions on financial sustainability

2. This report is addressed to Community Justice Scotland and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Responsibilities and reporting

3. Community Justice Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. CJS is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity.

4. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK.

5. The weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

Auditor Independence

We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £16,960 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Part 1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

The financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

The audited part of the remuneration report, management commentary and the annual governance statement were properly prepared in accordance with the applicable requirements.

Audit opinions on the annual report and are unmodified

6. The board approved the annual report and accounts for Community Justice Scotland for the year ended 31 March 2023 on 18 October 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income are regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Overall materiality was assessed as £52,400

7. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the accounts, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

8. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and final materiality levels are summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£52,400
Performance materiality	£31,400
Reporting threshold	£2,500

Source: Audit Scotland

9. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

10. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 60% of overall materiality, reflecting issues noted in the previous year's audit.

11. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

12. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to the Audit and Risk Committee, including our view about the qualitative aspects of the body's accounting practices.

13. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

14. We have no significant issues to report from the audit.

15. Our audit testing identified one transaction totalling £3,900, which related to expenditure in 2021/22, had been included within the 2022/23 statement of comprehensive expenditure. Management advised this transaction had not been accrued in prior year in error, and has not chosen to modify the 2022/23 accounts. As the amount is not material, we are content that this treatment is appropriate. Although not considered a significant finding, we have nevertheless

chosen to note the issue in this report as it is in excess of our 'trivial' reporting threshold.

16. The unaudited annual report and accounts and working papers were received in line with our agreed audit timetable on 4 September 2023. Officers provided a good standard of support throughout the audit.

The annual report has been improved to comply with requirements and present a clearer picture of performance

17. Community Justice Scotland's annual report and accounts is required to comply with the government's financial reporting manual (FReM). The manual provides detailed specific requirements for each section of the report, and also requires organisations to present a fair, balanced, and understandable review of performance. It must tell the full story of an organisation, including both positive and negative aspects of performance.

18. While the guidance allows flexibility in terms of the level of performance information included, there is an expectation that the commentary gives an overview of service performance in the year and the inclusion of relevant key performance indicators should enhance the organisation's 'story'.

19. We identified a number of presentational issues with the narrative sections included in the first draft of the annual report and accounts presented for audit. Some sections of the annual report did not meet specific requirements from the FReM, and improvements were required to the narrative. These issues were discussed with management and revised for the audited version of the annual report and accounts. We will continue to work with officers to improve and enhance financial reporting over our audit appointment.

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

20. We have obtained audit assurances over the identified significant risks of material misstatement to the annual report and accounts. [Exhibit 2](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 2

Identified significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>Although we have not identified any specific risks of</p>	<ul style="list-style-type: none"> • Test journal entries with a focus on significant risk areas. • We will consider any unusual material transactions identified through our audit testing for any evidence of 	<p>No unusual or inappropriate transactions were identified as part of our detailed journals testing.</p> <p>Focussed testing on accruals and prepayments did not</p>

Audit risk	Assurance procedure	Results and conclusions
<p>management override of control at CJS, Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>management override of controls.</p> <ul style="list-style-type: none"> • Substantive testing of income and expenditure transactions around the year end to confirm they are accounted for in the correct financial year. • Review accounting estimates for evidence of management bias including assessing any changes to the methods and underlying assumptions used. 	<p>identify any instances of management override of controls.</p> <p>Substantive testing of transactions around the year end was satisfactory.</p> <p>Accounting estimates used in the preparation of the accounts were reviewed and confirmed as being appropriate.</p> <p>Conclusion: We did not identify any incidents of management override of controls.</p>
<p>2. Risk of material misstatement caused by fraud in expenditure recognition</p> <p>In line with Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom, most public bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.</p> <p>We have evaluated CJS's significant expenditure streams. Some expenditure streams, such as payroll, can be predictable and are not considered areas of risk. However, due to the extent and nature of expenditure in other areas, we identified a risk that expenditure may be misstated.</p>	<ul style="list-style-type: none"> • Testing of expenditure transactions, focusing on the areas of greatest risk. • Review of arrangements in place to detect and prevent fraud. 	<p>Substantive testing of transactions around the year end was satisfactory.</p> <p>Our review of the arrangements in place to detect and prevent fraud concluded that these were appropriate.</p> <p>Conclusion: We did not identify and issues with expenditure recognition.</p>
<p>3. Annual accounts preparation</p> <p>In 2021/22, external auditors identified a number of errors</p>	<ul style="list-style-type: none"> • On-going discussions with management during the year regarding the arrangements 	<p>Arrangements for preparing the annual report and accounts were discussed with the client during the year.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>in the annual accounts which required to be corrected for the final version. Although noting CJS has a small finance team, auditors recommended the accounts would benefit from further review before submission to audit, and that CJS should consider if additional support was required specifically for the production of the annual report and accounts.</p> <p>There is a risk that the annual report and accounts submitted to audit is delayed or contains a significant level of errors.</p>	<p>for financial statements preparation.</p>	<p>The draft annual report and accounts were provided to audit in line with the agreed timetable, along with good quality working papers.</p>

Limited progress was made on prior year recommendations

21. Community Justice Scotland has made limited progress in implementing the audit recommendations identified the previous external auditor. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

Part 2. Wider Scope

For less complex bodies wider-scope audit work considers the financial sustainability of the body and the services that it delivers over the medium to longer term

Conclusion

Community Justice Scotland operated within its revised budget for 2022/23, reporting a small underspend of £0.12 million

The organisation is yet to develop a longer-term financial plan

Community Justice Scotland operated within its revised budget for 2022/23, reporting a small underspend of £0.12 million

22. The main financial objective for Community Justice Scotland is to ensure that the financial outturn for the year is within the budget allocated by the Scottish Government.

23. CJS has reported an outturn of £3.52 million against its overall budget for 2022/23 of £3.61 million. The financial performance against its Departmental Expenditure Limits (DEL) is shown in [Exhibit 3](#).

Exhibit 3

Performance against DEL in 2022/23

	Initial budget £m	Outturn £m	Over/(under) spend £m
Resource DEL	3.61	3.49	(0.12)
Capital DEL	0	0.02	0.02
Total DEL	3.61	3.52	(0.10)

Source: CJS 2022/23 Annual Report and Accounts

Community Justice Scotland is yet to develop a longer-term financial plan

24. The agreed budget for CJS in 2023/24 is £3.77 million, which is provided as direct funding from the Scottish Government. Of this, £3.11 million is funding provided for core activities, with ring-fenced funding consisting of £0.41 million for the Caledonian system and £0.25 million for restorative justice.

25. Although CJS has a one-year budget for 2022/23, it does not have a medium term (two to five years) or long term (five to ten years) financial plan in place. A financial plan should provide an analysis of the indicative budget, taking account of factors such as pay awards, planned project activity and core funding levels from government, as well as building in scenario planning. This was raised as a recommendation in the prior year audit, but the target date for achievement has been delayed. Refer [Appendix 1](#).

26. Community Justice Scotland prepares three-year corporate plans which set out the organisation's purpose, objectives, and how it will report on these. The most recent corporate plan covered the period 2020-2023. The revised corporate plan for 2023-2026 was published by Scottish Ministers on the 22nd September 2023. Due to the delay in publishing this, the supporting annual business plan for 2023/24 has not yet been published.

27. The Scottish Government Framework Agreement with CJS was established in 2017. The document sets out the terms of an agreement between CJS and Scottish ministers in relation to the governance, financing and operation of the functions of CJS. The framework was scheduled to be reviewed at least every three years but has not yet been updated, and work on reviewing the agreement continued during 2022/23.

The organisation has appropriate arrangements in place for securing Best Value

28. Community Justice Scotland has a rigorous performance and evaluation method, which is discussed and considered at the senior management team (SMT) and the board. It flows from the corporate to business plan and sets the activity for the body. The organisation considers activity and resources through a Project Management Approach (PMA), where activity and resources are allocated and controlled. Each stream of work is initiated with a project initiation document which is considered against plans, and outlines timeframes, staffing, costs and how it aligns to the national strategy and internal plans for delivery.

29. Community Justice Scotland has purchasing arrangements guidance in place which sets out how value for money needs to be considered in all its purchasing decisions. When procuring goods, CJS will generally make use of the Scottish Government's procurement framework.

Good practice

30. From our attendance at board and audit committee meetings during 2022/23, we note that officers and members demonstrate a high level of commitment and engagement with the organisation and its priorities. There has been a good degree of engagement with the work of internal and external audit, as well as constructive and open discussion concerning financial management and

reporting issues. We will continue to assess Community Justice Scotland's arrangements for corporate governance throughout our audit appointment.

Appendix 1. Action plan 2022/23

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Financial statements preparation</p>	<p>Management should review, with the new auditors, the audit timeline and whether that is sufficient to allow the production of good quality financial statements being presented for audit. It is recognised that CJS has a small finance team. However, the unaudited financial statements would benefit from a re-review/step back, prior to sharing for audit to eliminate more basic errors for example casting cross/cast errors, balances being disclosed in the wrong financial statement lines. This we believe would lead to a reduction in disclosure amendments required, and the number of versions you are required to then produce</p>	<p>We will initiate discussion with the new auditors and our SG sponsor team and agree a new audit timeline.</p> <p>We will develop and implement a documented process for preparation of the accounts to be submitted for audit. The process will include review and approval steps aimed at improving accuracy, quality and compliance.</p> <p>Responsible Officer: Director of Operations</p> <p>Target date: March 2023</p> <p>Update: The audit timeline has been the subject of discussion with the process of developing a new Framework Agreement between the Scottish Government (SG) and CJS. The Chair and Chief Executive agreed the SG changes to the Framework document and this will now be circulated to the Board. SG had intimated that we should reinstate the previous submission deadline of 30 September, as opposed to the later date proposed by CJS in lieu of the external audit recommendation above.</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>The Head of Finance left the organisation in June 2023, after an absence of almost one year. The position has not yet been filled and CJS had relied on an external commercial provider to prepare the accounts for 2022/23. Consequently our processes have relied on their availability and we have been unable to future plan appropriately.</p> <p>In progress</p> <p>Revised target date: 30 January 2024</p>
<p>2. Journals</p> <p>Within our journals testing we identified a number of reversing journals where the first journal had been incorrectly coded and/or the debit and credit entries made the wrong way round. These were corrected by the Finance team at the time. However, there is an increased risk around monthly financial reporting, should errors like this continue, and not be identified, or require subsequent amendment the following month. In addition, this creates additional administration and inefficiency.</p>		<p>We will review the process for posting journals. We will ensure that all staff involved in the process are adequately trained for the role and that they understand the process that will be applied.</p> <p>Responsible Officer: Director of Operations</p> <p>Target date: February 2023</p> <p>Update: The process for posting journals was reviewed during 2022/23. The result of this is that journals for cash transactions, which form the majority of CJS's journals, are now posted on a monthly basis through a bulk upload journal from a spreadsheet based cashbook rather than being posted manually on an individual basis. The revised process is more efficient and has reduced the scope for error. The Finance Officer is responsible for posting journals - the postholder has appropriate skills and experience for this.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>3. Reasonable adjustment policy</p> <p>Within our expenditure testing we identified expenditure of £4,600 which was reimbursed to an employee in respect of the work reasonable adjustments policy. This reimbursement was approved, per the policy appropriately within CJS. However, on review, the policy itself is suitable vague on the nature of expense that can be paid, and in this circumstance, we don't believe it would normally be a cost which could be reclaimable.</p>	<p>Going forward, the policy should be reviewed to be clear on what is and is not covered by the policy.</p>	<p>Complete</p> <p>We will develop and implement a reasonable adjustment policy and procedure that is compliant with the relevant legislation and the statutory duties that apply to employers.</p> <p>Responsible Officer: Head of People</p> <p>Target date: February 2023</p> <p>Update: A new Reasonable Adjustment policy has been developed and was signed off by the Human Resources and Remuneration Committee (HRRC) in March 2023.</p> <p>Complete</p>
<p>4. Financial forecasts and reporting to the Board</p> <p>CJS is a small organisation with a straightforward approach to setting the annual budget. Spend in-year is monitored against the budget.</p>	<p>There is an opportunity for CJS to review the financial information presented to management and the Board, looking at the level of detail and the nature of the explanations provided, to support movements. Linked to this, trends in spend could be analysed which would then allow CJS to improve and inform its future year budget setting. In reviewing the budget monitoring, this looks to be largely on a cash basis, so accruals budgeting and forecasting needs to be built in, reflecting known monthly financial commitments. Lastly, a 3 year medium term financial plan should be prepared. This would allow the Board to consider the future financial risks to CJS as an organisation, and how these could be mitigated, alongside understanding where savings</p>	<p>We will review the financial and budget information provided to the Board senior management.</p> <p>We will implement a new process that will ensure provision of high quality, accurate information to the board and senior management.</p> <p>We will prepare and provide to the board and senior management a 3 year financial plan.</p> <p>Responsible Officer: Director of Operations</p> <p>Target date: March 2023</p> <p>Update: The process for providing financial information to the Board and senior management within the year has been reviewed and the quality of the information provided has been improved. In 2022/23 the expectation was for CJS to follow the</p>

Issue/risk	Recommendation	Agreed management action/timing
	<p>could be made if required, recognising a significant proportion of the budget is staff costs.</p>	<p>Scottish Government's practice of budgeting and monitoring largely on a cash rather than accruals basis in year. Year end forecasting, taking account of accruals has been built into the in year financial reporting process during this period though. The Scottish Government has recently indicated that it will be moving towards a more accruals based method of budgeting and forecasting for 2024/25 and so CJS will also build this into its ongoing review of financial systems and processes.</p> <p>Emerging pressures on government finances are being managed through engagement by Director Generals with public funded bodies within their portfolios. The emphasis is on identifying and realising short term and medium to long term efficiencies. This process, which is still ongoing, has clear implications for organisational budgets and even structures within the Justice sector. This period of review and transition does not yet provide a sound basis to support a move to 3 year budgeting. Once it is completed, CJS will deliver the improvement detailed in this recommendation.</p> <p>In progress</p> <p>Revised target date: 31 March 2024</p>
<p>5. Financial capability</p> <p>We understand CJS are reviewing their required financial capabilities. In</p>	<p>Alongside the budget and monitoring improvements CJS should consider what support they need specifically</p>	<p>In conjunction with recommendation 1 we will review the finance function within CJS; focussing on</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>particular how the improvements noted in this action plan can be taken forward.</p>	<p>to producing the annual report and accounts.</p>	<p>current capabilities against requirements. We will then implement the necessary changes to the finance function.</p> <p>Responsible Officer: Chief Executive</p> <p>Target date: April 2023</p> <p>Update: CJS is currently considering their financial capabilities within the context of a more general review of structure. We have used external providers of accountancy services and will continue to do so in the face of capability challenges. Current modelling suggests that recruitment of a Head of Corporate Services, with a strong financial background may be the best approach. If this is assessed as the most viable option, recruitment is likely to take place towards the end of the fiscal year 2023/24.</p> <p>In progress</p> <p>Revised target date: 31 March 2024</p>

Community Justice Scotland

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility



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