

Community Justice Scotland

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Community Justice Scotland and the Auditor General for Scotland

October 2024

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Key messages

2023/24 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified.
- 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 2023/24, reporting an underspend of £0.10 million.
- 4 Progress in developing a longer-term financial plan has been further delayed.
- 5 There are plans to expand the responsibilities of CJS to include commissioning of services. This change in role will require effective new governance and finance arrangements.

Introduction

1. This report summarises the findings from our 2023/24 annual audit of Community Justice Scotland (“CJS”). The scope of the audit was set out in an Annual Audit Plan presented to the 8 May 2024 meeting of the Audit and Risk Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of CJS’ annual report and accounts
- conclusions on financial sustainability as required by the [Code of Audit Practice 2021](#).

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. CJS 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 as 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 (ISAs).

5. Weaknesses or risks identified in this report are only those which have come to the attention of the audit team 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.

6. This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

Auditor Independence

7. We can confirm that the audit team comply with the Financial Reporting Council’s Ethical Standard. We can also confirm that we have not undertaken any non-audit related services. Our audit fee was £17,665. We are not aware of any relationships that could compromise our objectivity and independence.

8. The 2023/24 financial year was the second of our five-year appointment. We would like to thank Board members, Audit and Risk Committee (ARC) members, and other staff, particularly those in finance, for their cooperation and assistance in delivering the audit.

Part 1. Audit of 2023/24 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

Audit opinions on the annual report and accounts are unmodified.

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

9. The board approved the annual report and accounts for Community Justice Scotland for the year ended 31 March 2024 on 6 November 2024. As reported in the independent auditor's report, in our opinion:

- 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 on receipt of the annual report and accounts as £73,300

10. 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.

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

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£73,300
Performance materiality	£47,600
Reporting threshold	£3,700

Source: Audit Scotland

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

13. 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 65% of overall materiality, reflecting a lack of significant errors in prior year.

14. It is the auditor's responsibility to request that all misstatements are corrected, other than those below the reporting threshold. The final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

15. Under ISA (UK) 260, we communicate significant findings from the audit to the ARC, including our view about the qualitative aspects of the body's accounting practices. The Code of Audit Practice also requires auditors to highlight key audit matters which are defined in ISA (UK) 701 are those matters judged to be of most significance. We have no significant issues to report from the audit.

Our audit identified adjustments were required to the accounts

16. As a result of our audit work, the audited accounts were amended to include the following:

- Enhanced disclosures in the narrative section of the performance report to meet requirements of the government's financial reporting manual.
- Further disclosures within the remuneration report to meet regulatory requirements, plus minor amendments to the fair pay disclosures and CETV values. This was due to further information being made available following publication of the unaudited accounts. In addition, an exit package which was finalised during 2023/24 was not included in the initial version of the accounts.
- The audit team also identified a number of presentational adjustments. All errors and omissions were discussed with management and corrected for the audited version of the annual report and accounts

Audit work responded to the risks of material misstatement identified in the annual report and accounts

17. The audit team 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 identified in my 2023/24 Annual Audit Plan. It also summarises the further audit procedures 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>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</p>	<ul style="list-style-type: none"> • Test journal entries with a focus on significant risk areas. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • Substantive testing of income and expenditure 	<ul style="list-style-type: none"> • No unusual or inappropriate transactions were identified as part of our detailed journals testing. • Focussed testing on accruals and prepayments did not identify any instances of management override of controls. • Substantive testing of transactions around the year end was satisfactory.

Audit risk	Assurance procedure	Results and conclusions
<p>fraudulent financial statements.</p>	<p>transactions around the year-end to confirm they are accounted for in the correct financial year.</p> <ul style="list-style-type: none"> • Consider any unusual material transactions identified through our audit testing for any evidence of management override of controls. • Review accounting estimates for evidence of management bias including assessing any changes to the methods and underlying assumptions used. 	<ul style="list-style-type: none"> • Accounting estimates used in the preparation of the accounts were reviewed and confirmed as being appropriate. <p>Conclusion: We did not identify any incidents of management override of controls.</p>
<p>2. Presumed risk of fraud over 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. 	<ul style="list-style-type: none"> • Substantive testing of transactions around the year end was satisfactory. • Our review of the arrangements in place to detect and prevent fraud concluded that these were appropriate. <p>Conclusion: We did not identify any issues with expenditure recognition.</p>

The unaudited annual report and accounts were received in line with the agreed timetable

18. The unaudited annual report and accounts were received in line with the agreed audit timetable on 2 September 2024.

Good progress was made on prior year recommendations

19. Community Justice Scotland has made good progress in implementing the agreed prior year audit recommendations. 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 2023/24, reporting an underspend of £0.10 million.

Progress in developing a longer-term financial plan has been further delayed.

There are plans to expand the responsibilities of CJS to include commissioning of services. This change in role will require effective new governance and finance arrangements.

CJS operated within its revised budget for 2023/24, reporting an underspend of £0.10 million

20. The main financial objective for CJS is to ensure that the financial outturn for the year is within the budget allocated by the Scottish Government.

21. CJS has reported an outturn of £3.68 million against its overall budget for 2023/24 of £3.77 million. The financial performance against its Departmental Expenditure Limits (DEL) is shown in [Exhibit 3](#).

Exhibit 3

Performance against DEL in 2023/24

Performance	Final budget £m	Outturn £m	Over/(under) spend £m
Resource DEL	3.77	3.67	(0.10)
Capital DEL	0.00	0.01	0.01
Total DEL	3.77	3.68	(0.09)

Source: Community Justice Scotland Annual Report and Accounts 2023/24

CJS prepares a one-year budget but progress in developing a longer-term financial plan has been further delayed

22. The agreed budget for CJS in 2024/25 is £3.94 million, which is provided as direct funding from the Scottish Government. Of this, £3.22 million is funding provided for core activities, with ring-fenced funding consisting of £0.41 million for the Caledonian system and £0.31 million for restorative justice.

23. Although CJS has a one-year budget for 2023/24, 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 a previous annual audit report, but the target date for achievement has been further delayed. Refer [Appendix 1](#).

24. Community Justice Scotland prepares three-year corporate plans which set out the organisation's purpose, objectives, and how it will report on these. The revised corporate plan for 2023-2026 was published by Scottish Ministers on the 22 September 2023. The corporate plan is supported by annual business plans, and the 2024/25 business plan was published in May 2024.

25. The Scottish Government Framework Agreement with CJS 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 and work on completing the review of the framework was carried out during 2023/24. The new framework document was published in July 2024.

New shared systems by the Scottish Government are being implemented

26. CJS use Scottish Government financial systems including the Scottish Executive Accounting System (SEAS) and payroll. Some controls are therefore managed centrally by the Scottish Government. The Scottish Government external audit team have reviewed the key financial controls in these systems. They concluded that, subject to the matters reported in their Management Report and resultant management actions, the Scottish Government's key internal controls over the main financial systems (SEAS general ledger; Payables; Payroll; Receivables and Banking) operated effectively during 2023/24.

27. The current SEAS Oracle general ledger and payroll is due to be replaced by the Scottish Government, with a move to Oracle Fusion Cloud software planned. This is a significant project and was originally scheduled for completion in October 2023 but was delayed until 1 October 2024.

28. The move to the new software is a major change and requires effective and regular dialogue between CJS and Scottish Government to ensure that adequate arrangements are in place for the new system to be implemented successfully in October 2024.

There are plans to expand the responsibilities of CJS to include commissioning of services. This change in role will require effective new governance and finance arrangements

29. As Community Justice Scotland has indicated in its annual report, the Scottish Government intends to transfer responsibility for the commissioning of voluntary throughcare and mentoring to CJS. The future service will commence from April 2025 and the commissioning process is being led by CJS. The amount of grant funding available will be £5.3 million, subject to parliamentary approval of future budgets. CJS is conducting the grant process and assessment on behalf of the Scottish Government.

30. This represents a significant change in the role of CJS, and appropriate financial, staffing and governance arrangements will need to be put in place. Without adequate planning for this expansion in activity, there is a risk that resources are strained and the partnership is unable to secure best value.

Business continuity plans should be tested on a regular basis

31. Community Justice Scotland has a Business Continuity Plan (BCP) in place which includes details of the key functions and staff at the organisation, the contact details for key staff during an incident, who is responsible for prioritising functions during an incident, and scenarios which would cause the BCP to be used. The plan states that should be tested annually and documented, however it was confirmed that the BCP has not been tested for more than four years. CJS should ensure that their BCP is regularly reviewed and tested to ensure it remains appropriate for the organisation.

Recommendation 1

CJS should ensure that their BCP is regularly reviewed and tested to ensure it remains appropriate for the organisation.

Community Justice Scotland has appropriate arrangements in place for securing Best Value

32. Community Justice Scotland has arrangements in place to secure best value. The organisation considers activity and resources through a Project Management Approach, with each stream of work 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.

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

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Business Continuity Plan testing</p> <p>CJS has business continuity plans (BCP) in place, which are supposed to be tested annually to ensure they are appropriate and work effectively. These plans have not been tested recently.</p> <p>Risk – there is a risk that the plan is no longer appropriate for the organisation.</p>	<p>CJS should ensure that their BCP is regularly reviewed and tested to ensure it remains appropriate for the organisation.</p> <p>Paragraph 31.</p>	<p>Accepted</p> <p>A full review of the BCP was carried out in the first half of 2024/25 and a test of the system will take place in October 2024. The BCP will now be reviewed on a quarterly basis to ensure that it is up to date. An annual test will be carried out.</p> <p>Responsible Officer: Director of Operations</p> <p>Agreed date: March 2025</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation and Agreed Action	Progress
<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,</p>	<p>There is now an established process and timeline for preparation of the accounts in order to facilitate good quality financial statements being presented for audit.</p> <p>Complete</p>

Issue/risk	Recommendation and Agreed Action	Progress
	<p>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>2. 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>A three-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 could be made if required, recognising a significant proportion of the budget is staff costs.</p>	<p>Improvements to the provision of financial information and to the budget monitoring process were made during 2022/23 and have been consolidated in financial years 2023-2025. A one-year medium term financial plan for the 2025/26 financial year will be created as the last year of the current Strategic Plan 2023-26. A three-year financial plan will be developed in 2025/26 for the new Strategic Plan 2026-2029. This will be provided to the board and senior management during 2025-26.</p> <p>In progress</p> <p>Responsible Officer: Head of Corporate Services</p> <p>Revised date: March 2025</p>
<p>3. Financial capability</p> <p>We understand CJS are reviewing their required financial capabilities. In particular how the improvements noted in this action plan can be taken forward.</p>	<p>Alongside the budget and monitoring improvements CJS should consider what support they need specifically to producing the annual report and accounts.</p>	<p>A new Head of Corporate Services post was recruited to during 2023/24, with the postholder taking up post in early 2024/25. Financial capabilities appropriate to requirements exist under the revised structure.</p> <p>Complete</p>

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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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