

# Community Justice Scotland

External Audit Annual Report to the  
Accountable Officer and the Auditor General  
for Scotland

For the 6 month period ended 31 March 2017

28 September 2017



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## Summary of our audit plan:

Materiality was calculated at £3,000 based on the unaudited six month accounts (1% of gross expenditure for the 6 month period ended 31 March 2017).

Performance materiality was set at £2,000 and we reported to management everything identified over £300 (1% of materiality).

The significant audit risk identified at planning was management override of controls. All income comes via Scottish Government Grant funding so we have rebutted the risk of fraud in revenue.

Community Justice Scotland falls under the smaller body category within the Code of Audit Practice. However, we have specifically considered financial sustainability and going concern arrangements.

We confirm we are independent of Community Justice Scotland (CJS) and our objectivity is not compromised in accordance with International standards on Auditing (UK & Ireland) and APB ethical standards for Auditors. No non-audit services have been provided to CJS in 2016/17. Our audit fee was agreed with CJS management directly as the first year of operation and was agreed at £3,500.

# Key Messages

We issued an unqualified opinion on:

- True and fair view of the financial statements
- Regularity
- Other prescribed matters.

This report is a summary of our findings from our external audit work for the six month period ended March 2017. Our work has been undertaken in accordance with International Standards on Auditing (UK & Ireland) and the Code of Audit Practice (2016).

Our report is addressed to the Accountable Officer (in their role as those charged with governance) and the Auditor General for Scotland. This report will be published on the Audit Scotland website at: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

This report has been discussed and agreed with management, and presented to the Audit and Risk Committee on 16 August 2017 alongside the final audited annual report and accounts. The final accounts were presented to the Board in September for their consideration before being signed by the Accountable Officer.

We would like to thank management and staff for their co-operation and assistance throughout our audit work.

**Our work included:**

An audit of the six month period ended 31 March 2017 financial statements

A review of the Performance Report, including the Governance Statement and Remuneration Report

Meetings with the Scottish Government and Management to understand the plans in place for CJS including how financial transactions were concluded for the six month period.

As this was a set up period for CJS expenditure incurred over the six month period was minimal and we substantively tested all balances in full.

Looking ahead CJS will continue to develop the control environment during 2017/18 including the continued development of policies and procedures; and ongoing recruitment to fill the identified vacancies. CJS will use Scottish Government financial systems and internal audit will be provided by the Scottish Government Internal Audit service.

It is anticipated that by October 2017 CJS will be fully operational and have the respective powers that were set out in the legislation.

For and on behalf of Grant Thornton UK LLP  
28 September 2017



# Financial Statements Audit



We were appointed as External Auditors of CJS by Audit Scotland, under the Audit Scotland appointment process in January 2017 and met with the Accountable Officer and Chair of the Board in March 2017 to discuss the external audit process and the work undertaken on CJS to date.

We set out our proposed approach in a planning meeting in March 2017 with the Accountable Officer, Chair of the Board, and Scottish Government Finance representation.

A formal plan was not presented to the Audit Committee as the Board members were just in the process of being appointed and the first meeting of the Audit Committee was not until 16 August 2017.

However, this annual report reflects our reporting requirements at the audit planning stage, as set out in an appendix confirming how we have discharged our international standards of auditing obligations.

We calculated materiality from the unaudited accounts we received late June 2017. Materiality was set at £3,000 representing 1% of the gross expenditure incurred for the six month period.

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## Internal Control Environment

CJS was only established during 2016/17 via legislation and the six months to the end of 31 March 2017 reflect the transitional/shadow period with CJS coming into being from 1 April 2017.

Expenditure incurred relates to set up costs and payroll costs for the Accountable Officer and small number of people employed by the CJS over the period. Recognising the set up nature of the CJS the Scottish Government Finance team directly made payments on behalf of CJS and the Accountable Officer using the Scottish Government ledger (SEAS) and the Scottish Government payroll system.

We sought to understand this control system through discussion with the Scottish Government Finance team and CJS employees and have considered the report produced by Audit Scotland, in their role as External Auditor to the Scottish Government, on the Scottish Governments financial systems. However, we substantively tested all balances fully as part of our audit and did not seek to understand or rely on controls.

From 1 April 2017 CJS continue to establish suitable policies and procedures and plan to continue using the Scottish Government systems in common with other Central Government Non-Departmental Bodies.

Internal Audit for CJS will be provided by the Scottish Government Internal Audit service from 1 April 2017 and no internal audit work was completed for the period of the accounts given the limited operations and set up nature of CJS over the period.

Under ISAs we are required to report to those charged with governance the main issues arising from our audit of the Annual Report and Accounts.

This report discharges our obligations under the relevant ISAs.

# Our identified audit risks

Audit plan identified risk and work completed	Our conclusion
<p><b>Management override of controls</b></p> <p>Under ISA (UK&amp;I) 240 there is presumed risk that the risk of management over-ride of controls is present in all entities (fraud risk).</p> <p><b>Work undertaken:</b></p> <p>Reviewed the key accounting estimates, judgements and decisions made by management.</p> <p>Reviewed unusual and/or significant transactions.</p>	<p><b>Key accounting estimates:</b> There are no accounting estimates or judgements reflected in the accounts – expenditure recorded is all expenditure incurred by CJS in the set up of the organisation. There are no provisions; cash balances; or significant debtors or creditors.</p> <p><b>Journals:</b> Through our substantive audit testing we did not identify any significant transactions out with the normal course of business for CJS. All income and expenditure was recorded in the Scottish Government Finance system. At year end, the CJS expenditure was journalled in one journal into the CJS ledger.</p>
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA 240 (UK&amp;I) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>We rebutted this in relation to CJS revenue as all revenue currently comes directly in the form of Scottish Government Grant. Although, as set out in the legislation, CJS do have revenue raising powers they do not currently directly raise revenue.</p>	<p>We verified the revenue recorded in the six months for the period ended 31 March 2017 to SEAS and the grant notifications from the Scottish Government. We did not identify any exceptions from this work.</p>

# The narrative elements of your annual report and accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Report and Accounts for the six month period at CJS. As CJS has not fully received all of its legislative powers some of the reporting requirements are not considered appropriate. However the accounts are still compliant with the FReM. We have considered the consistency of this narrative with our understanding of CJS and the financial information set out in the accounts and have set out our observations below.

## Annual Report

- Overall the Annual Report is fair, balanced and understandable
- In line with best practice performance reports it includes an upfront statement by the Chair and the Accountable Officer.
- It is brief but that reflects the nature of CJS (not an operational organisation until 1 April 2017) and limited transactions during the year – for 2017/18 this will be more detailed and commentary will be able to be included per all aspects of the FReM

## Governance Statement

- All required elements within the FReM are included within the Governance Statement.
- There is limited commentary on controls as these are still in a period of development which is acknowledged in the statement.
- Internal audit will be provided by the Scottish Government Internal Audit team from 1 April 2017 and will support the development of key controls.

## Remuneration report

- The remuneration report has been completed in line with guidelines and the FReM.
- During the set up period CJS has had a small number of remunerated employees. We have tested these balances against contracts and recalculated and confirmed that bandings are appropriate.
- We have audited the financial information included in the remuneration report (marked audited information). We have no matters we wish to bring to your attention.



# Judgements and estimates

We consider other aspects of your annual report and accounts, in particular key areas of judgement. We have summarised below our observations in these key areas:

## Accounting Policies

- Accounting policies are in accordance with the Financial Reporting Manual (FRM) and we consider these to be appropriate to CJS and have been applied consistently in practice reflecting the development nature of CJS.

## Going Concern

- CJS has an agreed budget from the Scottish Government for 2017/18 of which some funding will go into 2018/19 to reflect that CJS only become operational as an organisation on 1 April 2017 with the full powers planned to be in place from October 2017. CJS is a newly established organisation set out in legislation and we have no reason to think that CJS would not be a going concern over the next 12 months from the date of signing the accounts.

## Timing of transactions and period in which they are recorded (Cut off assertion)

- Through our substantive audit testing we did not identify any concerns over timing of transaction or the period in which they were recorded.

## Impact on the financial statements of any uncertainties

- No uncertainties have been identified which have an impact on the final annual report and accounts.



# Overview of Community Justice Scotland's arrangements



## Financial Management

Over the six month period of establishing CJS expenditure was £296,000. This expenditure consists of staff costs and set up expenditure including accommodation; IT and other staff related costs.

The financial memorandum of the Community Justice (Scotland) Act identified set up costs of £615,000. However, it was decided that the money set aside for the CJS set up should be phased over 2016/17, 2017/18 and 2018/19 as CJS only takes on its full functions during 2017/18. It is estimated that £281,000 of funding will be allocated to 2017/18.

CJS as at 31 March 2017 did not have any assets or liabilities and therefore a nil balance sheet.

## Risk Management

CJS has developed a corporate risk register which is reviewed by the Board. Key risks identified are the risks of:

- Community Justice (Scotland) Act 2016 does not contain powers necessary to achieve aims
- Inconsistent national data captured across partners
- Key legislation not being enacted
- Budget, function and accountability are not aligned

The identification and reporting of risk will be further developed during 2017/18 and will be routinely reported to the Audit and Risk Committee.

## Governance arrangements

Board members were appointed in January and February 2017 and met for the first time as Board on 17 March 2017. The Board is made up of a Chair, four non-executive members and one co-opted member. All appointments were made using the public appointment process.

A sub-committee of the Board has been established – the Audit and Risk Committee, which met for the first time on 16 August 2017.

To date the Board members have been involved in considering the strategic objectives and corporate plan for CJS and have had a number of induction and/or similar sessions to increase their understanding of CJS, including the legislation and CJS remit.

Like all new Boards it will take time to develop into a strategic Board that effectively scrutinises arrangements.

Also, as CJS becomes fully operational there may be a need to consider whether the number of Board members is sufficient, as it does feel smaller than other Central Government Board's and if one Board member was absent for a period of time this could result in quorate challenges.

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## Financial system arrangements

CJS will use the Scottish Government Finance and Payroll systems to process CJS transactions and this will be managed by a small finance team based at CJS.

CJS are based in Saughton House and are leasing floor space from the Scottish Government. At the time of our work CJS management were creating the relevant policies and procedures for CJS including: HR policies, business continuity; health and safety and Risk management.

A number of these are based on Scottish Government policies tailored to CJS.

We will consider how the arrangements over governance, risk management and financial systems evolve as part of our 2017/18 external audit arrangements.



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# Audit adjustments

## Uncorrected misstatements

There are no uncorrected misstatements in the annual report and accounts that we identified and are required to report.

## Corrected misstatements

There was only one misstatement identified in the annual report and accounts following our audit work, which is set out below and updated in the final accounts:

	Original £000	Adjustment £000	Final £000
Lease obligations later than one year and not later than five years	44	(2)	42
Accountable Officer’s pension benefit for the six months to 31 March 2017	10	7	17

## Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow audit committees to evaluate the impact of these matters on the financial statements. During the course of our audit process we identified some minor disclosure enhancements to the annual report and accounts. These include changes to notes, and disclosures to aid the understanding of CJS and the six months of activity.

All recommended disclosure changes have been processed in the final audited annual report and accounts.

There were no material and/or significant disclosure misstatements identified we wish to bring to your attention.





# Independence and fees

## Audit Fee

Service	Fees £
External Auditor Remuneration	3,500
Pooled Costs	-
Contribution to Audit Scotland	-
<b>Agreed fee</b>	<b>3,500</b>

As this is the first time CJS has prepared accounts, and for only the 6 month period we have set the fee directly with Management taking into account our requirements under the Code of Audit Practice and broad guidelines from Audit Scotland. Going forward for 2017/18 the fee will be calculated in accordance with the fee set by Audit Scotland alongside other Central Government organisations.

Your total fee for the 2016-17 external audit is £3,500.

Our fee was set to include:

- supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with our requests
- the scope of the audit, and CJS activities will not change significantly from planned
- CJS and the Scottish Government (where relevant) will make available management and accounting staff to help us locate information and to provide explanations.
- We will only receive (and audit) 3 sets of accounts (1<sup>st</sup> draft; amended draft and final)

## Fees for other services

Service	Fees £
We can confirm there are no non-audit fees	Nil

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team. We can confirm no independence concerns have been identified.



# Fraud arrangements

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at CJS.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relations to management override of controls.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error. We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

In addition, we will ask the question of the Audit Risk Committee and the Chair of the Board routinely during the audit.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is CJS's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we work with CJS to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.



# Respective responsibilities

As set out in the Code of Audit Practice (pages 10 to 16) there are a number of key responsibilities you as an organisation are responsible for, and others, as appointed auditors we are responsible for. These are summarised below:

Area	CJS Responsibilities
<b>Corporate governance</b>	<ul style="list-style-type: none"> <li>• Establishing arrangements for proper conduct of its affairs</li> <li>• Legality of activities and transactions</li> <li>• Monitoring adequacy and effectiveness of arrangements (inc role of those charged with governance)</li> </ul>
<b>Financial statements</b>	<ul style="list-style-type: none"> <li>• Preparing financial statements which give a true and fair view of their financial position</li> <li>• Maintaining accounting records and working papers</li> <li>• Putting in place systems of Internal Control</li> <li>• Maintaining proper accounting records</li> <li>• Preparing and publishing an annual governance statement, management commentary and remuneration report</li> <li>• Effective systems of internal control as well as financial, operational and compliance controls – supporting achievement of objectives and secure value for money</li> </ul>
<b>Financial position</b>	<ul style="list-style-type: none"> <li>• Proper arrangements to ensure financial position is soundly based and responsibility to ensure arrangements secure best value</li> </ul>
<b>Fraud and error</b>	<ul style="list-style-type: none"> <li>• Establishing appropriate arrangements for prevention and detection of fraud, error, irregularities, bribery and corruption and affairs are properly managed</li> </ul>

## Our responsibilities

- Undertake statutory duties and comply with professional engagement and ethical standards
- Provide an opinion on financial statements and where appropriate regularity of transactions
- Review and report on, as appropriate, other information eg annual governance statements, management commentary, remuneration reports
- Notify the Auditor General when circumstances indicate a statutory report may be required
- Demonstrate compliance with wider public audit scope as relevant to ‘smaller bodies’ as set out in the Code

## How do we do this in practice

- By reviewing and providing judgements and conclusions on the CJS arrangements
- Suitability of corporate governance arrangements in year
- Financial position and arrangements for ensuring financial sustainability
- Review of other information in line with our knowledge and understanding of CJS, recognising the set up period
- Ongoing dialogue and engagement with Audit Scotland during the year

Weaknesses and risks identified by us as your auditors are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by us 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.

# Communication of audit matters with those charged with governance (summary of ISA requirements)

Our communication plan	Planning	Annual Audit Report
Respective responsibilities of auditor and management/those charged with governance	✓	✓
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	Discussed with the Accountable Officer and SG representative during a planning meeting in March 2017	✓
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	At the planning stage including accepting the appointment	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence		✓
Material weaknesses in internal control identified during the audit	Not applicable – The accounts are for a 6 month period only as CJS was established. We have therefore tested fully all balances and therefore not considered controls.  ✓	
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document summarises how we have done this during the audit. This also reflects the timing of our appointment and that a number of the areas we would report at planning have been reported in this final report.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to CJS.





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