

# External Audit Report for Community Justice Scotland (CJS)

Financial year ended 31 March 2022

Prepared for the Board, the Accountable Officer and the  
Auditor General for Scotland

Final Report 6 December 2022



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our external audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect Community Justice Scotland or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2016). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

# Key messages

This is our annual external audit report to the CJS Audit Committee (ARC), Board, Accountable Officer and the Auditor General For Scotland and concludes our audit on the financial year ended 31 March 2022.

We have issued an unmodified audit opinion on the annual report and accounts, including an unmodified opinion on regularity and the Remuneration Report. We thank management for all their assistance during the audit process.

## 03 Other audit matters

Our final report summarises a number of other audit matters, including:

- We have concluded that CJS meets the definition of a going concern.
- We set out our roles and responsibilities on fraud. During the course of our work we did not identify fraud and/or material error.
- Consideration of judgement and estimation within the Financial statements, which for CJS is limited.
- The quality of the financial statements and the audit process

## 01 Materiality

We re-calculated our materiality based on the unaudited annual report and accounts. The benchmark of 2% of gross revenue remained the same. This resulted in:

- Materiality of £63,940 and a performance materiality (70% of materiality) of £44,758.
- All audit adjustments above £3,200 were reported to management and captured in this report.

## 04 Wider Scope Audit

In accordance with the Code we consider CJS to meet the definition of a smaller body. The rationale for this is the size of CJS as an organisation, and the simple nature of the organisation's financial transactions.

Therefore, in this report we conclude on your governance statement and financial sustainability arrangements. We have re-looked at the capacity and capability of the finance team and provided specific commentary on this matter in the report. This was a risk that we identified during our year end audit work.

## 02 Financial statement audit risks

At planning, in accordance with the ISAs (UK) and FRC Practice Note 10 we have identified the following significant financial statement audit risks:

- Management override of controls (ISA UK 240)
- Risk of fraud in expenditure focused on completeness at year end (cut-off) (FRC PN10)

We have no matters to bring to your attention arising from our work over these significant audit risks.

## 05 Our Audit Fee

Our audit fee, set out in our audit plan, was £15,128.

There were no non-audit services (fees) during the year.

Given the issues encountered during the year end audit we have an overrun audit fee. Reflecting this, and the senior time required, this is an additional £5,000. Therefore, the final audit fee for 2021/22 is £20,128.

# Introduction

## Scope of our audit work

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2022 for CJS. The scope of our audit was set out in our External Audit Plan which was shared with the Audit and Risk Committee in May 2022.

The main elements of our audit work in 2021/22 have been:

- An audit of CJS's annual report and accounts for the financial year ended 31 March 2022;
- Conclusion on your governance statement and financial sustainability arrangements (smaller body).

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Code.

This report is addressed to the Board of CJS, the Accountable Officer and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

## Responsibilities

CJS is responsible for preparing an annual report and accounts which show a true and fair view and that are in accordance with the accounts direction from Scottish Ministers. The Board is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.

The recommendations or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit 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.

## Adding value through our audit work

We aim to add value to CJS throughout our audit work. We do this through using our wider public sector knowledge and expertise to provide constructive, forward looking recommendations where we identify areas for improvement and encourage good practice around financial management. In so doing, we aim to help CJS promote improved standards of governance, better management and decision making, and more effective use of resources.

We have been flexible with our audit resource, to support a change in the audit timeline, giving management a further opportunity to review the financial statements. We have sought to be supportive, offering advice and guidance, where appropriate, in our role as external auditors.

# Audit of the annual report and accounts

## Key messages and judgements

We identified 2 adjusted audit misstatements to the financial statements. Disclosure corrections identified during our audit are also detailed in Appendix 1.

We have also raised recommendations for management as a result of our audit work in Appendix 2.

Our follow up of recommendations from the prior year's audit is detailed in Appendix 3.

## Our audit opinion

For the financial year ended 31 March 2022 we have issued an **unmodified opinion** on the annual report and accounts. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework;
- expenditure and income were incurred in accordance with applicable enactments and guidance;
- the audited part of the Remuneration and Staff Report, Performance Report and Governance Statement are all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

## The audit process

In accordance with our annual external audit plan, our audit work commenced during June 2022 and we received the unaudited financial statements in line with our agreed timetable.

We recognise you have a very small finance function but note you have recruited into the finance team in-year and going forward this will give you additional support and expertise.

We recommend you consider, with your new auditors, the best timeline for the audit to be undertaken that would facilitate enhanced review and sense-check.

As a result of our audit we identified a number of changes. These we believe, could have been identified by CJS prior to providing the statements for audit. See further commentary on pages 16 and 17.

Following matters identified by CJS we then paused our audit whilst management undertook a full review of the financial statements. The audit then concluded in October and November 2022.

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# Audit of the annual report and accounts

## Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Our audit approach was set out in our final audit plan communicated to the Audit and Risk Committee and submitted to Audit Scotland.

We updated our audit materiality to reflect your 2021/22 draft financial statements. Materiality was set at £63,940, representing 2.0% of gross expenditure at 31 March 2022. Performance materiality was set at £44,758, representing 70% of our calculated materiality.

We report to management any differences identified over £3,200 representing 5% of materiality.

## Internal control environment

In accordance with ISA requirements we have developed an understanding of CJS's control environment. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is substantive in nature. For controls related to significant audit risks we considered control design. We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan.

We have included a recommendation on journals. Whilst we did not identify any errors that were indicative of fraud and error or management override we did notice inefficiency and incorrect journals being raised to be subsequently corrected. See appendix 2 of this report.

Lastly, we think it would be beneficial for finance to continue to seek relevant training and support from Scottish Government on the SEAS ledger, the codes that Scottish Government hold for CJS and the drawdown arrangements, and how best to report the financial position of CJS during the year.

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## Responding to significant financial statement risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the External Audit Plan.

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### Risks identified in our Audit Plan

### Commentary

#### Management override of controls

As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override CJS's internal controls, related to individual transactions.

In response to this significant risk, our audit response was as follows:

- We reviewed accounting estimates for management bias/indication of fraud that could result in material misstatement. It is noted that CJS do not have accounting estimates that involve a high degree of estimation or management judgement.
- Journals testing including:
  - Assessment of the design of controls in place over journal entries, including journal preparation, authorisation and processing onto the financial ledger;
  - Risk assessment of the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We tested these journals to ensure they were appropriate and suitably recorded in the financial ledger;
  - Target testing of transactions and journals posted around the financial year end, reviewing to understand the rationale for these entries.

#### Conclusion

We can confirm that we did not find evidence of management override of controls in our testing of journal transactions or any instances of material error.

Furthermore we did not identify any indication of fraud or inappropriate management bias in accounting estimates that could result in a material misstatement. However, we did note improvements that can be made in the journals process. See Action Plan.

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## Risks identified in our Audit Plan

### Risk of fraud in expenditure recognition (completeness)

As set out in Practice note 10 (revised) which applies to public sector entities we consider there to be an inherent risk of fraud in expenditure recognition.

As payroll expenditure is well forecast and agreeable to underlying payroll systems, there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on material non-pay expenditure streams being other administration costs. We consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off ensuring the completeness of expenditure.

Our testing includes a specific focus on year end cut-off arrangements, where it may be advantageous for management to show an enhanced/different financial position in the context of reporting in-year to Scottish Government and the need to achieve the financial targets set.

## Commentary

- We performed walkthroughs of the controls and procedures over non-pay expenditure streams;
- Substantive testing of expenditure throughout the year to confirm its occurrence and accuracy of recording;
- Focused substantive testing of non-pay expenditure recognised post year end to identify if there is any potential understatement to address the risk of cut-off; and
- Review of accruals and payables, where material, around the year end to consider if there is any indication of understatement or overstatement of balances held through consideration of accounting estimates.

### Conclusion

Through our audit procedures performed we did not identify any exceptions in our year end cut-off testing of expenditure. We did not identify any exceptions in the completeness and accuracy of accruals or payables balances at year end. Through our substantive procedures and sample testing we did not identify any expenditure which was not in accordance with the purpose of CJS as a Scottish Government central government organisation (regularity testing).

In testing we did identify certain instances where accruals were incorrectly reversed out and/or initially incorrectly calculated and reflected in the trial balance. See commentary on the wider financial control environment within CJS.



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## Detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to CJS and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; IFRS and the 2021/22 FReM.
- We enquired of management and the Audit and Risk Committee, concerning CJS's policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of management and the Audit and Risk Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of CJS' financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries that altered CJS's financial performance for the year. Our audit procedures are documented within our response to the significant risk of management override of controls.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - CJS's operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - CJS's control environment, including the policies and procedures implemented by CJS to ensure compliance with the requirements of the financial reporting framework.

## Significant estimates and judgements

CJS's financial statements include the following significant accounting estimates and judgement impacting on the annual accounts:

<b>Significant judgement or estimate</b>	<b>Summary of management's approach</b>	<b>Audit Comments</b>	<b>Assessment</b>
<b>Holiday pay accrual</b>	<p>As in prior year CJS have recognised an accrual for holiday pay and flexi-time accrual.</p> <p>As at 31 March 2022 this was £84,000, an increase of £20,000 compared with prior year. The accrual has been calculated using data provided by the Scottish Government payroll service.</p>	<p>We considered how the calculation has been determined. There is a degree of estimation in how management have determined the accrual but overall judgements are limited. The accrual has been calculated consistently compared with prior year.</p>	<p>We consider management's arrangements to calculate the accrual reasonable. There is not a risk of material misstatement within this balance and limited judgement has been applied.</p>

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## Other key elements of the financial statements

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of focus either in accordance with the Audit Scotland Code of Audit Practice or ISAs or due to their complexity or importance to the user of the accounts:

<b>Issue</b>	<b>Commentary</b>
<b>Matters in relation to fraud and irregularity</b>	We made inquiries of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any incidents in the period and no issues in relation to these areas have been identified during the course of our audit procedures.
<b>Accounting practices</b>	We have evaluated the appropriateness of CJS's accounting policies, accounting estimates and financial statement disclosures. Within our report we have raised actions for improvement on the financial statement process.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed. An additional related party was disclosed following our audit procedures (see Appendix 1). In addition, related party disclosures have been enhanced.
<b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
<b>Other information</b>	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified and we plan to issue an unmodified opinion in this respect.

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## Other key elements of the financial statements (continued)

<b>Issue</b>	<b>Commentary</b>
Remuneration report	We are required to give an opinion on whether the parts of the Remuneration and Staff Report subject to audit have been prepared properly in accordance with the Accounts Direction issued by Scottish Government and in a form directed by Scottish Ministers in accordance with the Scottish Public Finance Manual. We have audited the elements of the Remuneration and Staff Report , as required by the Code and are satisfied that these have been properly prepared in accordance with applicable legislation.
Governance report	The governance statement is included within the Accountability Report. The report outlines the governance framework in place at CJS. The Report includes the Statement of the Accountable Officer's responsibilities and has been prepared in accordance with the FReM. In accordance with the Scottish Public Finance Manual (SPFM), the Accountable Officer has a specific responsibility to ensure that arrangements have been made to secure Best Value and this is confirmed in the narrative in the annual report and accounts. There was no matters arising from our review of the governance statement that we want to draw attention to.
Matters on which we report by exception	We are required by the Auditor General for Scotland to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit, or there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.

Issue	Commentary
Written representations	A letter of representation has been requested from CJS which will be signed by the Accountable Officer, at the same time as signing the annual report and accounts.
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by CJS meets this criteria, and so we have applied the continued provision of service approach. In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered Management’s assessment of the appropriateness of the going concern basis of accounting and conclude that:</p> <ul style="list-style-type: none"> <li>• a material uncertainty related to going concern has not been identified; and</li> <li>• management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>
Regularity	<p>The Accountable Officer is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000. In our opinion, in all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.</p> <p>We have raised a recommendation in relation to CJS’s reasonable adjustments work policy, in respect a review to be clearer on what is covered and where adjustments are made and costs reimbursed to employees this is in accordance with the SPFM and doesn’t create a risk of an employee benefit in-kind.</p>

# Wider scope audit – Smaller body

As auditors we are required to include in our annual report commentary on arrangements as they relate to financial sustainability and the Governance Statement. Our work on the governance statement, and conclusions are set out on page 12 of this report. Below we have captured our commentary and conclusions on financial sustainability and other matters of interest during the year.

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
Governance arrangements (Audit Scotland planning guidance consideration)	No significant risks identified within our audit planning.	<p><b>Governance</b></p> <p>A new Chair was appointed to CJS in January 2022. The Board has its full compliment of members, 8 non-executives and a Board Chair. Alongside Board meetings CJS have two well established sub-committees, an Audit and Risk and a Human Resources – Remuneration Committee. In addition there is one advisory committee supporting community justice matters.</p> <p>The work and attendance of the Board and Committees is set out in the annual report narrative.</p> <p>In accordance with the FReM the Accounts include a Governance Statement, signed by the Accountable Officer.</p> <p>The statement sets out CJS’s arrangements in respect of risk management, the work of internal audit and their annual opinion on internal controls, and arrangements to protect the organisation from fraud and corruption risks.</p> <p>Year on year CJS continue to develop its governance disclosures.</p> <p>No omissions per FReM were identified.</p>	Looking ahead CJS should continue to review the governance statement. In particular there is an opportunity to include more of a forward look, on the improvements in governance, CJS want to make in the coming 12 months.

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
Financial Sustainability, (as applicable to a smaller body)	No significant risks identified within our audit planning.	<p data-bbox="618 312 1361 347"><b>2021/22 Financial performance and sustainability</b></p> <p data-bbox="618 368 1599 667">CJS's initial budget allocation from Scottish Government was £3.172million. At the end of 2020/21 CJS had cash held in the bank in excess of commitments due. This cash was subsequently used to fund expenditure in 2021/22. As a result, less Grant-in-Aid was required, with CJS drawing down £3.002million in-year. Overall the financial statements show a net operating cost for CJS in-year of £3.176million. A significant proportion of CJS costs are staff and staff related costs.</p> <p data-bbox="618 691 1570 879">During the year the Head of Finance prepares budget monitoring reports which are shared with the Board. In addition, the Board approve the budget for the following financial year. Budget reports presented in year showed that CJS was tracking spend, alongside income from grant draw down as forecasted.</p>	<p data-bbox="1608 312 2112 810">CJS should only draw down funding from Scottish Government to meet its current liabilities and avoid drawing cash down in advance and having to hold larger cash balances during the year and at year end. CJS should continue to work on its budgeting and forecasting with the Scottish Government, so the year end financial statements, and aligned with what is reported during the year.</p> <p data-bbox="1608 884 2089 997">The budget could be further detailed (see comments on pages 16 and 17)</p>

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
Financial management	<p>No significant risks were identified within our audit planning procedures. When completing the financial statement audit we did identify risks within the financial management of CJS, in particular the capability within the finance team, related to the annual accounts.</p>	<p><b>Financial management</b></p> <p>As previously reported CJS have a small finance team. There is a key dependency reliance on the Head of Finance who prepares and monitors the budget and supports the production of the annual report and accounts. There is therefore a significant reliance on the finance information produced, to inform decisions during the year, on CJS expenditure.</p> <p>In auditing the financial statements we identified an initial issue in the ability to reconcile the Scottish Government funding (Grant-in-aid) drawdown back to the Scottish Government funding allocation for 2021/22. During the year CJS drew down the full allocation. However, at the end of 2020/21 CJS was holding a significant cash balance, that wasn't in-full required to meet the known liabilities, at year-end.</p> <p>As a result, during 2021/22 cash within the bank was used to fund expenditure. The impact of this was that £172,000 of funding, planned for CJS by Scottish Government wasn't required. This was subsequently drawn down in error, and then re-paid.</p> <p>In then reviewing the financial statements back to the financial forecasts and budget reporting to the Board, there was a lack of clarity over the overall outturn and performance of CJS, and whether what was reported was accurate and reliant.</p>	<p>CJS are taking appropriate steps to review the finance team arrangements and in particular the capability of the finance team. Advice has been sought from Scottish Government and additional HR and legal advice.</p> <p>In accordance with the Scottish Public Finance Manual, and guidance from Scottish Government, CJS should not draw down funding in advance, but rather should be drawing down funding to match expenditure planned/incurred. Borrowing in advance of need is not allowable.</p>



Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
Financial management	Continued.	<p><b>Continued</b></p> <p>Following discussions the Accountable Officer took an action to re-look at the unaudited financial statements. In addition, Internal Audit were asked to consider the financial control environment within CJS.</p> <p>No fraud or misappropriate was identified, in the internal audit or the independent financial accountant's work.</p> <p>Improvements were identified, and these correlate to the actions we have identified in our report.</p>	<p>When preparing the financial statements the finance team should produce a month 12 (year-end) finance outturn report, comparing budget to actual and then reconciling this position to the annual accounts.</p> <p>Lastly, improved financial monitoring will support in-year conversations with Scottish Government to present a complete and accurate financial position to make informed decisions on the funding awarded for the year, and the likely outturn against this, recognising future CJS commitments and the wider financial pressure, CJS is likely to expect.</p> <p>See action plan.</p>

# Appendices

# 1. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. We note below those adjustments, above trivial that management have adjusted.

## Adjusted Misstatements

All adjusted misstatements are set out below along with the impact on the key financial statements and the reported net expenditure for the year ending 31 March 2022.

<b>Detail</b>	<b>Statement of Comprehensive Net Expenditure £'s</b>	<b>Statement of Financial Position £'s</b>
Trade and other receivables		£8,000 Dr
Other Admin Costs	£8,000 Cr	
<i>Being correction of prepayments recorded erroneously.</i>		
Other financial liabilities		£14,000 Dr
Trade and other payables		£14,000 Cr
<i>Being reclassification from long-term to short-term payables</i>		
Overall Impact	£,8000 Cr	£8,000 Dr

## Misclassification and disclosure changes

The table below provides details of substantive misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. This is not a complete list, as this does not include minor changes requested by the audit team, including typos and formatting requests.

Disclosure	Auditor recommendations	Adjusted?
Statement of Changes in Taxpayers' Equity	Funding in the SOCTE amended from £3.174m to £3.002m to reflect amount repaid back to Scottish Government in the year. This corrected the closing position from £0.078m to -£0.078m.	✓
Statement of Cash Flows	Funding in the SOCF amended from £3.174m to £3.002m to reflect amount re-paid back to Scottish Government in the year. This also highlighted amendments in the Increase/Decrease in trade and other receivables from -£0.013m to £0.008m and the Increase/Decrease in trade and other payables from £0.091m to £0.120m.	✓
Related Parties	Inclusion of undisclosed related party with Euan Gardner Consulting for a total of £15,695.63	✓
Accountability Report	Amendment to the wording within the 'Funding' section and amendment of figures to ensure consistency with audit adjustments.	✓
Remuneration Report	Amendment to the pay banding of one Board Member, placing them in the £0-5k range.	✓
Remuneration Report	Amendment to the following within the Chief Executive and Director of Operations remuneration table: <ul style="list-style-type: none"> <li>- bandings amended to £5,000 increments to ensure FReM compliance, previously disclosed as Scottish Government pay scales.</li> <li>- amended Director of Operations Pension Benefit to £2k, previously erroneously disclosed as £29k.</li> </ul>	✓

## Misclassification and disclosure changes (Continued)

<b>Disclosure</b>	<b>Auditor recommendations</b>	<b>Adjusted?</b>
Remuneration Report	Updating of the Fair Pay disclosure to ensure compliance with the updated FReM 2021-22.	✓
Remuneration Report	Updating number of staff in Gender Breakdown table to ensure consistency with other information disclosed.	✓
Remuneration Report	Updating to ensure only sections that are audited are marked as such, in line with the FReM.	✓
Parliamentary Accountability Report	Updating the external audit fee disclosed to ensure reported on the accruals basis, and not simply the amount invoiced and paid in the year.	✓
Accounting Policies	Addition in the Accounting Policies note to cover foreign currency as a foreign currency transaction was noted in audit testing.	✓
Accountability Report	Amendment to the narrative on consultancy and off-payroll transactions. Disclosure previously said Nil but consultancy spend was incurred in year which needs disclosed in this note.	✓

# 2. Action plan and recommendations

We have set out below, based on our audit work undertaken in 2021/22, the significant recommendations arising from our audit work:

## Recommendation

## Agreed management response

### 1. Financial statements preparation

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 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.

### Management response:

We will initiate discussion with the new auditors and our SG sponsor team and agree a new audit timeline. – January 2023

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. - March 2023

**Action owner:** Director of Operations

### 2. Journals

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.

### Management response:

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.

**Action owner:** Director of Operations

**Timescale for implementation:** February 2023

## Recommendation

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### 3. Reasonable adjustment policy

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 suitably 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. Going forward, the policy should be reviewed to be clear on what is and is not covered by the policy.

## Agreed management response

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**Management response:** we will develop an implement a reasonable adjustments policy and procedure- that is compliant with the relevant legislation and the statutory duties that apply to employers.

**Action owner:** Head of People

**Timescale for implementation:** February 2023

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### 4. Financial forecasts and reporting to the Board

CJS is a small organisation with a straightforward approach to setting the annual budget. Spend in-year is monitored against the budget. 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 largely be on a cash basis, so accruals budgeting and forecasting need 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 could be made if required, recognising a significant proportion of the budget is staff costs.

**Management response:** We will review the financial and budget information provided to the Board senior management.

We will implement a new process that will ensure provision of high quality, accurate information to the board and senior management.

We will prepare and provide to the board and senior management a 3 year financial plan. –

Action owner: Director of Operations

**Timescale for implementation:** March 2023

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## Recommendation

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### 5. Financial capability

We understand CJS are reviewing their required financial capabilities. In particular how the improvements noted in this action plan can be taken forward. Alongside the budget and monitoring improvements CJS should consider what support they need specifically to producing the annual report and accounts.

## Agreed management response

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### Management response:

In conjunction with recommendation 1 we will review the finance function within CJS; focussing on current capabilities against requirements. We will then implement the necessary changes to the finance function.

**Action owner:** Chief Executive

**Timescale for implementation:** April 2023

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# 3. Follow up of 2020/21 recommendations

There was one recommendation reported in our 2020/21 Annual Report which we have followed up and captured an update below, in managements progress in implementing the agreed action.

## Recommendation from 2020/21 Audit

### 1. Annual accounts process and communication with Scottish Government

During our audit we noted some opportunity for finance to enhance their annual account process. In particular we would highlight:

- Consistency in rounding. In some cases balances were rounded up, or down with no consistent methodology applied, resulting in rounding difficulties.
- The need to maintain a tracker, which can then be shared with the Audit and Risk Committee, evidencing the respective changes between the unaudited and audited annual report and accounts. This will ensure no changes are omitted or made incorrectly in error.

Lastly the finance team should continue to work with the Scottish Government finance team, to understand SEAS and the ledger codes applicable to CJS and that Scottish Government understand the CJS accounting timeline and when changes can be posted, in agreement with CJS.

## Agreed management response

**Management response:** This will be addressed for next annual accounts process with regard to the rounding policy and the tracker for the Audit and Risk Committee.

Discussions will take place with Scottish Government finance team with regard to the SEAS ledger codes for CJS.

**Action owner:** Head of Finance

**Timescale for implementation:**

21/22 Annual Accounts Process

**External Audit Comment as at August 2022 – In progress:**

We note discussion took place with Scottish Government on SEAS ledger codes. There still could be an enhanced financial understanding, within CJS, of SEAS and SG accounting to ensure completeness and accuracy of the TB and the pull through into the annual accounts. We did not identify the same challenges this year re rounding but the quality of the annual accounts could be improved (see 2021/22 recommendation).

# 4. Audit fees and independence

## External Audit Fee

<b>Service</b>	<b>Fees £</b>
External Auditor Remuneration*	17,298
Pooled Costs	2,350
Contribution to Audit Scotland costs	480
Contribution to Performance Audit and Best Value	Nil
<b>2021/22 Fee</b>	<b>20,128</b>

\* Audit fee includes the overrun fee of £5,000.

## Fees for other services

<b>Service</b>	<b>Fees £</b>
We confirm that for 2021/22 we did not receive any fees for non-audit services	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 Financial Reporting Council'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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.
- 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.

## Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work ([joanne.e.brown@uk.gt.com](mailto:joanne.e.brown@uk.gt.com)). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to Elaine Boyd, Assistant Director, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2021 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2021).

# 5. Communication of audit matters

International Standards on Auditing (UK) (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 below.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
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	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of CJS's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•



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