



Grant Thornton

Community Justice Scotland

External Audit Annual Report to the Accountable Officer and the Auditor General for Scotland for the financial year ended 31 March 2018 (Draft)

Board 26 September 2018

Joanne Brown
Engagement Leader

John Boyd
External Audit
Manager



Our audit at a glance



We have fulfilled our responsibilities per International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice throughout our work and this final report to the Accountable Officer and the Auditor General for Scotland concludes our work.



Materiality was set at 2% of gross expenditure within our plan, and was updated to reflect the draft financial statements at £26,000. We identified two adjustments to the accounts and certain disclosure amendments. These are set out in Appendix 1 and all have been adjusted in the final accounts.



Significant audit risks were: management override of controls; and the risk of fraud in expenditure recognition as set out in International Auditing Standards (ISAs UK) practice note 10. Our risk assessment remained unchanged and we did not identify any adjustments in these two areas in our work.

An audit underpinned by quality



We have built on our relationship with CJS during the year and have sought to offer appropriate advice and guidance in respect of the financial statements and wider matters. The audit process can be further refined in future years but we note our thanks to CJS and Scottish Government staff who have supported the audit.



Our work was undertaken at the end of June. This was slightly later than planned as the draft CJS accounts were drafted by the Scottish Government finance team, and needed to work for their timetable. Our audit work was concluded at the end of July 2018. Overall the accounts produced were of a reasonable standard, although certain requirements per the FReM were missing, and CJS staff were able to provide supporting information.



A wider scope audit for CJS as set out in our plan, was considered not appropriate. 2017/18 has been a challenging year for the organisation in terms of ability to demonstrate good and effective governance. The Chair of the Board is currently on a period of long term absence and from October 2017 to April 2018 no Interim Chair was appointed. CJS is only made up of 4 non-executive members and the Chair which is not in accordance with the Act albeit a co-opted Board member was in place for part of the year.

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Adding value through our external audit work

First and foremost our objective is to ensure we deliver a quality external audit which fully complies with International Standards on Auditing (ISAs) UK and the Audit Scotland Code of Practice (2016). By ensuring our audit is efficient and effective, gives you assurance over our opinion.

Through this Annual Report we seek to provide insight and commentary over certain aspects of CJS's arrangements, sharing relevant practices with the Audit and Risk Committee and management.

We have continued to build on our working relationship with management and our understanding of CJS as an organisation. During the year we have continued to meet with the Accountable Officer and CJS staff to understand how CJS is developing as an organisation and any emerging matters.

Lastly we are committed to audit quality. We shared our Audit Scotland Transparency report with the CJS Audit and Risk Committee and will share lessons learned on an annual basis, as our reporting in this area evolves.

During 2018/19 we will seek to further support CJS in ensuring good governance practices and will discuss the provision of Audit and Risk Committee training.

Introduction

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2018.

Our work has been undertaken in accordance with International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016.

Our report is addressed to Karyn McCluskey as CJS Accountable Officer, in respect of her role as set out and agreed with Scottish Ministers. In addition, in accordance with our reporting responsibilities the report is jointly addressed to the Auditor General for Scotland.

Once finalised this report will be made publically available on the Audit Scotland website (www.audit-scotland.gov.uk)

A verbal update on our audit progress was provided to the Audit and Risk Committee at the end of July 2018. A copy of this final report will be presented alongside the final annual report and accounts for discussion at the Board on 26 September 2018. Thereafter the accounts will be signed for CJS on behalf of the Accountable Officer.

We would like to thank CJS staff for an effective year-end audit process and all their support and assistance in the audit process.

Structure of this report

As set out in our Audit Plan (Dated March 2018) we consider in accordance with the Audit Scotland Code of Practice that CJS is a smaller body. Therefore full wider scope is not appropriate. Our report concludes on our financial statements audit and certain aspects of CJS's arrangements as follows:

Financial statements – Section 2 and Appendix 1

Governance and financial matters – Section 3.



Our Opinion

For the financial year ended 31 March 2018 we have issued an **unqualified audit opinion**

- True and fair view of the financial statements
- Regularity – expenditure has been incurred in accordance with the purpose of CJS
- Other prescribed matters (which include the audited information in the remuneration report)



The audit process

We received the draft accounts at the end of June. This was slightly later than the timetable agreed with CJS due to the CJS annual report and accounts being prepared by the Scottish Government Finance team.

The draft accounts received were of a reasonable standard although did contain gaps within the performance and accountability report in order to fully comply with FReM. The numbers were supported by appropriate working papers. CJS staff were able to provide the underlying supporting documentation for transactions and supported us during the audit.

We thank CJS staff for all their support and help during the audit.

Looking forward to 2018/19 there is opportunity to further improve the formatting, layout and commentary in the annual report and accounts.



The financial statements audit



Our audit work was completed in accordance with International Standards on Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). Based on our audit procedures performed we have issued an unqualified audit opinion on the financial statements including:

- they give a true and fair view
- have been properly prepared in accordance with relevant legislation and standards
- the wider information contained in the financial statements e.g. Performance and Strategic report
- regularity of expenditure
- audited parts of the remuneration and staff report have been prepared in accordance with the guidance

Audit approach and materiality

Our audit approach was set out in our annual audit plan presented to the Audit and Risk Committee in March 2018. As set out in our plan, our materiality calculations were based on the audited 2016/17 financial statements. We subsequently updated our materiality calculation to be based on the draft 2017/18 financial statements. Overall materiality has been set at £26,000 (2% of gross expenditure) and performance materiality is set at £19,500. (75% of materiality). We report to management any audit difference identified over £1,300 (Trivial as 5% of materiality).

We did not identify any additional significant audit risks from those identified in our audit plan. Our work completed in relation to the audit risks identified (management override of controls and risk of fraud in expenditure) is set out in this report.

Internal control environment

During the year we sought to understand CJS's overall control environment (design) as related to the financial statements. In particular we have:

- Considered procedures and controls around related parties, journal entries and other key entity level controls. In particular considering the work of Audit Scotland in their role of Scottish Government external auditors (key financial controls May 2018)
- Performed walkthrough procedures on key financial controls in particular journals, payroll and ledger controls

Our work over controls is limited to our ISA requirements in understanding an entities control environment. Our audit is not controls based and we do not seek reliance over controls. Our audit is fully substantive based in nature.

We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach, set out in our plan.

Internal Audit

As set out in our external audit plan we have not placed formal reliance on the work of the Scottish Government Internal Audit Directorate, CJS's internal audit provider. We reviewed the internal audit plan and individual reports issued to date, to consider if any impact on our audit approach, with none being noted and with the two reports issued and completed being classed as reasonable assurance (governance and performance management arrangements).

Identified audit risks and our conclusions

Overview of our audit risks identified at planning and our proposed approach

	Risk of fraud in revenue and expenditure	Management override of controls
The Risk	<p>As set out in ISA 240, there is a presumed risk that revenue may be misstated due to improper recognition of revenue. CJS is a Central Government organisation and therefore does not have an income stream. The budget is set by Scottish Government, and they can spend up to that limit, but it is not recognised in the accounts as Income.</p> <p>Therefore as set out in Practice Note 10 (revised), which applies to public sector entities, there is a presumed risk of fraud in expenditure recognition</p>	<p>As set out in ISA 240, across all entities there is a presumed risk of fraud being perpetrated by management through its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Override of controls is present in all entities.</p>
Our response	<ul style="list-style-type: none"> • The focus of our risk was on material non-payroll expenditure. We targeted our audit procedures around those transactions with a higher risk of manipulation, being those transactions around the year end. • Performed cut off at year end on pre and post year end transactions and recording • Walkthrough of the key expenditure controls in place • Regularity – Consideration of how expenditure incurred was in accordance with the type/nature of CJS as an organisation 	<ul style="list-style-type: none"> • A focus on our understanding of how/where management override of controls may occur • Review of the controls over journal entries • Understanding key areas of judgement and estimation within the financial statements and the basis for these judgements and the application of accounting policies • Reviewing unusual and/or significant transactions
Our conclusion	<p>Based on our testing we did not identify any areas of concern in our testing.</p> <p>Through our substantive procedures and sample testing we confirmed expenditure was incurred in accordance with the nature of CJS (regularity).</p> <p>We did not identify any exceptions in our cut-off testing.</p>	<p>Based on our testing we can conclude:</p> <ul style="list-style-type: none"> • There was no evidence of management override in our testing of journals. There is limited ability within CJS to post and authorise journals, and CJS use SEAS the Scottish Government system. • CJS's financial statements do not include judgements or estimates, which reduces the risk of management override • We did not identify any unusual or significant transactions in year.

Narrative elements of your annual accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Accounts and Report. We have considered the consistency of this narrative with our understanding and the financial statements and have set out our observations below. We have also audited the required information in the remuneration report (marked audited) and have no matters we wish to bring to your attention.

Performance Report

- The accountability report is in line with our understanding of CJS and sets out the role of CJS and progress as a new organisation
- The Accountable Officer's statement is easy to read
- Risks are articulated, and aligned to our understanding based on review of the risk register which has been further developed in 2017/18

Overall observations

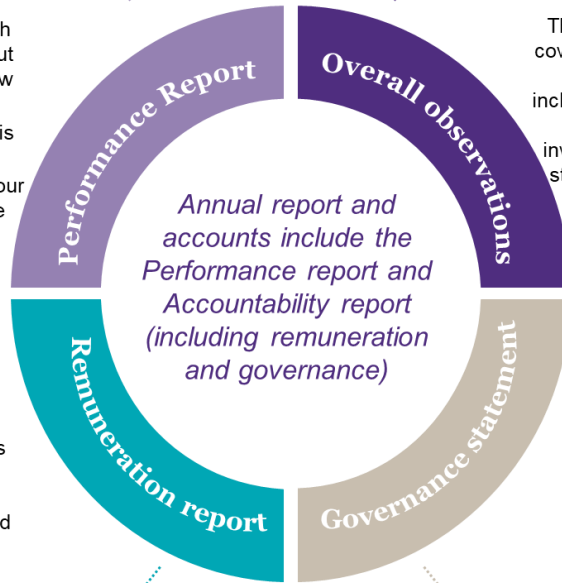
The "front-end" complies with the FReM and covers relevant aspects of the SPFM. As CJS develop as an organisation the plan is to include case studies outlining the outcomes of CJS and the spectrum of activity CJS is involved in. This will help CJS better "tell the story" in the front end of the annual report.

Remuneration Report

- Has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions thereunder
- Currently only the Accountable Officer is included. For 2018/19 CJS should explore with Scottish Government whether any other CJS employee should be reflected.

Governance Statement

- As required by the FReM the Governance statement is included in the Accountability report
- The governance statement is in accordance with the FReM
- The governance statement reflects the position with the Board chair and we comment further on CJS governance arrangements in this report.



Key aspects of your financial statements

As set out in our audit plan we consider particular aspects of your financial statements in relation to management judgements including estimates and where management may have particular options or choices in what accounting standards or disclosure requirements to apply. We have summarised where these apply, and our conclusions below.



Commentary:

CJS's accounting policies are consistent with the FReM and are unchanged from prior year.

Overall the CJS accounts are considered simple accounts with no areas of estimate or judgement. Total spend in-year was circa £1.2million with a significant proportion of costs being staff costs.

There are no provisions or uncertainties related to the accounts.


In relation to the audit risk of fraud in respect of expenditure we tested CJS's cut of arrangements in particular (timing) and identified no issues in accruals or prepayments which would indicate potential fraud.

There are no post balance sheet events or legal uncertainties at year-end.

As set out in the annual report and accounts the Accountable Officer for CJS considers CJS as a going concern. We do not disagree with this assessment and note CJS have an agreed budget for 2018/19 and plans in place to further develop commissioning in light with their ministerial objectives, commencing commission in 2019/20 where the budget from Scottish Government will increase as CJS grows as an organisation.

CJS arrangements – Financial and Governance

Key observations



Financial position

During 2017/18 CJS spent £1.2 million. Of this £0.9million related to staff costs and £0.3million other operating costs.

During 2018/19 CJS plan to start laying the foundation for the commissioning of services from the 2019/20 financial year. As part of this transition CJS have been allocated an annual budget in 2018/19 of £2.2 million from the Scottish Government (£1.4million forecasted to related to staffing costs).

During the year finance updates were provided to the Board and they show a slight underspend at year-end due to timing of further investment in staff.

CJS should continue to look to forecast a medium term financial plan, setting out workforce requirements and the impact of commissioning on CJS services and continue those discussions with the Sponsor department.



Chair of the Board

In September 2017 the Board Chair went off on a period of long term absence. In the intervening period, as the Board were meeting monthly different non-executives acted as the Chair. In April 2018 Glenys Watt was appointed by the Board as the Interim Chair, and this was confirmed by Scottish Ministers. Therefore CJS operated without a Board chair for nearly seven months of the financial year.

Glenys will remain Interim Chair, until it is confirmed whether the Chair of the Board will return.

At present the Interim Board Chair is a member of the Audit and Risk Committee. Once the new members are appointed, at least one should be a member of the Audit and Risk Committee replacing the Interim Chair. The Interim Chair can attend the meeting but should not be a formal member of the Committee.

We noted that although challenges with Board meetings being monthly, and the absence of a permanent Chair for such a sustained period of time, that there did not appear to be a significant adverse impact on the Board decision making. However, the current position with the Chair should be clarified, and a period of stability for 2018/19 is needed.



Governance

2017/18 was the first full year of operation for CJS and it did encounter a number of challenges related to governance. As noted CJS operated for a period of time without a Chair. Also, aside from the Chair, there were only four non-executives on the Board. It is noted on review of the CJS legislation that the Board should have consisted of 5 members and a Chair so were starting one member short. At the 1st meeting of the Board when CJS was established the Chair and the Board did not nominate and agree a vice-chair.

The Audit and Risk Committee only met twice during the year (September 2017 to sign off the 2016/17 accounts) and then again in March 2018. The Human Resources and Remuneration Committee did not meet during the year.

This was an oversight in governance good practice and reflects the newness of the organisation, the number of non-executives and a small team of CJS employees who were focused on operational running of CJS.

Looking forward CJS Board are planning on appointing 4 new non-executive members by November 2018. This will give greater capacity.

We recommend that CJS Board consider the skills they require for the Board and look to ensure sufficient experience in relation to finance, governance and risk management.

Key observations



Capacity and capability

CJS is a small organisation, with currently 26 members of staff.

For 2017/18 the Scottish Government Finance team supported CJS by producing the annual report and accounts. All audit documentation was retained at CJS, or accessible on SEAS via CJS. The draft accounts were to a reasonable standard but initially followed the 2016/17 format which was when they were a shadow body with only minimum transactions. As a result the annual report and accounts lacked certain notes you would have expected and gaps in complying with the SPFM and FR&M in the Performance and Accountability report.

There was a lack of clarity at the Audit and Risk Committee at the end of July, as no one attended from Scottish Government to present the accounts, and you would usually anticipate someone from CJS to present the accounts and key aspects of the accounts to the Committee.

For 2018/19 depending on how CJS prepare their accounts, someone from either CJS or the Scottish Government team should attend the Committee to present the annual report and accounts and answer committee members questions.

Looking forward CJS should consider what financial support and resources is required, and ensure that support from Scottish Government finance will continue to be provided.

As CJS development they may need a qualified accountant or greater financial accounting support.

Appendices

Audit adjustments

Action plan for 2017/18

Independence, fees and fraud responsibilities

Communication of audit matters with the Accountable Officer

Audit adjustments

Uncorrected and corrected misstatements and disclosure amendments

We are pleased to report that there were no uncorrected misstatements to the financial statements arising during our audit.

We identified two audit adjustments which have been corrected:

- Reversal of staff holiday leave accrual from 2016/17 which had been included in 2017/18 in error. Value was £3,815 (debiting creditors and crediting operating expenditure)
- One transaction was accounted for in 2018/19 but should have been 2017/18. This resulted in debiting operating expenditure of £2,610 and crediting accruals.

There were a number of disclosure adjustments to the draft accounts received for audit inspection.

These were not considered material in nature but included:

- Updating the strategic report and governance statement to include a table showing the number of board meetings in-year and non-executive attendance in line with recommended FReM practices
- Reordering the front end of the accounts to reference the performance report, and mirror recommended structures per the SPFM/FReM
- Further updates to ensure compliance with FReM within the narrative section of the report.

Action plan for 2017/18

We have set out below, based on our audit work undertaken in 2017/18, those risks and recommendations we consider are of a higher risk to CJS that Management may wish to consider in the future. There were no recommendations arising from our 2016/17 audit that require to be followed up.

Recommendation

We note that CJS are in the process of recruiting four new non-executives to serve on the Board. We recommend:

- The aim should be for a balanced board in terms of skills and experience and in particular it will be beneficial for CJS to have a member with a financial and governance/compliance background
- Once a full compliment of non-executives are in place, the Interim Board Chair should no longer be a member of the Audit and Risk Committee but can attend, and a member with finance experience becomes a committee member
- A schedule in advance should be agreed for both the Audit and Risk Committee and the Remuneration Committee to ensure the committee meets regularly throughout the year to discharge their responsibilities as set out in the committee terms of reference
- Discussions should continue with Scottish Government to ensure CJS have a permanent Board Chair to give stability to the Board
- Once all appointments are made, an overview of governance should be undertaken to ensure appropriate to CJS and this should include for example: frequency and timing of Board and Committee meetings; standing items; codes of conduct for the Board

There is an opportunity for members of the Audit and Risk Committee to undertake training to support them in their role as Audit and Risk Committee members. This could include training relating to the new Scottish Government Audit Committee handbook; their role in respect of the annual report and accounts and general audit committee principles

Agreed management response

Management response: Prior to the current recruitment round, members of the CJS Board had an opportunity to provide their views of the types of experience and background that might be useful in new Board members. A member of the CJS sits on the interview/selection panel for new members.

The Board will consider membership of its committees when the appointment process is complete; this will include the position of the Chair in respect of the Audit Committee. Schedules for the Board and its Committees has been prepared and approved by the Chair.

The position of the Board Chair is a matter for SG.

Once the recruitment process is complete, the Board will consider an overview of governance arrangements.

Action owner: Chair

Timescale for implementation: 31 March 2019

Management response: CJS will scope the required training, identify suitable provision and provide a paper for consideration by the Board

Action owner: Chief Executive

Timescale for implementation: 31 March 2019

Recommendation

CJS Management should continue to liaise with Internal Audit and the Scottish Government in how they can support CJS in ensuring an appropriate control environment is in place and key controls are designed and operate as intended, and the controls are proportionate to the nature of CJS

As CJS's role expands, it is important they have sufficient capacity and experience within the team including suitable contingency plans should a member of the team leave or be absent for a period of time. In particular CJS should also consider whether it has sufficient finance experience within the team, and the relationship with Scottish Government and any potential over-reliance.

CJS have in place an approved budget for 2018/19. Looking forward, although they only receive a one year budget settlement, CJS should look out over the medium term around future financial plans and the likely cost and requirements to expand its services as set out in the legislation.

Agreed management response

Management response: Director Of Operations initiated discussion with IA and SG about the control environment and will seek advice from Board and AR committee before doing so.

The output will be a procedure document that details the roles, responsibilities and process within the control environment, which will be set against the capacity and capability requirements needed to deliver effectively

Action owner: Chief Executive

Timescale for implementation: 31 March 2019

Management response: The issue of finance capacity has been discussed at Board level and a business case for increasing capacity appropriately will be presented to SG.

Action owner: Director of Operations

Timescale for implementation: 31 December 2018

Management response: Development of even medium term financial plan will require input from higher level/more experienced finance manager (see above). In the current planning process future requirements are being developed but there is currently no means to articulate them through to SG.

Action owner: Director of Operations
Timescale for implementation: 31 March 2019.

Fees, independence, fraud arrangements

External Audit Fee

Service	Fees £
External Auditor Remuneration	8,500
Pooled Costs	1,460
Contribution to Audit Scotland costs	370
Contribution to Performance Audit and Best Value	0
2017-18 Fee	10,330

The audit fee was calculated in accordance with guidance issued by Audit Scotland and agreed with Management.

The above fee has not changed and our final fee was £10,330.

Fees for other services

Service	Fees £
We can confirm there are no non-audit fees for the 2017/18 financial year	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

In assessing our audit risks, the audit team was 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 relation to management override of controls.
- Leading a discussion with those charged of governance (for CJS this is assumed to be the Audit and Risk Assurance Committee) on their view of fraud. We did this when presenting our audit plan and in the form of management and those charged with governance questionnaires which were received in May 2018.
- 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. – None were identified in-year

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.

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 worked with CJS to review specific areas of fraud risk, including the operation of key financial controls.

We also examined certain policies in place, strategies, standing orders and financial instructions, as relevant to the fraud framework, to ensure that they provide a reasonable framework of internal control.

No suspected frauds or irregularities have been identified by Management and reported in-year.

Communication of audit matters with the Accountable Officer

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	•	•
We are independent of CJS and have not identified any conflicts of interest		
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	•	•
We have not incurred any non-audit fees during the year and no threats to independence identified		
Significant matters in relation to going concern	•	•
No significant going concern matters identified		
Views about the qualitative aspects of CJS accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Set out in the Financial statements Section		
Significant findings from the audit		•
No significant findings from our audit		
Significant matters and issues arising during the audit and written representations that have been sought		•
Letter of representation will be shared and signed by the Accountable Officer when signing the financial statements. This is our standard, unmodified letter of representation.		
Significant difficulties encountered during the audit		•
No difficulties encountered		
Significant deficiencies in internal control identified during the audit		•
None identified		
Significant matters arising in connection with related parties		•
None identified		
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
None identified. A nil fraud return was submitted to Audit Scotland in April 2018 in accordance with the planning guidance.		
Non-compliance with laws and regulations		•
None noted		
Unadjusted misstatements and material disclosure omissions		•
None noted. Minor disclosure amendments only and these were not material in nature		
Expected modifications to the auditor's report, or emphasis of matter		•
None, an unqualified opinion		

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 above.

We communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to CJS Management and the Audit and Risk Committee.

