

Community Justice Scotland

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Community Justice Scotland
March 2023

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Community Justice Scotland (CJS). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and accounts, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration Board Members and Staffing Report
- a review of the Annual Governance Statement, and concluding on the financial sustainability of Community Justice Scotland over the medium to longer term
- consideration of the arrangements for securing Best Value.

Audit Appointment

2. We are pleased to be appointed as the external auditor of Community Justice Scotland for the period 2022/23 to 2026/27 inclusive

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to CJS through our external audit work by being constructive and forward looking, by attending meetings of the Audit and Risk Committee and by recommending and encouraging good practice. In so doing, we will help CJS promote improved standards of governance, better management and decision making and more effective use of resources.

6. The Code of Audit Practice includes provisions relating to the audit of less complex bodies. Where the application of the full wider scope is judged by auditors not to be appropriate to an audited body, then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. We plan to apply the less complex body provision of the Code to the 2022/23 audit of Community Justice Scotland.

Respective responsibilities of the auditor and Community Justice Scotland

7. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and Community Justice Scotland. Key responsibilities are summarised below.

Auditor responsibilities

8. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

9. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. In doing this, we aim to support improvement and accountability.

Community Justice Scotland's responsibilities

10. Community Justice Scotland is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

11. Community Justice Scotland has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

Financial statements audit planning

Introduction

12. The annual report and accounts are an essential part of demonstrating CJS' stewardship of resources and its performance in the use of those resources.

13. We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

14. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2022/23 audit

15. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for Community Justice Scotland are set out below.

Exhibit 1

2022/23 Materiality levels for Community Justice Scotland

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the CJS's operations. For the year ended 31 March 2023 we have set our materiality at 1.5% of gross expenditure based on the audited financial statements for 2021/22.	£47,600
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 60% of planning materiality.	£28,500

Reporting threshold – We are required to report to those charged with governance £2,000 on all unadjusted misstatements more than the 'reporting threshold' amount.

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

16. Our risk assessment draws on our cumulative knowledge of CJS, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

17. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

18. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>Although we have not identified any specific risks of management override of control at CJS, Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> • Test journal entries with a focus on significant risk areas. • We will consider any unusual material transactions identified through our audit testing for any evidence of management override of controls. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>controls that results in fraudulent financial statements.</p>		<ul style="list-style-type: none"> • Review accounting estimates for evidence of management bias including assessing any changes to the methods and underlying assumptions used.
<p>2. Risk of material misstatement caused by fraud in expenditure recognition</p> <p>In line with Practice Note 10: <i>Audit of financial statements and regularity of public sector bodies in the United Kingdom</i>, most public bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.</p> <p>We have evaluated CJS's significant expenditure streams. Some expenditure streams, such as payroll, can be predictable and are not considered areas of risk. However, due to the extent and nature of expenditure in other areas, we identified a risk that expenditure may be misstated.</p>	<ul style="list-style-type: none"> • Controls over expenditure and payment processes • Scrutiny of regular financial reports and budget updates by management and the board • Fraud prevention arrangements. 	<ul style="list-style-type: none"> • Testing of expenditure transactions, focusing on the areas of greatest risk. • Review of arrangements in place to detect and prevent fraud.
<p>3. Annual accounts preparation</p> <p>In 2021/22, external auditors identified a number of errors in the annual accounts which required to be corrected for the final version. Although noting CJS has a small finance team, auditors recommended the accounts would benefit from further review before submission to audit, and that CJS should consider if additional support was required specifically for the production of the annual report and accounts.</p> <p>There is a risk that the annual report and accounts submitted to audit is delayed or contains a significant level of errors.</p>	<ul style="list-style-type: none"> • Management has undertaken a significant review of the annual accounts production process, and has sought expertise from an external consultant 	<ul style="list-style-type: none"> • On-going discussions with management during the year regarding the arrangements for financial statements preparation.

Source: Audit Scotland

19. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for Community Justice Scotland because, while the possibility of fraud exists, we assess the risk of income being materially misstated as a result of fraud to be low. This is due to the nature of funding received from the Scottish Government, which is clearly communicated and can be readily agreed to third-party confirmations.

20. We have not, therefore, incorporated specific work into our audit plan in this area over and above our standard audit procedures.

Audit dimensions

21. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit: Financial management; Financial sustainability; Vision, leadership and governance; and Use of resources to improve outcomes. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

22. For less complex bodies the Code of Audit Practice permits auditors to not apply the full wider scope audit. In these cases, the wider-scope audit work may be limited to a review of the governance statement and conclusions on the financial sustainability of the body and the services it delivers in the medium to longer term.

23. We have concluded that it is appropriate to treat Community Justice Scotland as a less complex body due to the nature of its activities and levels of income and expenditure. This is based on consideration of the factors outlined in the [Code of Audit Practice supplementary guidance](#).

Best Value

24. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within Community Justice Scotland.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

25. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 6](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

26. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

27. We will provide an independent auditor's report to Community Justice Scotland, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide Community Justice Scotland and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

28. [Exhibit 3](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 October 2023.

Exhibit 3 2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2023	24 May 2023
Independent Auditor's Report	31 October 2023	18 October 2023
Annual Audit Report	31 October 2023	18 October 2023

Source: Audit Scotland



Timetable

29. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 4](#) that has been discussed with management.

30. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

31. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 4 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	28 June 2023
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	7 August 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	4 October 2023
Issue of Annual Audit Report to those charged with governance.	11 October 2023
Signed Independent Auditor's Report	18 October 2023

Source: Audit Scotland

Audit fee

32. In determining the audit fee, we have taken account of the risk exposure of Community Justice Scotland and the planned management assurances in place. The audit fee for 2022/23 is £16,960 as set out in [Exhibit 5](#).

33. Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

Exhibit 5**Audit fees (including VAT)**

Fee component	Fees (£)
External Auditor Remuneration	28,170
Pooled costs	-450
Contribution to Audit Scotland costs	800
Sectoral Cap Adjustment	-11,560
Total 2022/23 fee	16,960

Source: Audit Scotland

34. In setting the fee for 2022/23 we have assumed that Community Justice Scotland has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

35. It is the responsibility of CJS to establish adequate internal audit arrangements. Internal audit for CJS is provided by the Scottish Government Directorate for Internal Audit and Assurance. As part of our planning process we carry out an annual assessment of internal audit to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS). This review will be carried out by our Scottish Government external audit team in spring 2023. We will report any significant findings to management in our Annual Audit Report.

36. As part of our planning process we review internal audit reports and findings for CJS which may impact on our audit approach, including our wider audit dimensions work. From our initial review of the internal audit plans we do not plan to use the work of internal for our financial statements' responsibilities. While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

37. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

38. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

39. The appointed auditor, and engagement lead, for Community Justice Scotland is Christopher Gardner, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Community Justice Scotland.

Audit Quality

40. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

- 41.** Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.
- 42.** ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.
- 43.** Audit Scotland is committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supplementary guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.
- 44.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

Community Justice Scotland

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

www.audit-scotland.gov.uk/accessibility

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