

Scottish Courts and Tribunals Service

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Scottish Courts and Tribunals Service

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 the Scottish Courts and Tribunals Service (“SCTS”). 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, leading to an independent audit opinion
- independent audit opinions on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements.

Audit Appointment

2. We are pleased to be appointed as the external auditors of SCTS for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at Appendix 1.

3. In the first year of the audit appointment, we invest significant time gaining an understanding of the organisation 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 continues to be focused on risk.

Adding value

5. We aim to add value to SCTS through our external audit work by being constructive and forward looking, by identifying and encouraging good practice and making recommendations for improvement. In doing so we will help the SCTS

promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and Audited Body

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the Scottish Courts and Tribunals Service. Key responsibilities are summarised below.

Auditor responsibilities

7. 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.

8. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at the SCTS. In doing this we aim to support improvement and accountability.

Scottish Courts and Tribunals Service's responsibilities

9. The SCTS is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. The SCTS 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

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

12. 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

13. 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 determine with reasonable confidence whether 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

14. We assess materiality at different levels. The materiality values for SCTS set out in [Exhibit 1](#).

Exhibit 1

2022/23 Materiality levels for Scottish Courts and Tribunals Service

Materiality	Amount
<p>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 SCTS' operations. For the year ended 31 March 2023 we have set our materiality at 1.5% of gross expenditure based on the budget monitoring report for 2022/23.</p>	£3.23 million
<p>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 65% of planning materiality.</p>	£2.10 million

Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. £95,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of the SCTS, 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 and a review of supporting information.

16. 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.

17. 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 risks, 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 the SCTS, 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</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"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas. Consider the need to test journal entries and other adjustments during the period. Evaluate significant transactions outside the normal course of business. Assess the adequacy of controls in place for identifying and disclosing related party

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>		<p>relationship and transactions in the financial statements.</p> <ul style="list-style-type: none"> • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focused testing of accounting accruals and prepayments.
<p>2. New non-current assets register implementation</p> <p>SCTS owns a significant amount of land and buildings with a net book value of £542 million as at 31 March 2022. A new non-current asset register (NCAR) is being introduced for land and buildings during 2022/23. As part of the introduction of this system, the SCTS have identified issues with the accuracy of items previously identified as non-current assets.</p> <p>There is a risk that information is not correctly transferred to the new system and that land and buildings details in the financial statements are incorrect.</p>	<ul style="list-style-type: none"> • Testing plan and results • Data cleansing results • Data transfer reconciliations 	<ul style="list-style-type: none"> • Assess the design and implementation of controls over the non-current assets system. • Make enquiries of management about the work carried out to ensure that all relevant assets have been identified. • Review reconciliations between the new NCAR and previous year non-current asset records. • Carry out asset verification work to substantively test the existence of assets in the NCAR.

Source: Audit Scotland

18. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, 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.

19. We have rebutted this risk as funding received from the Scottish Government is clearly communicated and can be readily agreed to third party confirmations. In addition, the SCTS' other income streams comprise of a high volume of low valued transactions and we have concluded there is limited opportunity or incentive to manipulate the recognition of income in the financial statements.

20. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

21. We have rebutted this risk as the main expenditure streams of the SCTS can be readily forecast based on a predictable pattern of spend and mainly comprise a high volume of relatively low value items. We also consider there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements.

22. As a result, we have not incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

23. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

24. The areas of specific audit focus are:

- **IFRS 16 implementation** – the expected impact of IFRS 16 on SCTS' financial statements is £58 million. This is material. Since this is the first year of adoption of IFRS 16 there is a risk that the disclosures included in the financial statements may be incorrect.
- **Valuations of land & buildings** – at 31 March 2022 SCTS held land and buildings with a net book value of £542 million. There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist assumptions and estimates, and changes in these can result in material changes to valuations. This level of estimation means there is a risk of material misstatement to the financial statements relating to asset valuations.

Wider Scope and Best Value

Introduction

25. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

26. In summary, the four wider scope areas cover the following:

- **Financial management** means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities.
- **Financial sustainability** – as auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as short term (up to two years), medium term (two to five years) and longer term (longer than five years).
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by the SCTS. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how the SCTS demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

Wider scope risks

27. We have identified wider scope audit risks in the areas set out in [Exhibit 3](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 3**2022/23 wider scope risks**

Description of risk	Sources of assurance	Planned audit response
<p>1. Financial Sustainability</p> <p>SCTS faces a challenging financial position and this is likely to continue for the foreseeable future. Financial pressures arising from issues such as higher energy costs, inflationary pressures on contracts and pay awards, as well as an anticipated flat cash allocation from the Scottish Government until 2026/27, represents a significant challenge for the SCTS.</p>	<ul style="list-style-type: none"> • 2023-24 budget timetable and process • Medium Term Financial Strategy preparation • SG monitoring returns 	<ul style="list-style-type: none"> • Review the SCTS' arrangements in place to manage its financial position. • Review any progress made in developing a medium-term financial strategy. • Review any forecasts/budgeting work for future years.
<p>2. Court backlogs</p> <p>The Covid-19 pandemic exacerbated the strain on the criminal justice system in Scotland. This included a significant rise in the number of outstanding cases waiting to go through the court system. Current modelling suggests that the SCTS should return to pre-pandemic levels by March 2024 for summary activity, and by March 2026 for high court and solemn activity.</p>	<ul style="list-style-type: none"> • Covid recovery Internal Audit reports • Quarterly Criminal Court statistics 	<ul style="list-style-type: none"> • Monitor performance reporting submitted to the SCTS board. • Our performance audit on Criminal Courts Backlog is currently underway and is scheduled for publication in May 2023.

Source: Audit Scotland

28. Our planned work on our wider scope responsibilities is risk based and proportionate. In addition to local risks, we consider challenges which are impacting the public sector as a whole. As part of our 2022/23 audit, we will consider both climate change and cyber security.

Climate Change

29. Tackling climate change is one of the greatest global challenges. Scotland has a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

30. The Auditor General and Accounts Commission are developing a programme of work on climate change. As part of our 2022/23 audit, we will gather information on the SCTS' arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

Cyber Security

31. There continues to be a significant risk of cyber-attacks to public bodies and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. As part of our 2022/23 audit, we will consider the SCTS' arrangements for managing and mitigating cyber security risks.

Best Value

32. [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 the SCTS.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

33. All annual audit plans and reports, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

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

35. We will provide an independent auditor's report to the SCTS, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide the SCTS 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.

36. [Exhibit 4](#) outlines the target dates for our audit outputs.

Exhibit 4 2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2023	24 April 2023
Independent Auditor's Report	31 July 2023	31 July 2023
Annual Audit Report	31 July 2023	31 July 2023

Source: Audit Scotland



Timetable

37. 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 5](#) that has been discussed with management.

38. 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 staff over the course of the audit.

Exhibit 5

Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	12 June 2023
Latest date for final clearance meeting with the Director of Finance (or equivalent) and Chief Finance Officer	11 July 2023
Agreement of audited and unsigned annual report and accounts	21 July 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	21 July 2023
Consideration of Annual Audit Report by those charged with governance.	31 July 2023
Approval of annual report and accounts by the SCTS Board	14 August 2023
Independent Auditor's Report signed	15 August 2023

Source: Audit Scotland

Audit fee

39. In determining the audit fee, we have taken account of the risk exposure of SCTS and the planned management assurances in place. The proposed audit fee for 2022/23 is £93,500 as set out in [Exhibit 6](#).

40. Our fees have increased in 2022/23 to reflect 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 6**Audit fees (including VAT)**

Fee component	Fees (£)
External Auditor Remuneration	106,790
Pooled costs	7,090
Contribution to Audit Scotland costs	3,760
Sectoral Cap Adjustment	-24,140
Total 2022/23 fee	93,500

Source: Audit Scotland

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

Other matters

Internal audit

42. It is the responsibility of the SCTS to establish adequate internal audit arrangements. Internal audit for SCTS 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.

43. We also review internal audit reports and findings for SCTS 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. In particular, we will review the Internal Audit report on Climate Change and Decarbonisation as part of our consideration of climate change arrangements at SCTS, referred to in paragraph 30.

Independence and objectivity

44. 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.

45. 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.

46. The appointed auditor, and engagement lead, for Scottish Courts and Tribunals Service is Michael Oliphant, Audit Director. 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 SCTS.

Audit Quality

47. 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.

48. 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.

49. 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.

50. 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.

51. 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.

Appendix 1. Your audit team

52. The audit team involved in the audit of Scottish Courts and Tribunals Service have significant experience in public sector audit.

Michael Oliphant
Audit Director

Michael joined Audit Scotland in 2004 and has extensive experience of delivering financial and performance audits across central government, local government and the NHS. He is a Fellow of the Chartered Institute of Public Finance and Accountancy.

Tommy Yule
Senior Audit Manager

Tommy has over 22 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies. He is a Fellow of the Chartered Institute of Public Finance and Accountancy.

Graeme Samson
Senior Auditor

Graeme Samson has considerable experience in planning and delivering audits, with over 15 years public sector audit experience. He is a member of the Chartered Institute of Public Finance and Accountancy. Graeme will manage the team and work alongside the Senior Audit Manager and Audit Director to deliver the audit.

53. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

54. Where possible and appropriate, we use our data analytics team to enable us to capture whole populations of your financial data. This analysis allows us to identify specific exceptions and anomalies within populations to enhance the focus of audit testing and support efficiency.

Scottish Courts and Tribunals Service

Annual Audit Plan 2022/23

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

For the latest news follow us on social media or [subscribe to our email alerts.](#)



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk