

Scottish Court Service

Report on the 2006/07 Audit



28 September 2007





Contents

Executive Summary	1	Governance	1
Introduction	1	Looking Forward	1
Financial Statements	1	Appendix A: Action Plan	1
Performance	1		



Executive Summary

Introduction

We have audited the 2006/07 financial statements of the Scottish Court Service and we considered aspects of performance management and governance. This report sets out our key findings.

Financial Position

During financial year 2006/07, the Scottish Court Service recorded income of £19.0 million from operating activities and received financing of £52.5 million from the Scottish Executive Justice Department. The Scottish Court Service incurred a net operating cost of £67.3 million. The balance sheet moved from an opening position of £366.5 million to a closing balance of £379.4 million. The Scottish Court Service operated within the budget provided by the Scottish Executive.

The increase in outturn in 2006/07 compared to the previous year was mainly due to costs related to more staff and additional provisions for fee refunds. The movements in the balance sheet relate primarily to revaluation of land and buildings.

Financial Statements

We have given an unqualified opinion on the accounts on and have concluded that the financial statements of the Scottish Court Service for the year ending 31st March 2007 give a true and fair view of the state of affairs.

We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

We have also reviewed the other issues which we are required to consider as part of our audit opinion, such as the Chief Executive's Foreword, Business Performance, the Remuneration Report and the statement on internal control. We can confirm that there are no further matters that we need to bring to the attention of the Scottish Court Service.

Efficient Government

As part of its commitment to the Efficient Government Initiative, the Scottish Court Service agreed an efficiency savings target of £2 million for 2006/07 with the Scottish Executive.

The Scottish Court Service has reported achievement of efficiency savings of £2.1 million in 2006/07.



Plans are under development to achieve further efficiencies as part of the Initiative in 2007/08. Planned efficiencies of £3 million are anticipated to be generated. It will be challenging for the Scottish Court Service to deliver on savings, with existing financial constraints and national strategic change underway.

Performance

The Scottish Court Service published its last 3 year corporate plan for the period 2005-08. This included the use of a 'balanced scorecard' against which the effectiveness of performance could be evaluated over time. The agency review undertaken by Douglas Osler (published in 2006) recommended that the scorecard be further developed to address problems with existing performance indicators. It is anticipated that details of new indicators will be included in the next 3 year corporate plan (2008-11).

In view of the impending changes to the performance indicator framework, we did not review the results in detail.

Governance

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. The establishment and operation of an efficient and effective internal audit function forms a key element of effective governance and stewardship. The Scottish Court Service's internal audit service is provided by the Scottish Executive Internal Audit Division. We reviewed internal audit and concluded that they continue to comply with Government Internal Audit Standards. We were able to place both general reliance on their work and specific reliance on individual assignments.

We carried out a specific review of Corporate Governance in the Scottish Court Service and will issue a separate report. We commented that the Scottish Court Service was developing appropriate governance arrangements for its new management structure and concluded that assurance can be taken from these corporate governance arrangements.

We examined key financial systems which underpin the organisation's control environment. We have reported that there remain opportunities to improve fixed asset accounting arrangements, fees and fines reconciliations and the format of the Annual Report. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them and to mitigate the risks of material misstatement, error or fraud in the accounts,

Overall the corporate governance and control arrangements for the Scottish Court Service operated satisfactorily during the year, as reflected in the Statement on Internal Control.

Audit Scotland
28 September 2007



Introduction

1. This report summarises the findings from our 2006/07 audit of the Scottish Court Service. The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 13th March 2007. The plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
2. In the Audit Risk and Analysis Plan, we identified thirteen main audit risks which informed our audit procedures. From our audit work we can conclude that these risks are being satisfactorily managed by the Scottish Court Service. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.
3. This is the first year of a five year audit appointment. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Scottish Court Service during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website, www.audit-scotland.gov.uk.
4. The principles of independence, the wider scope of the audit and the ability to report in public are central to public sector audit. All Audit Scotland staff are bound by its Staff Code of Conduct which incorporates the Seven Principles of Public Life identified by the Nolan Committee on Standards in Public Life and conforms to International Standards on Auditing. All staff also confirm annually that they comply with the Code's ethical values and principles. Staff are also subject to the relevant ethical standards and guidance of the professional bodies of which they are members.



Financial Statements

5. In this section we summarise key outcomes from our audit of the Scottish Court Service financial statements for 2006/07, and comment on the key financial management and accounting issues faced.

Our Responsibilities

6. We audit the financial statements and give an opinion on whether:
 - they give a true and fair view of the financial position of the Scottish Court Service and its expenditure and income for the period in question.
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements, and
 - the regularity of the expenditure and receipts.
7. We also review the statement on internal control by:
 - considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control; and
 - assessing whether disclosures in the statement are consistent with our knowledge of the Scottish Court Service.

Overall Conclusion

8. We have given an unqualified opinion on the financial statements of the Scottish Court Service for 2006/07.

Financial Position

2006/07 outturn

9. The net cost of operations after interest increased by 8.3% to £67.3 million (2005/06 £62.1 million) due to both a decrease in operating income and an increase in expenditure. Total operating income decreased slightly by 2.4% to £19.0 million (2005/06 £19.4 million) due to a decline in fee income. Expenditure increased by 6.7% mainly resulting from higher staffing levels and pensions costs. Financing by the Scottish Executive Justice Department increased by 3.3% to £52.5 (2005/06 £50.8 million).



10. The net movement in the balance sheet results from an upward revaluation of land and buildings of £16.1 million (mainly Hamilton Sheriff Court) and a new provision of £325,000 for fee refunds arising out of errors in the levels of fees charged by the Accountant of Court.

Issues Arising from the Audit

11. As required by auditing standard ISA260 we reported to the audit committee on 7th August the main issues arising from our audit of the financial statements. A number of matters were discussed at a meeting on 17th July 2007 with officers of the Scottish Court Service. Most matters were resolved satisfactorily and we are drawing to your attention matters which we think are worthy of note. A separate management letter will cover our recommendations in relation to minor findings for payroll, fixed assets, cash and bank, debtors, creditors, and provisions.
12. **Impairment:** - upon completion of Hamilton Sheriff Court, there was a difference between the book value and the professional valuation of the building. This was treated as a negative revaluation. However according to FRS11 the difference should be treated as an impairment and charged directly to the income and expenditure account. Impairment charges could potentially have a material effect on the I&E account and should be dealt with in accordance with FRS11. The accounts have been corrected.

Refer Action Plan No. 1

13. **Fixed Asset Register:** - the Register of Land & Buildings is currently maintained by the Property and Services Unit on an Excel spreadsheet. There is a risk to the integrity of the records when primary records are maintained in this format. The Scottish Court Service use the 'Britannia' asset management software for other classes of fixed assets and we recommend that the Scottish Court Service examine the possibility of using it to manage Land & Buildings.

Refer Action Plan No. 2

14. **Fees and fines reconciliation:** - the final reconciliation for the fees and fines account was not completed until over 3 months after the year end. To enable the prompt identification of any inaccuracies in the reconciliation staff should ensure that the reconciliation is performed promptly and regularly. We suggest setting a 4 week deadline for the year end reconciliation.

Refer Action Plan No. 3

15. **Dilapidation Provisions:** - in 2006/07 provisions for dilapidations of leased buildings have not been confirmed by the Scottish Court Service's valuers but were estimated by the Scottish Court Service staff based on the previous year's professional valuations. While we do not consider that it is likely that the differences will be materially different, to ensure accuracy of these figures the Property and



Services Unit should in future request external confirmation of the estimates prior to inclusion in the financial statements.

Refer Action Plan No. 4

16. **Annual Report format:-** after discussions with Audit Scotland, the Scottish Court Service changed their 2006/07 Annual Report to conform more closely with the requirements of the Government Financial Reporting Manual (FReM). There are still a number of areas that will benefit from modification. We recommend that the Scottish Court Service carry out a review of its Annual Report in 2007/08 to ensure that its disclosure and presentation is more consistent with Chapter 7 of the FReM.

Refer Action Plan No. 5

17. **Accruals:** - during creditors testing two invoices were identified that had been accrued twice (total value £68,915). The extra invoices were removed to accurately reflect the creditors balance in the final draft accounts.
18. **Hayweight House evacuation:** - during the period of the audit, staff at Hayweight House had to be moved for several weeks to court offices nearby due to faulty demolition works at a neighbouring building. We have been informed that there will be no effect on the accounts as any additional costs are being met by the developer. The completion of the audit was delayed by four weeks as a result.
19. **Funds held on behalf of third parties:** - In recent years the amount held on behalf of third parties has increased significantly from £27.6m in 2005/06 to £29.9m in 2006/07. These funds are held in short-term bank accounts with low interest yields. There is a risk that SCS could be challenged that funds held on behalf of third parties had not been held at optimum interest rates. The report from external consultants commissioned to ensure that SCS maximise the returns on balances was unavailable at time of audit. The actual balances held were verified to the bank letter as part of cash and bank testing.

Statement on Internal Control

20. The Statement on Internal Control provided by the Scottish Court Service Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control, and sets out the Scottish Court Service's approach to this.

Regularity Assertion

21. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts was incurred or applied in accordance with applicable enactments and guidance issued by the



Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to her view on adherence to enactments and guidance. No significant issues were identified for disclosure.



Performance

22. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. As part of our audit we are required to plan reviews of aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.
23. Accountable officers also have a duty to ensure the resources of their organisation are used economically, efficiently and effectively. These arrangements were extended in April 2002 to include a duty to ensure 'best value' in the use of resources.
24. The Scottish Court Service is required to publish its corporate plan every three years. The latest plan was published in 2005 and covers the period of 2005-08. This included a range of targets for the constituent courts within the Scottish Court Service. The Osler Report identified difficulties with the appropriateness of some of these indicators. The new draft Corporate Plan for 2008-11 will include revised performance indicators that will be more appropriate to the Scottish Court Service's business. This is due to be published towards the end of 2007.
25. In view of the impending changes to the performance indicator framework, we did not review the results in detail.



Governance

Overview of arrangements

26. This section sets out our main findings arising from our review of the Scottish Court Service governance arrangements. This year we reviewed:
- key systems of internal control;
 - internal audit; and
 - aspects of information and communications technology (ICT).
27. We also discharged our responsibilities as they relate to prevention and detection of fraud and irregularity; standards of conduct; and the organisation's financial position (see paragraphs 9-10). Our overall conclusion is that arrangements within the Scottish Court Service are sound and have operated throughout 2006/07.
28. In our separate Corporate Governance Overview report which is currently in draft, we noted that the Scottish Court Service was developing appropriate governance arrangements. We noted that a number of changes were currently underway which will take account of the reorganised management structure. We said that, in our opinion, assurance can be taken from the developing and satisfactory corporate governance arrangements at the Scottish Court Service.

Systems of internal control

29. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In his annual report for 2006/07 the Head of Internal Audit provided his opinion that, based on the internal audit work undertaken during the year, there was substantial assurance on the adequacy and effectiveness on the systems of internal control.
30. As part of our audit we reviewed a range of key controls in a number of the Scottish Court Service systems that impact on the financial statements. In particular we examined in detail payroll and fixed assets controls. Our overall conclusion was that key controls were operating effectively.

Internal audit

31. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit



wherever possible. As part of our risk assessment and planning process for the 2006/07 audit, we assessed whether we could place reliance on the Scottish Court Service Internal Audit function which is provided by the Scottish Executive Internal Audit Division. We planned to place reliance on the work of internal audit work for court peer reviews, central financial controls, and capital expenditure.

32. Audit Scotland's Scottish Executive team reviewed the work of the Division in general and we reviewed the work carried out on the Scottish Court Service. We were in agreement with the findings of their reports. We concluded that the internal audit service operates in accordance with the Government Internal Audit Manual and therefore placed reliance on the areas covered by these audit reviews in coming to our conclusions.

Information and Communication Technology

33. We had originally planned to carry out a range of reviews of ICT systems during 2006/07. Initial difficulties in starting the work were compounded by the building works incident at Hayweight House (paragraph 18). We can draw assurance from work done by Audit Scotland's Scottish Executive team on the Scottish Executive Accounting System (SEAS) used by the Scottish Court Service as its primary accounts software.

Computer Service Review

34. As part of our risk based assessment, we identified Information and Communication Technology (ICT) as a priority area for review in 2006/07. The seven key areas covered by the review were:
 - ICT Strategy
 - Organisational Structure
 - Installation Management
 - Service Delivery
 - Asset Protection and Security
 - Business Continuity/ Contingency
 - Data Networking
35. We had originally planned that management would be asked to complete a Computer Service Review Client Questionnaire (CSR-CQ) and we would report our detailed findings from this exercise as part of the assurance for the 2006/07 audit. Due to the building works incident at Hayweight House (paragraph 18) and other factors, the response was delayed. A draft report will be sent out in September for clearance. A number of risks highlighted in the report will be taken forward by the Scottish Court Service in 2007/08. No significant risks were identified.



Your Business @Risk Survey

36. The Scottish Court Service has agreed to complete the Your Business @ Risk (YB@R) web-based survey later in 2007 due to pressure of business. This survey will focus on a number of business risks associated with awareness of information and communications technology (ICT) policies and procedures. Participation in the survey is being rolled out to public sector bodies by Audit Scotland during 2007.

37. The survey will help:

- raise awareness of the risks associated with the use of new technology;
- gauge the levels of IT awareness among staff;
- benchmark against other organisations;
- measure improvement over time; and
- highlight areas to improved governance and reduce risk.



Looking Forward

38. the Scottish Court Service faces a number of challenges in 2007/08, which include:

- **Financial Strategy** - There may be a financial impact arising from changes in strategic direction in line with adjustments to national priorities and the Spending Review.
- **Amalgamation of District Courts with the Scottish Court Service:** - following on from the announcement in March 2005 of plans to unify the administration of sheriff and district courts, the programme of amalgamating district courts is currently underway with the completion of the Lothian and Borders transfer. The amalgamations will have implications for financial planning and control for the Scottish Court Service. Although we examined project management arrangements in outline, we will review progress on the amalgamations in the 2007/08 audit.
- **Monitoring and Completion of Capital Works at Dumbarton Sheriff Court and Parliament House:** - A number of major construction projects are currently underway. We note that a contractor has been appointed after March 2007 to carry out the redevelopment of Parliament House. Due to pressures and rising construction costs, the Scottish Court Service will need to ensure tight overall control.
- **Relocation Review** – with the lease break point for Hayweight House due in 2008/09, the Scottish Court Service may wish to consider its location in light of Scottish Executive guidance.
- **Best Value** - As part of the 2007/08 audit we will be reviewing the progress that the Scottish Court Service has made in strengthening their arrangements for securing Best Value since our baseline review work in 2005/06. Over the next year we will also be developing and refining our approach to the audit of public bodies' arrangements to secure economy, efficiency and effectiveness in the use of resources, as this is one of our key objectives as auditors, set out within the new Code of Audit Practice approved by the Auditor General. This will inform our ongoing work to develop an approach to the audit of Best Value across the Scottish public sector. We intend to consult with both clients and stakeholders at key stages of these initiatives.
- **Efficient Government** – 2007/08 is the last year of the original Efficient Government Initiative. The achievement of the final Efficient Government target represents a challenge for the organisation.

Appendix A: Action Plan

Key Issues and Planned Management Action

Action Point	Issue Identified	Planned Action	Responsible Officer	Target Date
1	<p>Impairment of Fixed Assets</p> <p>When the costs of building improvements at Hamilton Sheriff Court were brought into the land and buildings category of fixed assets from assets under construction, an impairment of £367,000 was not recognised in the first draft of the accounts.</p> <p>There is a risk that future fixed asset impairments may not be correctly charged to the income and expenditure account.</p> <p><i>We recommend that the Scottish Court Service treats impairments in accordance with FRS11 and ensures that all such impairments are charged to the income and expenditure account.</i></p>	<p>A review of the relevant accounting standards has been undertaken.</p> <p>The impairment that arose during the year was specifically related to the policies on revaluation of fixed assets adopted by the Scottish Court Service.</p> <p>This type of impairment is only likely to arise in the future where completed construction projects are valued at open market value.</p> <p>Regular discussions between Finance and PSU will take place to identify any projects in the future where this form of impairment is likely to arise.</p> <p>This will ensure that all future impairments of this type are recognised correctly through the income and expenditure account.</p>	Steven Green, Corporate Accountant	Ongoing

Action Point	Issue Identified	Planned Action	Responsible Officer	Target Date
2	<p>Fixed Asset Register</p> <p>The register of Land & Buildings is currently maintained by PSU on an Excel spreadsheet.</p> <p>There is a risk to the integrity and accuracy of records when primary records are maintained on a spreadsheet.</p> <p><i>We recommend that the Scottish Court Service maintain land & buildings records using the 'Britannia' asset management package already used for other classes of fixed assets.</i></p>	<p>To date no problems have been identified with the current Excel system whilst problems relating to specific assets have had to be fixed on the Britannia system in the year.</p> <p>We would therefore be reluctant to transfer this class of assets across.</p> <p>However, the suitability and desirability of using the Britannia system for this task will be evaluated in the year.</p>	Steven Green, Corporate Accountant	30-09-2007

Action Point	Issue Identified	Planned Action	Responsible Officer	Target Date
3	<p>Fees and fines reconciliation.</p> <p>The year end reconciliation for the fees and fines bank account was not completed until over 3 months after the year end.</p> <p>There is consequently a risk that inaccuracies in the reconciliation are not identified promptly.</p> <p><i>We recommend that the reconciliation is performed within 4 weeks of the period end.</i></p>	<p>Throughout the year significant work was undertaken by Finance to bring the Fees and Fines reconciliations up to date.</p> <p>The reconciliation during the year was completed within the suggested timescale.</p> <p>The unreconciled period arose due to finance resources having to be diverted to manage both the budget and annual accounts process.</p> <p>The reconciliation would then normally have been completed prior to the submission of draft accounts for audit however due to staff changes during the year-end this was not done.</p> <p>The process has been reviewed and a majority of the reconciliation work will in future be carried out by a finance team member who is not heavily involved in the budget or annual accounts process. The work will be monitored and reviewed by their line manager.</p> <p>This will allow the reconciliation process to be maintained throughout the year and will minimise the length of unreconciled periods.</p>	Steven Green, Corporate Accountant	Ongoing

Action Point	Issue Identified	Planned Action	Responsible Officer	Target Date
4	<p>Valuation of dilapidation provisions</p> <p>Provisions for dilapidations of leased buildings have not been confirmed by the Scottish Court Service's valuers.</p> <p>There is a risk that the provision for dilapidations may be inaccurate.</p> <p><i>We recommend that in order to ensure accuracy of these figures external confirmation is requested from the Scottish Court Service's valuers prior to inclusion in the financial statements.</i></p>	<p>We will ask Knight Frank, our valuers, to confirm that our provisions are accurate prior to inclusion in the 2007-08 Accounts.</p>	<p>Craig McCorkindale, Estates</p>	<p>31-03-208</p>
5	<p>Final Report Format</p> <p>The 2006/07 annual report does not conform to the Government Financial Reporting Manual (FReM) in a number of areas.</p> <p><i>We recommend that the Scottish Court Service carries out a review of its Annual Report in 2007/08 to ensure that its disclosure and presentation conforms to chapter 7 of the FReM.</i></p>	<p>A complete review of the Annual Report format and content will be undertaken for implementation for the 2007/08 Accounts</p> <p>This review will incorporate the disclosure and presentation issues highlighted during the audit.</p>	<p>Nicola Bennett, Director of Finance</p> <p>Stephen Coulter, Corporate Accountant</p>	<p>31-03-2008</p>