

Scottish Court Service

Report on the 2012/13 Annual Audit



Prepared for the Scottish Court Service and the Auditor General for Scotland
October 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Key Messages

2012/13

We have given an unqualified opinion on the financial statements of the Scottish Court Service (SCS) for 2012/13.

The SCS outturn was a £0.7 million saving against budgeted net expenditure. This consists of a capital budget overspend of £0.6 million and a revenue underspend of £1.3 million. Around 65% of capital expenditure related to the Parliament House redevelopment.

Overall the SCS governance arrangements, systems of internal control and arrangements for the prevention and detection of fraud were satisfactory during 2012/13. However, the SCS experienced some issues with the issue of "Dunning" letters by the Scottish Government's finance system (SEAS). A request to correct the issues has been raised by SCS with the Scottish Government SEAS team since July 2012.

The SCS participated in the National Fraud Initiative (NFI) for the second time and this provided a positive assurance for the effectiveness of its internal control system.

Outlook

We confirm the financial sustainability of the SCS on the basis of its financial position and projected three-year financial summary to 2015/16. However, low level of investment in the court estate continues to be a high risk area for the organisation and funding from the Scottish Government for operating expenditure is expected to reduce by around 5.5% in real terms.

Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of the Scottish Court Service (SCS). The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance.
3. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control. This report has been prepared for the use of the SCS and no responsibility to any third party is accepted.
4. [Appendix A](#) is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the SCS understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
5. This report is also addressed to the Auditor General for Scotland and will be published on our website after consideration by the SCS' Audit Committee.

Matters to be reported

Conduct and scope of the audit

6. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Audit Committee on 30 January 2013, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
7. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2012/13 agreed fee for the audit was disclosed in the annual audit plan and, as we did not require to carry out any additional work outwith our planned audit activity, this fee remains unchanged.

Audit opinion & accounting issues

8. We have given an unqualified opinion that the financial statements of the SCS for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. The audit opinion was formally signed and issued on 28 August 2013.
9. We received most of the unaudited annual report and accounts on 13 June, slightly later than the originally agreed timetable (3 days). This did not include a number of key elements including:
 - the Lord President's and Chief Executive's forewords
 - a complete trade receivables and the fees memorandum trading account (income) note; and
 - the Remuneration Report did not include the required median pay calculation, salary and pension disclosures for the executive directors.
10. Going forward, we have requested that management ensure a complete set of accounts is provided at the start of the audit and we will revise the audit timetable to help achieve this. The working papers were of a good standard and the staff provided good support to the audit team, allowing us to complete our on-site fieldwork within the agreed timescales. The issues arising from the audit were discussed with management throughout the audit process and at the clearance meeting on 18 July 2013. They were also included in a summary matters arising schedule issued to management on the same day.
11. SCS is required to follow the 2012/13 Financial Reporting Manual (FReM) and we confirmed that the financial statements had been properly prepared in accordance with these accounting requirements.
12. We also confirmed that the expenditure and income in the financial statements were in accordance with applicable legislation and Ministerial guidance, the Budget (Scotland) Act for 2012/13 and legislation governing sums paid out of the Scottish Consolidated Fund.

Significant findings during the financial statements audit

13. We identified a number of presentational adjustments within the financial statements during the course of our audit. These were discussed with senior management who agreed to amend the unaudited financial statements.
14. We also noted that adjustments for £0.105 million of fees over-recovered from the Scottish Consolidated fund in 2010/11 were not corrected during 2011/12. In 2012/13 an adjustment was made for this, but the wrong adjustment was made thus increasing the original error to £0.210 million. Officers agreed that this would be amended in 2013/14. The overall effect of this error on the statement of financial position was nil as the correcting entries would cancel each other out.

Whole of Government Accounts

15. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The SCS submitted their unaudited WGA pack to the Scottish Government on 6 August, in line with the agreed timetable.
16. We were advised by the National Audit Office in August 2013 that the 2012/13 certification threshold had been increased from last year and as a result, there was no audit certification required for the SCS 2012/13 WGA return.

Financial position

17. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

2012/13 Outturn

18. The Scottish Government provides the SCS with a budget allocation for the year, which originates from the Spending Review settlement and is subsequently passed in the Scottish Parliament as part of the Budget (Scotland) Act, authorising the Scottish Government's spending plans for the year. During the year amendments are approved in the autumn and spring budget revisions. The SCS is expected to manage its budget in accordance with the Financial Memorandum and Scottish Public Finance Manual and ensure that the financial outturn for the year is within the resource budget allocated by Scottish Ministers.
19. The initial 2012/13 budget of £77 million had been increased to £79.2 million during the year, mainly due to additional capital funding of £2 million. The budget reporting throughout the year presented an accurate forecast of the overall financial outturn of £78.5 million, as indicated in Table 1 below which also shows the budget changes that occurred during the financial year.
20. The capital budget was overspent by £0.6 million, however this overspend was met within the total budget due to an underspend of £1.3 million on revenue through the recovery of additional retained fines. Around 65% of capital expenditure related to the Parliament House

redevelopment and the remainder was spent on the upgrade of SCS IT systems and on the rest of the court estate.

Table 1: 2012/13 Resource budget and outturn

	Initial Budget £'000	Final Budget £'000	Actual Outturn £'000	Under / (Over) spend
Resource DEL	68,500	68,670	67,360	1,310
Capital DEL	8,500	10,500	11,123	(623)
AME	0	0	0	0
Total	77,000	79,170	78,483	687

Source: 2012/13 SCS budget monitoring papers and 2012/13 annual report and accounts

21. The SCS incurred gross expenditure of £99.6 million during 2012/13 (2011/12 £101.8 million). It funded around 32% of its expenditure through income, mainly with £29 million from fees and retained fines. The rest was funded by the Scottish Government. In line with last year, the most significant elements of expenditure were staff costs of £41 million (41%) and administration costs of £36 million (36%) which include accommodation costs of £14 million and buildings maintenance costs of £10 million.

2012/13 Financial position

22. The SCS statement of financial position as at 31 March 2014 showed net assets of £417 million, which was broadly comparable to the 2011/12 net assets of £414 million. There were no major changes in the financial position compared to the previous year.

Financial planning

2013/14 Budget

23. The SCS produces three-year financial plans which are updated on an annual basis to form the annual budget. Arrangements for budget setting and monitoring are good, with the Executive team closely monitoring income and expenditure against budget and reporting financial results to the Board every other month.
24. The draft Scottish budget outlined a SCS budget of £73.4 million (£67.4 million of revenue and £6 million of capital funding), for 2013/14. Additional capital funding of £6.5 million was subsequently allocated by the Scottish Government following concerns over the condition of the SCS estate. SCS has also received additional revenue funding of £0.3 million to provide shrieval cover for judicial vacancies. This has increased the total 2013/14 budget to £80.2 million. The spring budget revision may result in further changes.

25. Management have highlighted that the low level of investment in the courts estate continues to be a high risk for the organisation, with the possibility of unplanned building maintenance increasing. The Estates Committee has agreed a programme of capital works for 2013/14 that includes minor improvement works, statutory compliance, backlog maintenance and sustainability. The main capital projects within this programme are the completion of the Parliament House redevelopment (£2.9 million), Glasgow Sheriff Court works (£2.7 million) and reduction of backlogs (£4.5 million). A deficit of £0.6 million has been planned in the capital budget to allow for any slippage on existing projects or possible additional capital funding.
26. The latest SCS budget monitoring report, presented to the Board in September 2013, shows a £9.1 million underspend for the 4 months to end of July 2013. This is mainly due to earlier than planned receipts of income and due to the committed estates programme not yet resulting in spend. However, the expectation is that expenditure will increase substantially and this will reduce the projected underspend of £1.3 million by the end of 2013/14.

Financial forecasts beyond 2013/14

27. The draft Scottish 2014/15 budget, announced on 11 September 2013, increased the initial SCS allocation from £69.4 million to £72.3 million largely due to capital funding increases.
28. The 2015/16 forecast is £73.4 million but could be subject to further changes to the Scottish Government's spending plans. Revenue and capital budget allocations for the next three years are shown in Table 2 below. This demonstrates a cash reduction of £1.3 million (2%) over the period or a reduction of £3.7 million (5.5%) in real terms on revenue funding.

Table 2: Revenue and capital budgets

	2013/14	2014/15	2015/16
	£'000	£'000	£'000
Resource DEL	67,700	65,300	66,400
Capital DEL	12,500	7,000	7,000
Total	80,200	72,300	73,400
GDP deflator index	102.300	104.244	106.120

Source: [Draft Scottish Budget 2014/15 \(published in September 2013 by the Scottish Government\)](#)

<https://www.gov.uk/government/publications/gdp-deflators-at-market-prices-and-money-gdp-march-2013>

Corporate governance and systems of internal control

Overall governance arrangements

29. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements. Overall we found the SCS had sound

governance arrangements in place which included appropriate committees overseeing key aspects of governance.

30. As part of our Role of Boards follow-up audit during 2011/12 we reported that the Board members' training needs assessment would benefit from being reviewed and formalised. We have been advised that a formal strategy for this is not yet in place, however the Board reflects at the meetings about its own needs as appropriate. In addition, the following work is on-going or planned:
- An induction pack is currently in preparation for new Board members
 - After each meeting the Board members now receive in-depth presentations about particular aspects of the work of the SCS
 - A Board development session is planned for April 2014.

Accounting and internal control systems

31. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
32. During 2012/13 we carried out a review of the main financial systems (payroll, the financial ledger, trade payables, trade receivables and cash). We also placed reliance on selected aspects of the work of the Scottish Government's external audit team (Audit Scotland) on the ledger system (SEAS) controls, operated by the Scottish Government.
33. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. We reported in our key controls report in March 2013 that the SCS' internal controls for the systems tested operated effectively and this allowed us to take planned assurance on these systems for the audit of the 2012/13 financial statements. However, we found a number of minor control weaknesses in the payroll system which management have acknowledged.
34. We also reported in our key controls report that the SEAS update in April 2012 caused problems for the SCS when running 'dunning' letters (reminders sent to overdue debtors). The problems caused by SEAS are outwith the direct control of the SCS and a request to correct this issue has been with the Scottish Government SEAS team since July 2012. We understand Internal Audit, SCS and the Scottish Government will be working together to resolve any issues.
35. Internal audit is an important element of the SCS' governance structure. Every year we carry out an assessment of the adequacy of the internal audit function to identify those areas of internal audit work on which we can place reliance. We concluded that the internal audit service provided by the Scottish Government operated in accordance with government internal audit standards. However, due to the nature of their assignments in 2012/13, we

were unable to place formal reliance on Internal Audit work in support of our opinion on the financial statements.

Collaboration with justice organisations

36. The SCS continues to be involved in projects with partners from within the justice system as part of the Scottish Government's 'Making Justice Work' Programme which is an integral part of the 'Strategy for Justice' in Scotland. Within this programme SCS is leading on a number of projects to improve the efficiency of the justice system in the short term and to introduce reforms over the longer term to improve the service to court users and the judiciary.
37. The SCS leads on the implementation of the civil courts reform and planning is underway for the required projects. For example, one of the critical elements for delivering the reform is ensuring that the SCS has a robust IT enabling system which can support the modernisation of civil business and initial preparation work is ongoing to allow for specification of a new IT system. Initial implementation costs for civil courts reform have been included in the SCS 2013/14 budget.
38. The draft Scottish budget 2014/15 states that another priority of the 'Making Justice Work' programme is to continue building a more efficient and effective service to Scottish tribunals. Further development of the work of tribunals could include the proposed merger with the SCS in 2015. A feasibility study for this is currently underway.

Follow-up of Scotland's Public Finances: Addressing the challenges

39. In August 2011 Audit Scotland published a report "Scotland's public finances: Addressing the challenges". The report provided an overview of the scale of budget cuts expected to be faced by the Scottish public sector in the period from 2010/11 to 2014/15, and how public bodies were beginning to respond to the challenges of reducing expenditure. The report did not make any direct recommendations, however it highlighted a number of key issues and risks for managers to identify, monitor and manage.
40. In 2012/13 we followed up this report to assess how the SCS is responding to the challenges of public sector budget constraints to achieve financial sustainability. Overall we found that:
 - The SCS has a sustainable approach to financial plans which reflect a strategic approach to cost reduction
 - Senior officials and non-executive Board members demonstrate ownership of financial plans and these are subject to sufficient scrutiny before approval.
41. As mentioned in paragraph 23, the SCS has a good budget setting process. The Executive team monitor the financial position on a monthly basis and the Board at their meeting every other month. There is also a sufficient focus on strategy and performance, with the Board receiving regular corporate plan delivery reports and annual report on business plan outcomes. Financial risks are regularly considered as part of the general risk management process. However, it would appear that whilst the financial risks are included in the corporate

risk register, they are not specifically considered as part of the financial planning process at Board level.

Action point 1

42. A balanced budget had been set for 2012/13 and 2013/14 and the business plans for both financial years clearly set out the specific activities to support the priorities within the 2011-14 corporate plan. The plans acknowledged that the SCS was entering a period of significant reform and change for the operation of Scotland's courts, including the civil courts and tribunal reforms mentioned in paragraphs 36 to 38. Included in the business plans were clear assumptions about sources of income, cost pressures and related savings in line with the corporate plan implementation projections.
43. The SCS also has a longer term financial strategy based on the Scottish Government's funding outlined in the 2014/15 draft Scottish budget (see paragraph 27). The current development of the new corporate plan 2015-17 is being informed by the Audit Scotland's report 'An Overview of Scotland's justice system' (September 2011). Specifically, the cost of criminal justice system has been taken into account to help derive the new corporate plan assumptions.
44. One of the specific actions to deliver the desired outcomes under the 'clear and efficient business processes' strategic theme in the 2011-14 corporate plan is a review of the key SCS processes. This is a fundamental review of the SCS internal business processes to identify opportunities for efficiencies and cost savings as well as to support the 'Making justice work' programme (see paragraphs 36 to 38). Further details of the specific reviews are outlined in the SCS yearly business plans.
45. There is an appropriate transparency and accountability of the SCS' decisions about future organisational plans. This is evidenced by extensive public consultations, such as recently concluded consultation on future structures of Scottish courts. The SCS is also represented by its officials on a range of other cross-justice groups with impact on the whole of the Scotland's criminal justice system.

Workforce management

46. At the end of 2012/13 the SCS staff headcount was 1,364 full time equivalents (FTE), a 6% decrease from 2011/12. Four staff left through voluntary redundancy in 2012/13 with their compensation payments totalling £0.2 million. We have been advised that no further major voluntary redundancy scheme is planned for 2013/14 or future years.
47. 2012/13 was the first year of the SCS' people strategy 2012-15 which identifies key strategic priorities in support of the overall aim of developing a skilled, engaged and motivated workforce. Specific priority activities that took place during 2012/13 included development of the SCS workforce planning tool, the 2012 staff survey and reviews of the coaching and middle management development programmes.

Data loss

48. During 2012/13 the SCS reported two incidents of data loss to the Information Commissioner's office (four in 2011/12). Both related to an erroneous release of documents with personal details to a journalist.

Public Services Network (PSN)

49. Many public sector bodies use Cabinet Office sponsored arrangements to share electronic data with other public sector bodies. The Government Secure Intranet (GSI) is the mechanism that allows them to share data and services. This year the government is replacing GSI with the Public Services Network (PSN). From November 2012 all applicants have to apply to connect to PSN which means complying with the stricter PSN Code of Connection.
50. The new security requirements of the Code of Connection are challenging. We understand that the SCS is contracted to the Police National Network (PNN3) framework which enables the secure transmission of data between police forces, criminal justice and police-related agencies. To ensure a secure connection of the PNN infrastructure to PSN, the SCS had to demonstrate compliance with the new Code of Connection this year by renewing its Risk Management Accreditation Document Set (RMADs). This arrangement will be superseded once Scotland's Wide Area Network (SWAN) becomes operational.

Prevention and detection of fraud and irregularity

51. In our annual audit plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion the SCS overall arrangements for the prevention of fraud are sound, although it should be noted that no system can eliminate the risk of fraud entirely.
52. In 2012/13 the SCS participated in the National Fraud Initiative (NFI) for the second time. The NFI is a UK-wide data matching exercise, which matches electronic data within and between participating bodies to prevent and detect fraud. It is undertaken every two years as part of the statutory audits of the participating bodies. The latest exercise is due to report in June 2014.
53. In October 2012 the SCS uploaded the required data (payroll data) to the NFI secure website. Fair processing notices were issued to staff to inform them that their details were being used in this way. In January 2013 the analysis of the NFI data returned a set of 14 matches to the SCS but no instances of fraud have been identified on investigation of these matches. The results of this exercise have therefore provided positive assurance for the SCS that its systems of internal control are operating effectively.

Standards of conduct and arrangements for the prevention and detection of corruption

54. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and

monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

Performance and best value

55. Accountable officers are required to put in place appropriate arrangements to satisfy their duty of best value. The guidance for accountable officers on best value in public services (issued by the Scottish Government in March 2011) requires a systematic approach to self-evaluation and continuous improvement.
56. As per the SCS annual report and accounts 2012/13, *"The SCS strives for continuous learning and improvement in its operations and applies best value principles in the delivery of its functions and use of public funds."*
57. Evidence of this is the SCS strategy map in the 2011-14 Corporate Plan, with best value principles underpinning the SCS achievement of its 'supporting justice' purpose. The corporate plan also states that compliance with best value principles is monitored by the SCS Audit Committee. However, the SCS has not formally considered the Scottish Government's guidance on best value in public services by, for example, agreeing a structured approach to future best value reviews.

Action point 2

National Performance Audits

58. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Summary of a recently published report that is relevant to the SCS' Audit Committee is provided below.

Managing Early Departures from the Scottish Public Sector (May 2013)

59. This report is designed to help public bodies improve their management and reporting of early release schemes. The report is available at: http://www.audit-scotland.gov.uk/docs/central/2013/nr_130523_early_departures.pdf.
60. Only a small number of staff left the SCS through voluntary redundancy in 2012/13 and no further major voluntary redundancy scheme is planned for 2013/14 or future years. Our testing confirmed that exit packages were in accordance with policies and procedures.

Acknowledgements

61. We would like to express our thanks to the staff of the SCS for their help and assistance during this year's audit which has enabled us to provide an audit report within the agreed timetable.

Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer / Target Date
1	41	<p>Financial risks are identified and included in the corporate risk register but they are not specifically considered as part of the financial planning process at Board level.</p> <p>There is a risk that the SCS's financial plans do not adequately consider all financial risks identified in the corporate risk register.</p>	<p>This will be included in the 2014-15 budget setting exercise that will be reported to the Board in March 2014.</p>	<p>Nicola Bennett, Director of Finance March 2014</p>
2	57	<p>The SCS has not formally considered Scottish Government's guidance on best value in public services, issued in March 2011.</p> <p>There is a risk that the SCS may not be able to demonstrate its arrangements.</p>	<p>The SCS considers that aspects of best value are already embedded within strategic planning and performance management.</p> <p>This will be fully reviewed and strengthened where necessary within the development of the 2014 -16 Corporate Plan.</p>	<p>David Lynn, Corporate Secretary April 2014</p>