



Scottish Court Service

Annual report on the 2013/14 audit

Prepared for Scottish Court Service and the
Auditor General for Scotland

December 2014

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Key messages

Financial statements

- Unqualified auditor's report on the 2013/14 financial statements.
- Audited financial statements submitted to Scottish Government by 31 October 2014.

Financial position

- Net expenditure £65.018 million within DEL budget of £67.716 million.
- Capital expenditure of £15.915 million exceeded £13.450 million CDEL budget; this was largely offset by the revenue underspend.
- Net asset position of £409.935 million.

Governance & accountability

- The Scottish Court Service has sound governance arrangements in place.
- The Scottish Court Service has an effective internal audit function and sound anti-fraud arrangements.

Best Value, use of resources & performance

- The Scottish Court Service has implemented the agreed actions in last year's Annual Audit Report.
- The remit of the Audit Committee should reflect its responsibility for monitoring achievement of best value, as set out in the Corporate Plan.

Outlook

- The Scottish Court Service continues to face financial pressures along with the need to invest in the court estate and ICT systems.
- The Scottish Court Service and Scottish Tribunals Service will merge to become the Scottish Courts and Tribunals Service from April 2015.

Financial Statements

1. We have given an unqualified audit opinion on the financial statements of the Scottish Court Service for 2013/14. We have concluded that in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.
2. A number of minor presentational adjustments were made to the financial statements. There was one audit adjustment of £214,000 between categories of expenditure. This adjustment did not affect the total comprehensive expenditure or net assets. We are satisfied that the correct accounting entries have been made.

Financial position

3. The Scottish Court Service reported net expenditure of £65.018 million in 2013/14 which was within its Departmental Expenditure Limit (DEL) of £67.716 million. Capital expenditure was £2.465 million over the Capital Departmental Expenditure Limit of £13.450 million. This was largely offset by the revenue underspend.

Governance and accountability

4. In 2013/14, the Scottish Court Service had sound governance arrangements with its standing committees overseeing key aspects of governance. The Scottish Court Service also had an effective internal audit function and sound anti-fraud

arrangements.

5. We examined the organisation's key financial systems underpinning the organisation's control environment and concluded that they operated sufficiently well for us to place reliance on them.

Best Value, use of resources and performance

6. The Scottish Court Service has implemented the management actions agreed in last year's Annual Audit Report, which included consideration of the Scottish Government's guidance on best value when developing the revised Corporate Plan 2014-17.
7. The Corporate Plan 2014-17 identifies the Audit Committee's responsibility for monitoring compliance with best value principles but this is not explicit in the committee's remit or its annual report to the Board.
8. Performance returns were received late from a number of courts, after the Annual Report and Accounts had been audited and signed. The relevant performance figures were updated so that accurate figures would be published; this required the Annual Report and Accounts to be re-signed and re-dated.

Outlook

9. The Scottish Court Service will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less. Achieving sustainability in the medium term

Key Messages

will require innovation and vision to design and deliver the services needed to serve the future needs of citizens.

10. The Scottish Court Service and the Scottish Tribunals Service will merge on 1 April 2015 to form the new Scottish Courts and Tribunals Service.

Introduction

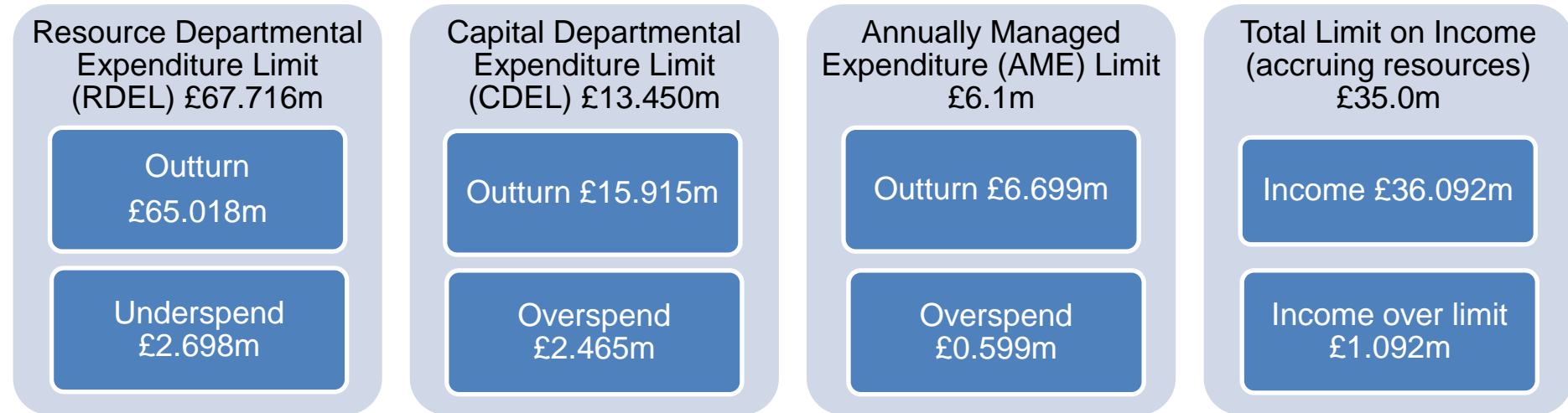
11. This report is a summary of our findings arising from the 2013/14 audit of the Scottish Court Service (SCS). The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model.
12. Our responsibility, as the external auditor of the Scottish Court Service, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.
13. The management of the Scottish Court Service is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
14. This report is addressed to the Scottish Court Service and the Auditor General for Scotland and should form the basis of discussions with the Audit Committee as soon as possible after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.
15. This report will be published on our website after it has been considered by the Scottish Court Service.
16. A number of reports, both local and national, have been issued during the course of the year. These reports (appendix I) include recommendations for improvements. We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of the Scottish Court Service.
17. The concept of audit risk is of key importance to the audit process. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and in our wider dimension audit work. We set out in our annual audit plan the related source of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix II sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements and in our other work.
18. Appendix III is an action plan setting out the high level risks we have identified from the audit. Officers have considered the

Introduction

issues and agreed to take the specific steps in the column headed "Management action/response".

19. We recognise that not all risks can be eliminated or even minimised. What is important is that the Scottish Court Service understands its risks and has arrangements in place to manage these risks. The SCS Board and Accountable Officer should ensure that they are satisfied with proposed management action and have a mechanism in place to assess progress and monitor outcomes.
20. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
21. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Financial statements



Audit opinion

22. We have given an unqualified opinion that the financial statements of the Scottish Court Service for 2013/14 give a true and fair view of the state of its affairs and of its net operating cost for the year.

Other information published with the financial statements

23. Auditors review and report on other information published with the financial statements, including the Management Commentary (Lord President’s Foreword, Chief Executive’s Foreword and Strategic Report), Governance Statement and

the Remuneration Report. No issues required to be reported in respect of these statements.

24. SCS also included performance information in an Annex to the 2013/14 Annual Report and Accounts. Three courts submitted their year end performance updates after the accounts were authorised for issue and the audit opinion was signed on 26 August. SCS chose to update the reported performance information and the accounts and audit opinion were re-signed on 4 September.

Regularity

25. The Public Finance and Accountability (Scotland) Act 2000 requires auditors to certify that, in all material respects, the expenditure and income shown in the accounts was incurred or applied in accordance with relevant legislation and guidance issued by Scottish Ministers, the Budget Act 2013/14 and legislation governing sums paid out of the Scottish Consolidated Fund. We addressed the requirements of the Act through a range of procedures, including obtaining written assurances from the Accountable Officer. We have given an unqualified opinion on regularity in our 2013/14 auditor's report.

Accounting issues

26. We received the unaudited financial statements on 2 June 2014 in accordance with the agreed timetable. We reported in previous years that the full draft accounts and annual report narrative were not ready at the start of the audit. We are pleased to report that all the required information for 2013/14 was ready for the start of the financial statements audit. The working papers were of a high standard and SCS staff provided good support to the audit team throughout the year.

Report to those charged with governance

27. We presented our report to those charged with governance (ISA 260 report) to the Audit Committee on 4 August 2014. The primary purpose of this report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. The main points are set out in the

following paragraphs.

28. One monetary error was identified in the financial statements during the course of our audit and was subsequently adjusted by management. This adjustment increased expenditure on accommodation by £214,000 and decreased expenditure on buildings maintenance and impairment by £214,000. The adjustment was a movement between categories of expenditure and had no effect on the Statement of Comprehensive Net Expenditure or the Statement of Financial Position.
29. In addition, there was one unadjusted error identified during the course of the audit. This was a provision for compensation (£26,000) relating to a claim which is now time barred. If adjusted, this would have decreased net outturn by £26,000. The impact on the Statement of Financial Position would have been a £26,000 increase in the General Fund balance. Management chose not to adjust the accounts for this error and this did not have a material effect on the accounts. The time barred provision of £26,000 will be adjusted in the 2014/15 financial statements.

Whole of government accounts

30. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The SCS submitted its unaudited WGA pack to the Scottish Government on 27 June, in line with the

Financial statements

agreed timetable.

31. The 2013/14 certification threshold has increased from last year and SCS is below the certification threshold. As a result, there was no audit certification required for the SCS 2013/14 WGA return.

Outlook

32. The financial statements of the Scottish Court Service are prepared in accordance with the Government financial reporting manual (the FReM). The main new standards adopted in 2014/15 are:
 - IFRS 10 Consolidated financial statements
 - IFRS 11 Joint arrangements
 - IFRS 12 Disclosures of interests in other entities
33. Compliance with FReM is mandatory; however, the impact of the adoption of the new standards is unlikely to be significant to the financial statements of the Scottish Court Service.
34. The merger of the Scottish Court Service with the Scottish Tribunals Service will take effect from 1 April 2015. Prior year comparative figures for 2014/15 will be required for the 2015/16 financial statements; the accounting arrangements for the merger will need to be agreed in 2014/15. (**Action plan no. 1**)

Financial position

35. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
36. We consider whether audited bodies have established adequate arrangements and examine:
- financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
37. This section summarises the financial position and outlook for the Scottish Court Service.

2013/14 Outturn

38. The main financial objective for SCS is to ensure that the financial outturn for the year is within the resource budget allocated by Scottish Ministers.
39. SCS received a total final resource budget of £87.266m for

2013/14 which was split between Departmental Expenditure Limit (DEL) of £81.166m and Annually Managed Expenditure (AME) of £6.100m as shown in Table 1 below. The DEL budget was underspent by £0.233m and AME was overspent by £0.599m. The AME overspend is covered by additional provision for AME in the overall Scottish Government budget.

40. AME is not subject to firm multi-year limits and does not impact on the SCS's spending power. DEL is subject to greater control, as a measure of real spending power. This excludes depreciation, some impairment and other technical accounting non-cash items.

Table 1: 2013/14 Outturn against budget

	Initial budget £000	Final budget £000	Actual outturn £000	Under/(Over) spend £000
Resource DEL	67,716	67,716	65,018	2,698
Capital DEL	12,450	13,450	15,915	(2,465)
	80,166	81,166	80,933	233
Capital AME	-	6,100	6,626	(526)
Revenue AME	-	-	73	(73)
	-	6,100	6,699	(599)
Total	80,166	87,266	87,632	(366)

Source: Scottish Court Service 2013/14 accounts

41. The Scottish Government sets a resource budget for SCS for the year which originates from the spending review settlement and is subsequently approved in the Budget Bill. During the year, any revisions are approved in the autumn and spring. SCS is expected to manage its budget in accordance with its

Financial position

framework agreement with the Scottish Government.

42. The SCS capital DEL budget increased by £1 million after the 2013/14 Spring Budget Revision approved a capital budget of £12.450 million. This increase was agreed by the Scottish Government but was not formally documented in a clear audit trail. (**Action plan no.2**)
43. SCS income for the year exceeded the £35.0 million total limit on income set in the 2013 Spring Budget Revision by £1.092 million. Income received over the aggregate limit for the Scottish Administration should be repaid to the Scottish Consolidated Fund. This excess of income over the SCS limit is covered by the overall Scottish Government position against its overall limit on income for the Scottish Administration. SCS should ensure that it has clear agreement with the Scottish Government on any flexibility over its income limit and maintain a clear audit trail for this; the treatment of any excess over the limit should be formally agreed with the Scottish Government. (**Action plan no. 3**)

Capital expenditure

44. The Scottish Court Service spent a total of £15.915 million on capital projects during 2013/14. This amount, resourced by matching underspend against Resource DEL (see Table 1 above), exceeded its total Capital DEL of £13.450 million. This was agreed by the SCS Board and enabled the SCS to reduce risk exposure through acceleration of backlog maintenance.

45. The five year £55 million redevelopment of Parliament House was completed during 2013/14, on time and within budget. SCS has also invested in improvements to court buildings and ICT during the year.
46. In our Annual Audit Plan we reported that there was a significant level of outstanding backlog maintenance required on the court estate. The SCS Board received additional funding of £6.5 million in 2013/14 towards addressing this backlog. By the end of 2013/14 the reported level of backlog maintenance had reduced to £43 million; a £10 million reduction over the course of the financial year.

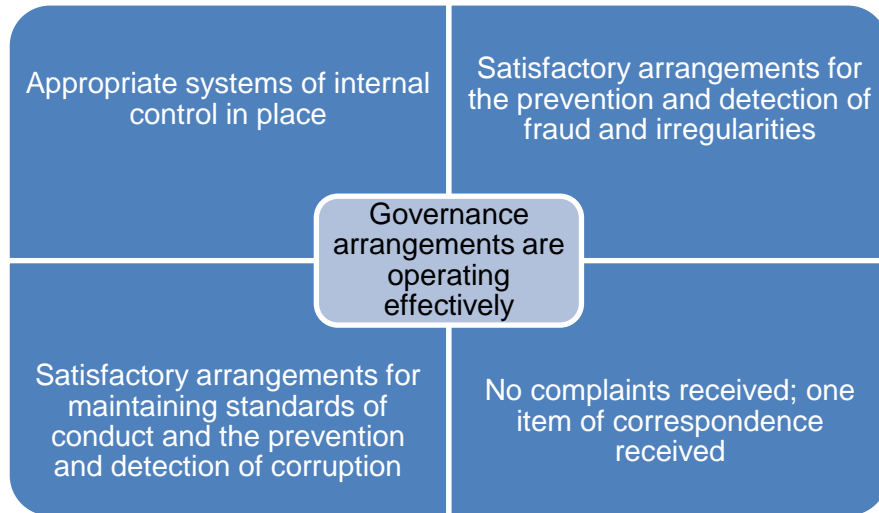
2013/14 financial position

47. The Statement of Financial Position showed that SCS had net assets of £409.935m at 31 March 2014, compared with net assets of £416.556m as at 31 March 2013. The downward movement was largely due to the impairment resulting from a full revaluation in 2013/14 of SCS's estate.

Outlook

48. SCS has received budget approval from the Scottish Government of £72.3 million for 2014/15. This represents a decrease of £14 million (16%) from 2013/14. SCS will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less.

Governance and accountability



49. The SCS Board and Accountable Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of SCS and for monitoring the adequacy and effectiveness of these arrangements.

Corporate governance

50. The corporate governance framework within SCS is centred on the SCS Board which is supported by a number of standing committees. Based on our observations and audit work, our overall conclusion is that the governance arrangements within

SCS are operating effectively.



Internal control

51. As part of our audit we reviewed the high level controls in a number of the key financial systems which feed into the financial statements. This review covered the main accounting system; payroll; trade receivables; trade payables; and cash and cash equivalents. Our overall conclusion was that SCS had appropriate systems of internal control in place during 2013/14.

Internal audit

52. The Scottish Government Internal Audit Division provides the Scottish Court Service and Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes. To avoid duplication, we place reliance on internal audit work where appropriate. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work.

Governance and accountability

53. The review of internal audit was carried out as part of our planning process and concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place.
54. Due to the nature of internal audit reviews in 2013/14, we did not place any formal reliance on internal audit for the purpose of obtaining direct assurances for our financial statements audit. We did take account of their work for the wider governance aspects of our audit. SCS may want to review internal audit's coverage over time to ensure there is coverage of all main financial systems.

Managing ICT contracts follow up

55. "Managing ICT contracts: an audit of three public sector programmes" was published in August 2012 and was selected for targeted follow-up during audit year 2013/14 in the central government sector. The overall aim of the targeted follow-up is to establish to what extent central government bodies have applied the 'lessons learned' from the original report to their ICT contracts and arrangements.
56. We have reviewed whether SCS has considered the 2012 report and made use of the challenge and scrutiny questions; we also assessed the governance arrangements in place for the ICT transformation programme. The SCS IT Director is aware of the findings of the national report. Given the pace and

scale of ICT change, coupled with the degree of dependency between ICT projects and core business delivery, the Audit Committee considers effective governance and delivery in this area a priority topic; the committee has requested an updated risk register and milestone/delivery chart at all future meetings. At this early stage in the ICT transformation programme, the governance arrangements established to date appear appropriate.

57. Representatives from all justice partners (including SCS met several times during 2014 to agree the Digital Strategy for Justice in Scotland. This national strategy sets out a number of high-level business objectives that are to be achieved across the justice sector in Scotland by 2017. Senior SCS staff from both ICT and business areas were directly engaged in the process of agreeing this new national strategy, ensuring that current ICT projects within SCS were aligned with these goals before the strategy was formally published in August 2014.
58. This scope of this activity is defined in the 2014-15 ICT Business Plan which defines a number of key strategic deliverables that support the national strategy, including:
 - the upgrade of the SCS wide area network to provide greatly improved data bandwidth to all courts;
 - the deployment of a wireless network capable of handling both secure and non-secure data;
 - the establishment of a Court Room IT Equipment Standard

Governance and accountability

and the commitment to ensure that at least 20 courts comply with this standard within the first year;

- the development of the scope for a new civil case management system to allow the required procurement exercise to commence; and
- the establishment of improved governance and risk management processes within the ICT department, that are better positioned to manage challenges anticipated over the next few years.

59. It is clear that both executive and non-executive management recognise the scale, impact and potential risks of the current portfolio of ICT projects within SCS. Throughout 2014 the Audit Committee has reviewed regular progress reports on these projects.

60. We anticipate that following the publication of the Digital Strategy for Justice in Scotland, the current single-year business plan may be developed into a full SCS Digital Strategy to support the national strategy. We will monitor developments in this area.

Arrangements for the prevention and detection of fraud

61. The Scottish Court Service's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.

62. Cash and banking anomalies were detected through the SCS peer review process at Selkirk Sheriff Court in 2013/14. Following an investigation by finance staff, a financial loss of around £4,500 was reported to the police. The progress of the police investigation has been reported to the audit committee. New accounting procedures, with supplementary staff training, have been put in place at Selkirk Sheriff Court.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

63. The arrangements for the prevention and detection of corruption in the Scottish Court Service are satisfactory and we are not aware of any specific issues that we need to record in this report.

Outlook

64. The Scottish Court Service participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error. Datasets have been submitted by SCS for the 2014/15 NFI exercise; data matches will be returned to SCS for investigation in January 2015.

65. The merger with the Scottish Tribunals Service in April 2015 will require the establishment of appropriate governance

Governance and accountability

arrangements including accounting requirements for the new body and detailed transitional plans to ensure a smooth transfer of business to one organisation.

Best Value, use of resources and performance

- 66. Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure 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.
- 67. The SCS Annual Report and Accounts 2013/14 state that, "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."
- 68. We reported last year that SCS had not formally considered the Scottish Government's guidance on best value in public services and may not be able to sufficiently demonstrate its arrangements for securing best value.
- 69. In developing its new Corporate Plan for 2014-2017, the SCS Board (informed by the work of its Corporate Plan Delivery sub-group) agreed at an early stage that best value should be one of the organisation's core strategic priorities. The Scottish Government guidance was taken as one of a range of reference sources used in this process. The revised Corporate

Plan features best value as Strategic Priority 9, and addresses the seven best value themes listed in the guidance.

Arrangements for securing Best Value

- 70. The Corporate Plan 2014-17 sets out the strategic priorities for the SCS to 2017. The SCS since 2010 has been going through a period of reform which has improved services and efficiency. This reform programme is currently planned to continue until 2017.
- 71. The Corporate Plan 2014-17 clearly links 'Better Services, Best Value' to reforms of the court service, civil and criminal justice. The SCS strategy map also demonstrates that best value principles underpin 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.
- 72. The current remit of the Audit Committee does not explicitly cover compliance with best value principles:
- 73. "The SCS Board established an Audit Committee to support it in its responsibilities in relation to issues of risk, control and governance by reviewing and challenging the comprehensiveness, reliability and integrity of assurances provided to them by the SCS Chief Executive (Accountable Officer)."
- 74. The Audit Committee's Annual Report to the Board 2013/14

Best Value, use of resources and performance

gives assurances to the Board on the above issues, but nothing explicit on monitoring compliance with best value principles. Drawing a more explicit conclusion on compliance with best value principles should assist the SCS to demonstrate that it is achieving best value. (**Action plan no. 4**)

Use of resources

75. The SCS's actions to improve services and efficiency have continued throughout 2013/14. These actions include significant capital investment in court buildings including Glasgow, Aberdeen, Forfar and Falkirk Sheriff Courts; completion of the redevelopment of Parliament House; closure of other court buildings; reduction of backlog maintenance by £10 million; and investment in ICT systems.

Performance management

76. SCS performance against the three year Corporate Plan and annual Business Plan objectives is reported regularly to the Board. Annual performance is reported publicly in the Annual Report and Accounts, which is available on the SCS website.
77. Performance returns for 2013/14 were submitted late by four sheriff courts in August, after the Annual Report and Accounts had been audited and signed. The figures were updated in the Annual Report and Accounts so that accurate figures would be publicly reported. To keep the Annual Report and Accounts laid before Parliament consistent with the version to be published on the SCS website, the accounts were re-signed and re-

dated, requiring additional work by SCS and the auditor. To avoid this in future, courts should submit their performance returns earlier. (**Action plan no. 5**)

National performance audit reports

78. A summary of national performance audit reports is included in appendix I. SCS has arrangements in place to consider national performance audit reports issued by Audit Scotland: the Audit Committee considers these reports and where appropriate, will highlight these for the Board's attention. It is good practice for public bodies to assess their own performance against national findings, with improvement actions identified if appropriate.

Scotland's public finances - a follow-up audit: Progress in meeting the challenges (June 2014)

79. During 2013, the auditors of 67 public bodies, including SCS, examined and reported on how the bodies are meeting the challenges of budget constraints. The 2014 follow up report provides a high-level summary of the main themes arising from the local audit work and identifies what more needs to be done. The report includes recommendations and a checklist to support central government non-executive directors' scrutiny of public finances.
80. We reported last year on SCS's progress in responding to the issues identified in the 2011 report "Scotland's public finances – addressing the challenges". We also recommended that the

Best Value, use of resources and performance

Board should consider the financial risks identified in the risk register as part of its financial planning process. We are pleased to report that the SCS Board included financial risks at its Corporate Plan and Risk Workshop in February 2014, prior to approving the 2014/15 budget and updated Corporate Plan in March 2014.

Scotland's public sector workforce (Nov 2013)

81. This report examines how public bodies have changed their workforces since 2009, what savings they have made and what they need to do in the future. Public bodies have used a range of measures including pay restraint, redeploying staff and changing working patterns to manage staff numbers and costs. However, continuing financial pressures mean current approaches are unlikely to deliver the savings needed in the future; bodies will need to consider other ways of delivering services such as redesigning services and more joint and collaborative working in addition to their current approaches to workforce planning.
82. The report includes recommendations on forecasting expected staff numbers, skill needs and costs, maximising opportunities to share resources and monitoring the age of staff to prepare for peaks in departures resulting from people leaving when they reach retirement age.
83. SCS has considered the national report and its People Committee keeps under review overall policy and strategic

direction in relation to staffing and building a skilled, engaged and motivated workforce. As a result of business and workforce planning over recent years, SCS has not had to reduce its workforce in 2013/14, although the continuing pressures on resources and the need to collaborate wherever possible are recognised. This is reflected in work currently under way within the SCS to:

- better understand the skills profile of staff
- formalise professional standards and development to ensure that the skills required to support the organisation are maintained across an evolving workforce and
- collaborate with justice partners to ensure that variations in demand and business pressures can be accommodated as effectively as possible.

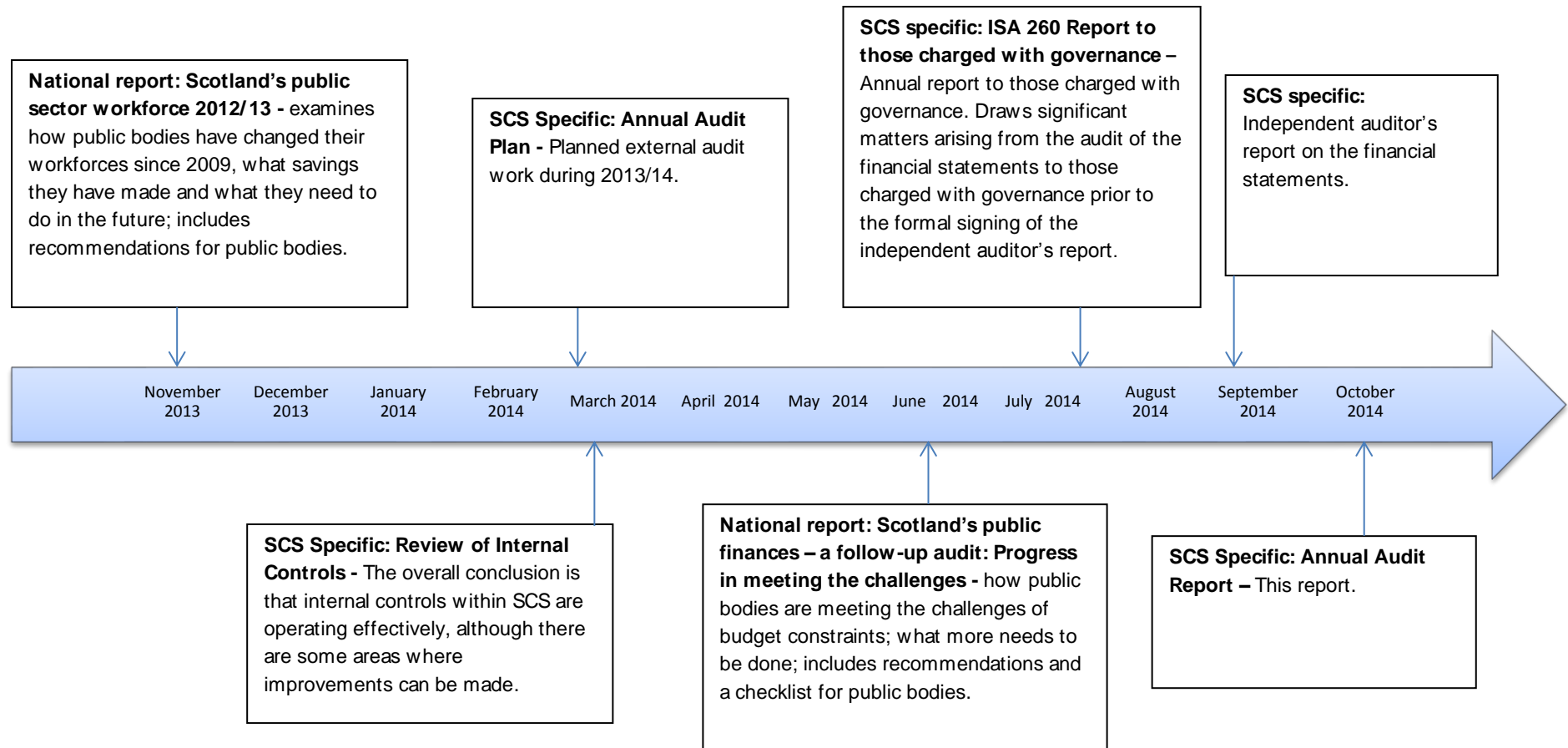
Outlook

84. Audit Scotland is currently undertaking a performance audit to assess whether court efficiency has improved since the publication of the national report “An overview of Scotland’s criminal justice system” in September 2011. The audit seeks to answer the following questions:
 - How efficient is the process for prosecuting criminal cases through the sheriff court system?
 - How has the Scottish Government’s programme Making Justice Work contributed to efficiency in prosecuting criminal cases through the sheriff court system?

Best Value, use of resources and performance

85. The audit report will be published in March 2015.

Appendix I – Summary of Audit Scotland reports 2013/14



Appendix II: Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure
<p>Budget pressures: the forecast SCS budget shows a reduction in available resources to 2015/16. This places increased pressure on the SCS to deliver its strategic priorities.</p>	<p>We have reviewed SCS’s reported 2013/14 financial position and the forecast budget for future years. We have recommended that some aspects of the budget setting and monitoring process are formalised.</p>
<p>Courts estate: Court buildings comprise the majority of the SCS’s non current assets (in excess of £400 million at 31st March 2013). Maintenance of the courts estate presents a significant pressure on the SCS budget; there is a significant maintenance backlog. Failure to adequately maintain these buildings is likely to lead to impairment of their value in the balance sheet.</p>	<p>We have reviewed SCS’s reported 2013/14 financial position. Reported backlog maintenance for the courts estate reduced by £10 million, to £43 million, during 2013/14. We considered the 5 yearly valuation of the courts estate as part of our financial statements audit testing. There was a significant impairment of court buildings in the revaluation.</p>
<p>Submission of draft accounts and annual report: the audit opinion on the financial statements requires us to read all the financial and non-financial information in the SCS Annual Report to identify material inconsistencies with the audited financial statements. Last year, the Lord President’s Foreword and the Chief Executive’s Foreword were not submitted at the same time as the draft accounts. A delay in submitting this information may lead to the audit opinion being delayed.</p>	<p>We agreed a timetable with management for the financial statements audit process and held regular progress meetings with finance staff during the audit process. The full unaudited Annual Report and Accounts, including all narrative, was available when we started the audit, in line with the agreed timetable.</p>
<p>SCS merger with Scottish Tribunals Service: The SCS will merge with STS in 2015 to create a new Scottish Courts and Tribunals Service; legislation governing this change will be introduced in early 2014. Detailed practical arrangements for the transition to the new service will need to be agreed well in advance between SCS and STS. There is also an increased risk of fraud and error in times of significant organisational change.</p>	<p>We have monitored the available information on SCS’s preparation for the merger and discussed progress with officers. The Courts Reform (Scotland) Bill which, along with other court reform provisions, creates the Scottish Courts and Tribunals Service was passed by MSPs on 7 October 2014.</p>

Appendix II – Significant audit risks

Audit Risk	Assurance procedure
<p>Revenue recognition: ISA240 requires us to recognise the risk of fraud where income streams are significant. 90% of SCS’s income is generated from fees and retained fines.</p>	<p>We reviewed relevant internal controls and performed audit testing of income and trade receivables. We concluded that we could take assurance from the systems of internal control. Audit testing results were satisfactory.</p> <p>We have reviewed progress by SCS, Scottish Government and internal audit in resolving previously reported problems with the SEAS ledger system. We confirmed with Finance that dunning letter functionality was restored in December 2013 and a lot of the backlog of aged debt has been cleared.</p>
<p>ICT investment programme: Following the recent strategic review of its ICT infrastructure and capability, the SCS needs to ensure that its ICT investment programme will create a robust, reliable and resilient IT infrastructure that will support emerging reforms to the civil and criminal justice systems. Development of the ICT infrastructure is critical to delivering SCS’s Corporate Plan objectives.</p>	<p>We have assessed the governance arrangements for the ICT investment programme in our follow up of the “Managing ICT Contracts” performance audit report.</p>

Appendix III – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
1/8	<p>Merger with Scottish Tribunals Service</p> <p>SCS will merge with the Scottish Tribunals Service to form the Scottish Courts and Tribunals Service from 1 April 2015. Detailed practical arrangements for the transition to the new service are still to be finalised. There is also an increased risk of fraud and error in times of significant organisational change.</p> <p>Risk:</p> <p>Appropriate arrangements are not established to ensure a smooth transition to a single body.</p> <p>Recommendation:</p> <p>SCS and STS should agree detailed implementation plans that cover the transfer of business to one organisation, including governance, accountability and financial reporting arrangements.</p>	<p>The SCTS will ensure a well governed and effective transition takes place – following all appropriate accounting rules in relation to the financial aspects of the merger. The importance of experienced and dedicated resource to manage the process was recognised from the outset – with the establishment of a merger project under the auspices of the “ Making Justice Work 1” Programme Board and the appointment of a dedicated project manager.</p> <p>Amongst the project workstreams is a specific finance and accounting group and a Transitional Arrangements Group has also been established across Corporate Service functions.</p>	Chief Finance Officer	1 April 2015

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2/10	<p>Audit trail for budget amendments</p> <p>The agreement of a £1 million addition to the 2013/14 capital budget after the 2013 Spring Budget Revision was not formally recorded in a budget amendment order or other formal acknowledgement from the Scottish Government.</p> <p>Risk:</p> <p>SCS does not have a clear audit trail recording the Scottish Government’s agreement of the SCS budget.</p> <p>Recommendation:</p> <p>Budget amendments outwith the Budget Act and Autumn/ Spring Budget Revision should be formally recorded to maintain a clear audit trail.</p>	<p>The addition was the subject of formal written agreement with the Scottish Government; however we will strengthen the process by creating a formal reporting procedure underpinned by strengthened Budget Management Processes in Finance.</p>	Chief Finance Officer	1 April 2015

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3/10	<p>Excess of retained income over the total limit on income</p> <p>SCS's 2013/14 income of £36.092 million was £1.092 million over the £35 million limit on retained income set in the 2013 Spring Budget Revision. The SCS income limit is part of the overall Scottish Government budget management.</p> <p>Risk:</p> <p>A breach of the SCS limit may create pressure on cash management in other areas of the Scottish Government.</p> <p>Recommendation:</p> <p>Retained income should be monitored to ensure the limit set in the Budget Act and any Autumn/ Spring Budget Revision is not breached. SCS should ensure that it has clear agreement with the Scottish Government on any flexibility over its income limit and maintain a clear audit trail for this; the treatment of any excess over the limit should be formally agreed with the Scottish Government.</p>	<p>Alignment to 2/10. We will formally maintain the retained income agreement limit set in the Budget Act and maintain close and recorded contact with the Scottish Government on flexibility and utilisation, ensuring budgets are accurately reflected and within limits.</p>	Chief Finance Officer	1 April 2015
	<p>We will consider the establishment of a Pricing Unit within Finance Division to set, monitor and control fee and fine income which, by its very nature, is subject to fluctuation that needs to be managed</p>	Chief Finance Officer	1 August 2015	

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4/16	<p>Best Value Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure best value. Current arrangements for securing best value lack appropriate monitoring of compliance with best value principles.</p> <p>Risk: SCS may not be able to fully demonstrate that it is achieving best value.</p> <p>Recommendation: SCS should review the Audit Committee’s remit in respect of monitoring best value principles and how this is to be achieved and fully demonstrated.</p>	<p>The SCS has a full range of structures and processes including regular reporting to the Board, to ensure that best value considerations are well embedded throughout all of our activities. To reinforce this, the remit of the SCS Audit Committee will be amended to clarify that it provides assurance on the delivery of objectives that support best value.</p> <p>In addition the 2014-17 Corporate Plan and 2015-16 Business Plan contain specific objectives relating to funding and best value. All Business Plan Objectives will be subject to periodic progress reporting to the SCS Board.</p>	Chief Finance Officer	1 April 2015

Appendix III – Action plan

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5/16	<p>Performance reporting</p> <p>Performance returns for 2013/14 were submitted by four sheriff courts in August, after the accounts had been audited and signed.</p> <p>Risks:</p> <p>SCS performance reporting within its Annual Report and Accounts is inaccurate and late; additional unplanned audit work incurs an additional audit fee.</p> <p>Recommendation:</p> <p>SCS should ensure that all courts update their records on a timely basis so that the information is available within a reasonable period.</p>	<p>A new monthly checking process has been introduced to ensure that any late submissions are quickly identified and followed-up. This will ensure that complete and accurate returns are available for production of the Annual Report and Accounts.</p>	<p>Head of Management Information Analysis Team</p>	<p>Complete</p>