AUDIT SCOTLAND

Scottish Court Service

Annual audit report 2014/15

August 2015

Contents

The Auditor General for Scotland appoints external auditors to central government bodies (www.audit-scotland.gov.uk/about/ags). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

This report has been prepared for the use of the Scottish Courts and Tribunals Service and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the audit committee. The information in this report may be used by Audit Scotland in any reporting to the Scottish Parliament.

Key contacts

Angela Cullen, Assistant Director
ACullen@audit-scotland.gov.uk

Rachel Browne, Senior Audit Manager
RBrowne@audit-scotland.gov.uk

Mick Duff, Senior Auditor
mduff@audit-scotland.gov.uk

Audit Scotland
18 George Street
Edinburgh
EH2 2QU

Telephone: 0131 625 1500

Website: www.audit-scotland.gov.uk

Key Messages

Audit of financial statements	• The independent auditor's report on the 2014/15 financial statements is unqualified. • The 2014/15 annual accounts included severance costs of £312,000 and we ensured that these payments met with the Scottish Government's approval process for voluntary severances.
Financial management and sustainability	• The financial position of the Scottish Court Service remains stable with the body operating within its available income and funding. • Net expenditure of £65.349 million was within the DEL budget of £66.142 million. This included expenditure in relation to merger costs of £0.931 million (which was within the additional budget provided of £1.078 million). • Capital expenditure of £8.670 million exceeded the £7.800 million Capital DEL budget; this was largely offset by the revenue underspend. The capital overspend was agreed with the Scottish Government. • Net asset position of £427.790 million. • 2015/16 budget of £87.5 million comprising an operating budget of £80.0 million and a capital budget of £7.5 million. • The Scottish Court Service had satisfactory financial management arrangements in place and systems of internal control operated effectively.

Governance and transparency	• The Scottish Court Service's governance arrangements operated effectively in 2014/15. • Arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory. • There is scope to improve the transparency of governance arrangements.
Value for money	• The Scottish Court Service applied good practice in planning and delivering the merger with the Scottish Tribunals Service. • The Scottish Court Service is refining its arrangements for assessing and reporting its delivery of best value. • A national performance audit on the efficiency of processing criminal cases through sheriff courts was ongoing through 2014/15 and is due for publication in September 2015.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of the Scottish Court Service. 2014/15 was the final year of the Scottish Court Service prior to the merger with the Scottish Tribunals Service on 1 April 2015 to form the Scottish Courts and Tribunals Service (SCTS).

2. The management of Scottish Court Service is responsible for:
   - preparing financial statements which give a true and fair view, in accordance with the relevant financial reporting framework
   - ensuring the regularity of transactions, by putting in place systems of internal control
   - maintaining proper accounting records
   - preparing and publishing with their financial statements an annual governance statement and a remuneration report

3. Our responsibility, as the external auditor of the Scottish Court Service, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.

4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; that have been prepared by management with the oversight of those charged with governance. This does not relieve management of their responsibility for the preparation of financial statements.

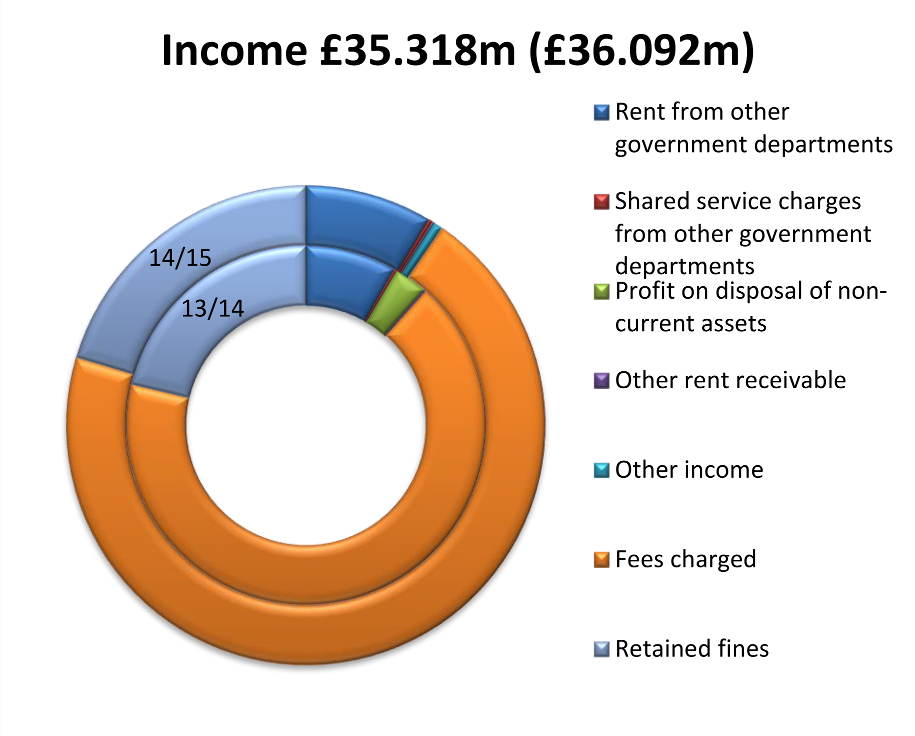
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports are summarised at **appendix II** and **appendix III**.

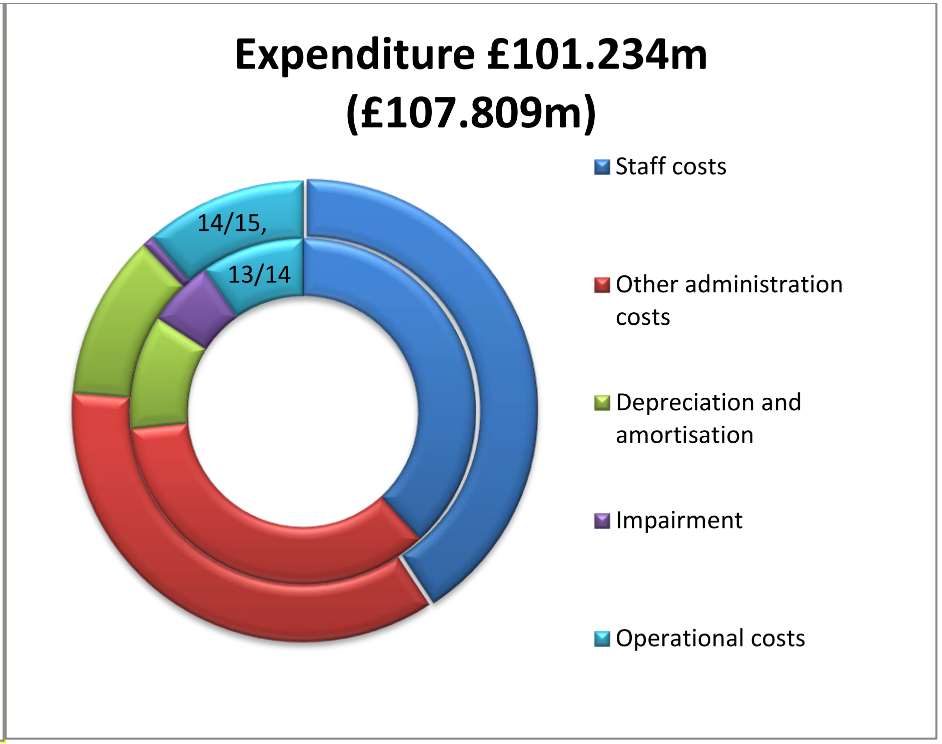
6. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified from the audit. We recognise that not all risks can be eliminated or even minimised. What is important is that SCTS understands its risks and has arrangements in place to manage these risks. The Audit and Risk Committee should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.

7. 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.

8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

2014/15 financial statements





The financial statements show that income of £35.318 million is £0.774 million (2%) less than last year. This is due mainly to a £0.037 million loss on the disposal of assets in 2014/15 (in 2013/14 there was a profit of £1.056 million on disposal). The loss on disposal was partly off-set by other income of £0.215 million (2013/14: £0.001 million).

Expenditure of £101.234 million is £6.575 million (6%) less than last year. This is due mainly to a reduction in other administration costs to £35.931 million (2013/14: £37.936 million) and a reduction in impairment to £0.820 million (2013/14: £6.715 million), off-set by increased operational costs of £11.481 million (2013/14: £10.423 million).

Audit of the 2014/15 financial statements

Audit opinions

Financial Statements	• The financial statements of the Scottish Court Service for 2014/15 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. • We confirm that the financial statements have been properly prepared in accordance with the 2014/15 FReM and the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions.
Regularity	• In all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.
Other prescribed matters	• The part of the Remuneration Report to be audited has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions. • The information in the Management Commentary is consistent with the financial statements.

Submission of financial statements for audit

9. We received the unaudited financial statements on 1 June 2015 in accordance with the agreed timetable. They were substantially complete with the exception of some pension benefits information from MyCSP, the pension scheme administrator. The working papers provided were of a high standard and the staff provided good support to the audit team. We completed our on-site fieldwork on 26 June 2015.

10. The audit trail of supporting documents for the exit packages disclosed in Note 2 of the financial statements was incomplete. The Scottish Court Service (SCS) did not hold copies of the offer letter and employee acceptance for each exit package. Further paperwork was obtained by SCTS from MyCSP, the pension scheme administrator. MyCSP issues and receives these documents on behalf of SCS as the pension scheme administrator is responsible for the administration of exit package payments. We have now received sufficient documentation to support the disclosures in Note 2. Going forward, SCTS should ensure that it retains copies of all documentation for exit packages. **Action Plan no. 1**

11. When preparing the unaudited accounts, SCS Finance staff asked our opinion on the accounting requirements for the disclosure of the costs of the merger with the Scottish Tribunals Service. Following discussion between the audit team, our Technical Services Unit and SCS Finance, the merger costs were extracted and separately disclosed in the primary financial statements, in line with the accounting requirements for exception items. 2014/15 expenditure in relation to the merger totalled £0.931 million against a budget of £1.078 million. The adjustment had no net effect on the primary financial statements.

Overview of the scope of the audit of the financial statements

12. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit and Risk Committee on 27 April 2015.

13. 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 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

14. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance.

15. **Appendix I** sets out the significant audit risks identified at the planning stage and how we addressed each risk in arriving at

our opinion on the financial statements.

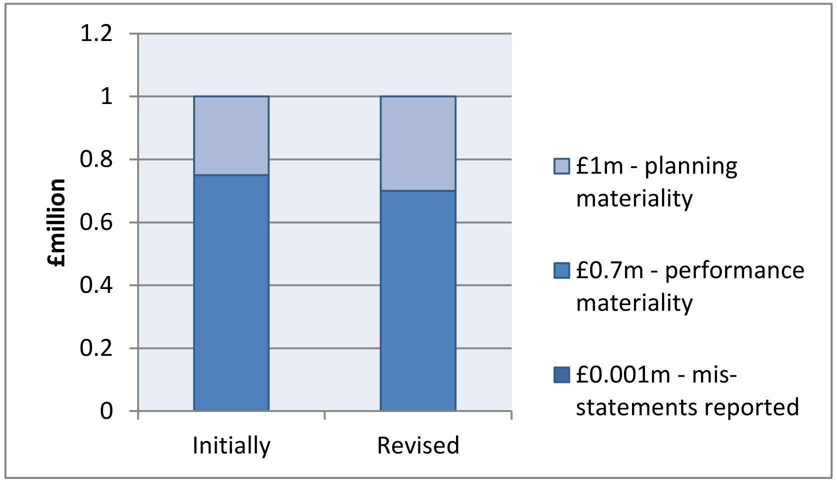
16. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

17. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other qualitative reasons (for example an item contrary to law).

18. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

19. We summarised our approach to materiality in our Annual Audit Plan. Based on the financial statements, we reviewed our materiality levels and concluded that our original calculation remained appropriate (1% of gross expenditure). Initial materiality levels were based on the audited 2013/14 financial statements and revised levels are based on the unaudited 2014/15 financial statements. Performance materiality of £0.7 million is determined to ensure that uncorrected and undetected audit differences do not exceed our planning materiality level. We report all misstatements greater than £0.01 million.



Evaluation of misstatements

20. All misstatements identified during the audit, which exceeded our misstatement threshold, have been amended in the financial statements (see paragraphs 23 and 24 below).

Significant findings from the audit

21. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit:

- The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and disclosures.

- Significant difficulties encountered during the audit.
- Significant matters arising from the audit that were discussed, or subject to correspondence with management.
- Written representations requested by the auditor.
- Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

22. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The main adjustments are summarised below:

23. Capital commitments in Note 11 were decreased by £50,000 to match the relevant invoices. This was a change to Note 11 only and did not affect the primary financial statements.

24. £70,000 was added to third party assets in Note 16 to include the Government Banking Service balance. This was a change to Note 16 only and did not affect the primary financial statements.

25. A Directors' Report was not included in the Management Commentary for 2014/15. A Directors' Report is a requirement of the 2014/15 FReM. We are satisfied that the disclosure requirements for the Directors' Report were included elsewhere. For 2015/16, SCTS should ensure that the new FReM requirements are included in the Annual Report and Accounts (refer paragraphs 33 and 34).

Future accounting and auditing developments

Revisions to the Financial Reporting Manual (FReM)

26. The financial statements are prepared in accordance with the Government financial reporting manual (FReM). Two significant revisions will apply from 2015/16:

- Adoption of IFRS13 *Fair value measurement* for the first time – this also includes IAS 16 and IAS 38 adaptations.
- Simplification and Streamlining Project – changes to the form and content of the annual report and accounts.

27. **International Financial Reporting Standards (IFRS) 13 Fair value measurement:** sets out the requirements for assets to be valued at fair value and is applied in full by the FReM only to assets that are not held for their service potential (i.e. investment properties and assets held for sale). It also applies to operational assets which are surplus to requirements where there are no restrictions on disposal which would prevent access to the market.

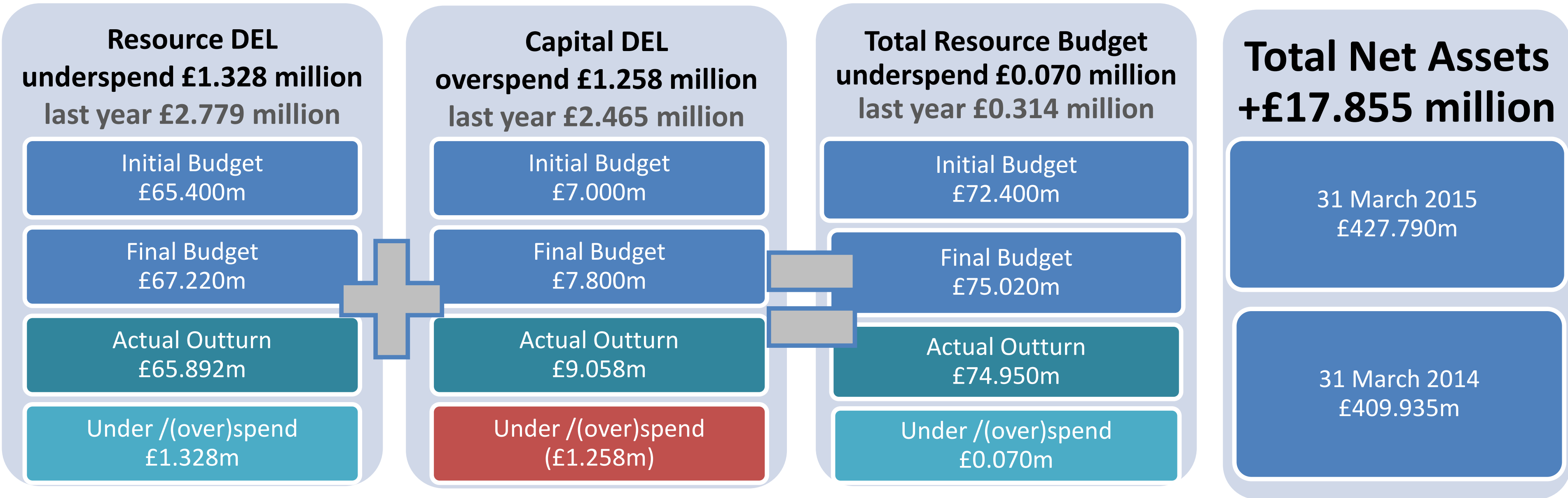
28. IFRS 13 does not apply to operational assets which are in use delivering front line services or back office functions, and surplus assets with restrictions on their disposal. These will be valued in accordance with the adaptions to *IAS (International Accounting Standard) 16 property, plant and equipment.*

29. **Restructuring of the annual report**: the 2015/16 FReM has been extensively re-written to require the annual report and accounts to include:

- a performance report which will give a fair, balanced and understandable analysis of performance and will include and overview section and a performance analysis section.
- An accountability report incorporating the following three main sections:
  - corporate governance report consisting of a directors' report, a statement of the Accountable Officer's responsibilities and a governance statement
  - remuneration and staff report which will cover a number of prescribed disclosures including remuneration policy, payments to directors, staff numbers and sickness absence rates
  - parliamentary and accountability report which will include information on the regularity of expenditure and the independent auditor's report.

30. SCTS should consider the new FReM disclosure requirements and ensure that these are included in the 2015/16 Annual Report and Accounts. **Action Plan no. 2**

Financial management and sustainability



In addition to its resource budget above, Scottish Court Service also had capital (£0.415 million) and revenue (£0.940 million) AME budgets, which were overspent by £0.405 million and £0.061million respectively

31. The main financial objective for the Scottish Court Service is to ensure that the financial outturn for the year is within the resource budget allocated by Scottish Ministers. The Scottish Court Service operated within the resource budgets for 2014/15 as detailed above. The £0.466 million AME overspend was driven by the write down of closed courts to market value and was agreed with the Scottish Government.

32. During the year, the Scottish Court Service received funding of £1.078 million to support the estimated costs of the merger with the Scottish Tribunals Service. Actual expenditure in relation to merger costs in 2014/15 totalled £0.931 million.

2014/15 financial position

33. At 31 March 2015 the Scottish Court Service's statement of financial position shows an increase in total equity of £17.855 million. This can be attributed mainly to additions to property, plant and equipment, the revaluation of land and buildings in line with the SCS accounting policy and a reduction in current liabilities.

34. The financial position of the Scottish Court Service remains stable with the body operating within its available income and funding (on an accounting and resource basis); an excess of total and current assets over liabilities and positive cashflows (taking into account Scottish Government grants).

35. The 2015/16 budget was approved by the Scottish Parliament in February 2015. The total budget of £87.5 million comprises an operating budget of £80.0 million, and a capital budget of £7.5 million.

Financial management

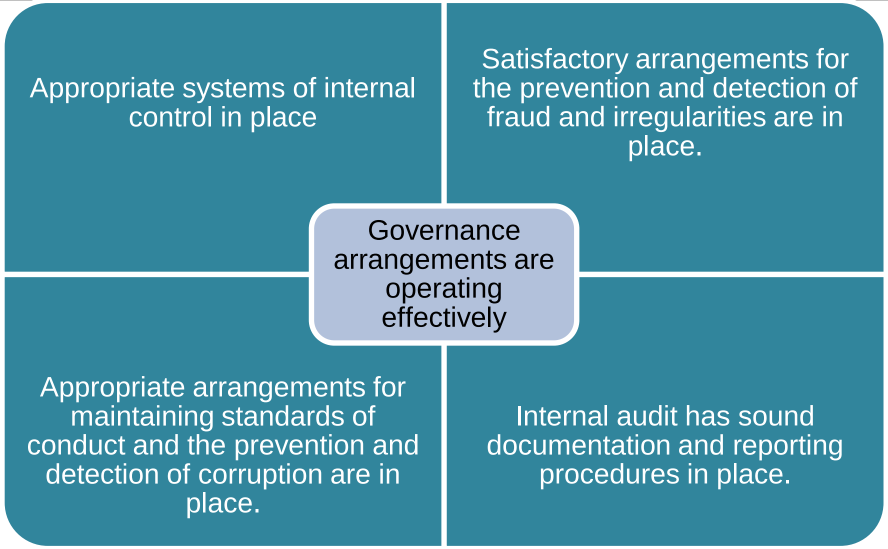
36. As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the Director of Finance has sufficient status to be able to deliver good financial management
- standing financial instructions and standing orders are comprehensive, current and promoted within the body
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance
- members provide a good level of challenge and question budget holders on significant variances

37. The Board approved the SCTS business plan and budget for 2015/16 at its 23 March 2015 meeting.

38. Based on our accumulated knowledge, our review of board papers and through our attendance at committees we have concluded that the Scottish Court Service had satisfactory financial management arrangements in place during 2014/15.

Governance and transparency



Corporate governance

39. The Accountable Officer for the Scottish Court Service is the Chief Executive, answerable to the Scottish Government's Principal Accountable Officer and Scottish Ministers. The Accountable Officer and the SCS Board are responsible for establishing arrangements for ensuring the proper conduct of the affairs of the Scottish Court Service and for monitoring the adequacy of these arrangements.

40. The Board is supported in its role by a number of standing committees as illustrated below:

41. The SCS Board met on seven occasions in 2014/15. Committees met quarterly, with the exception of the Remuneration Committee - which met once to review the remuneration of SCS members who are not salaried public servants.

42. We concluded that the Scottish Court Service has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

Transparency

43. The Scottish Government's On Board guidance (http://www.gov.scot/Publications/2015/04/9736/0), for board members of public bodies was updated and reissued in April 2015. On Board states that boards should demonstrate high standards of corporate governance at all times including openness and transparency in decision making. It recommends boards should consider:

- holding an annual open meeting
- holding board meetings in public unless there is a good reason not to
- publishing summary reports and/or minutes of meetings
- inviting evidence from members of the public in relation to matters of public concern
- consulting stakeholders and users on a wide range of issues
- making corporate plans and the annual report widely available.

44. Meetings of the Board and committees are not open to members of the public, although the minutes are available on the SCTS website. We recognise that some matters may be confidential or sensitive in nature and as a result may need to be discussed in private. However there are some areas that would not be considered confidential and could be made more accessible to the public. For example, in the minutes of the two most recent SCTS Board meetings, only two agenda items were considered confidential and exempt from publication.

45. SCTS could improve the transparency of its decision making by holding some of its meetings in public, and making more Board and committee papers publicly available. **Action Plan No.3**

46. Audit Scotland also believes in transparency of financial reporting within the Annual Report and Accounts including:

- a clear reconciliation between expenditure and the outturn against Scottish Government Resource budgets.
- identification of, and explanation of, any significant movements in budget during the year.

47. The Scottish Court Service included disclosure of these areas in the Management Commentary and at Note 17 in the 2014/15 Annual Report and Accounts.

Internal control

48. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain sufficient audit evidence to support our opinion on the financial statements.

49. We sought some clarification and confirmation of factual accuracy of our draft audit findings; officers needed to investigate further to answer some of our queries, which

delayed the issue of our interim audit report. We reported our findings to the Interim Director of Finance on 21 July 2015 and the Audit and Risk Committee on 3 August 2015.

50. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the organisation's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Internal audit

51. Internal audit provides the Audit and Risk Committee and Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes. 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. Internal audit is provided by the Scottish Government Internal Audit Directorate.

52. Our review of internal audit concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

53. The internal audit plan for 2014/15 was materially complete. We had planned to place reliance on Internal Audit's work performed on fees and fines income. Internal Audit indicated during their audit that they had identified some weaknesses and we chose to carry out further audit work of our own. Internal Audit's *'Court Fees and Retained Fines Income, including the OPG and Court of Session'* report concludes that reasonable assurance can be taken in this area.

54. In respect of our wider governance and performance audit work we have taken account of internal audit's 2014/15 work, particularly on the merger and corporate governance.

Arrangements for the prevention and detection of fraud

55. We assessed the arrangements for the prevention and detection of fraud during the planning phase of our audit. This involved reviewing the fraud policy and response plan and whistle blowing guidance. As noted at Appendix I, we planned and conducted specific assurance work to address identified audit risks relating to fraud.

56. We have concluded that there were satisfactory arrangements for the prevention and detection of fraud.

National Fraud Initiative in Scotland

57. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.

58. Auditors are required to assess the arrangements that bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

59. As part of this year's NFI exercise, the Scottish Court Service submitted Payroll and Creditors data. The matching process identified sixteen data matches for investigation with one of these "recommended" for investigation. Several matches relate to circumstances already known to the Scottish Court Service and this has been recorded on the NFI website but these matches have not been recorded as cleared on the NFI website. To date, one match investigation is recorded as "in progress". The outcomes recorded on the NFI website will be used to report nationally on public bodies' NFI participation and outcomes. No fraud has been identified from the investigations to date. When the NFI investigations are complete, we would expect the Audit and Risk Committee to receive a report on the results.

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

60. The Scottish Court Service had in place a range of activities designed to prevent and detect corruption and maintain standards of conduct including: a Code of Conduct, whistle blowing guidance and annual review of the Standing Orders.

61. Scottish Court Service board members complete "Register of Interests" forms which highlight where there may be a potential conflict of interest. This process is renewed annually. Details for board members are contained within the financial statements.

62. Based on our review of the evidence we concluded that there are appropriate arrangements in place for the prevention and detection of corruption and we are not aware of any specific issues that we need to record in this report.

Value for money

Arrangements for securing Best Value

63. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.

64. In our 2013/14 Annual Audit Report we recommended that the Scottish Court Service review the Audit Committee's remit in respect of monitoring best value principles. The remit of the committee (now the Audit and Risk Committee) has been revised to refer to its responsibilities in relation to best value.

65. The Scottish Court Service is refining its arrangements for assessing and reporting its delivery of best value. The Audit and Risk Committee considered a proposed best value assessment report template at its April 2015 meeting. It was agreed that the current Assurance Framework would be expanded to encompass best value themes where these were not currently covered, providing the committee with a summary of the arrangements in place. The committee also received a presentation from Audit Scotland on auditing Best Value at this meeting.

66. The committee agreed that the best value toolkits and guidance would be useful tools that could be used by the Executive Team to conduct self-assessment, which in turn would enhance the assurance framework. The importance of mainstreaming the delivery of best value activity into plans, strategies and reports was recognised. We will continue to monitor progress in developing these arrangements.

Local performance audit work

67. We reviewed SCS' arrangements for the merger with the Scottish Tribunals Service, including whether SCS applied the good practice guidance within Audit Scotland's report "*Learning the lessons of public body mergers"* in its approach.

68. We considered the following objectives:

- Did SCS establish good leadership and governance?
- Did SCS plan and implement the merger effectively?
- Did SCS estimate and record costs and savings?
- How will SCS measure performance following the merger?

69. SCS established good leadership and governance (proportionate to the scale of the merger) from the outset. In advance of the merger, SCS undertook a joint feasibility study with the Scottish Tribunals Service and the Scottish Government. The SCS Chief Executive was appointed Chief Executive of the merged SCTS in November 2013. A dedicated Project Team with representatives from both organisations managed the merger.

70. The Scottish Court Service planned and implemented the merger with the Scottish Tribunals Service effectively. The

SCTS went live as planned on 1 April 2015. SCS and STS decided that attempting to transfer IT fully on day one of the merger was too risky. IT will transfer over to the SCTS at a later date.

71. The Scottish Court Service prepared its Corporate Plan 2014-17 prior to the merger and it makes reference to the planned merger. The Corporate Plan has not been revised following the merger and we understand that currently there are no plans to do this. The SCS Corporate Plan does not provide a complete picture of the business of Scottish Courts and Tribunals Service. We recommend that a new Corporate Plan is prepared within 12 months of the merger date, which reflects the full range of services within the new merged organisation. The plan should provide a strong, strategic focus for the new organisation, including any further organisational change needed. This will help ensure the corporate plan is understood and owned by all SCTS staff. **Action Plan no. 4**

72. Costs of the merger were identified in the feasibility study. As previously identified, SCS incurred merger costs of £0.931 million in 2014/15. Merger costs were covered by the Scottish Government, managed by the Project Team and reported to the Project Board. SCS did not identify or deliver savings as this was not an objective of the merger.

73. Although the merger was not intended to deliver any specific benefits. The feasibility study identified potential benefits (e.g. potential for career progression, greater operational resilience). These were not explored further during the merger. It may have been useful to explore these further to identify whether any additional benefits could be gained from the merger of the two organisations. It is noted that these areas may be explored in future. **Action Plan no. 5**

74. SCTS will, in the main, continue to measure performance in the same way following the merger. There is no expected impact, positively or negatively, on SCTS performance that is directly attributable to the merger.

75. Overall, we concluded that the Scottish Court Service applied good practice in planning and delivering the merger.

National performance audit reports

76. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest. These are outlined in **appendix III**. We note that none of these reports have been considered by the Audit and Risk Committee. Audit Scotland is happy to provide briefings on national performance audit reports to the Audit and Risk Committee to help them consider their appropriateness and any actions that should be taken in response to them.

77. During the year, Audit Scotland has been carrying out a performance audit to assess the efficiency of prosecuting cases through Sheriff Courts. The audit sought 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?

78. The report is due to be published in September 2015. Audit Scotland is happy to provide a briefing to the Board and Audit and Risk Committee on this report in due course.

Appendix I – Significant audit risks

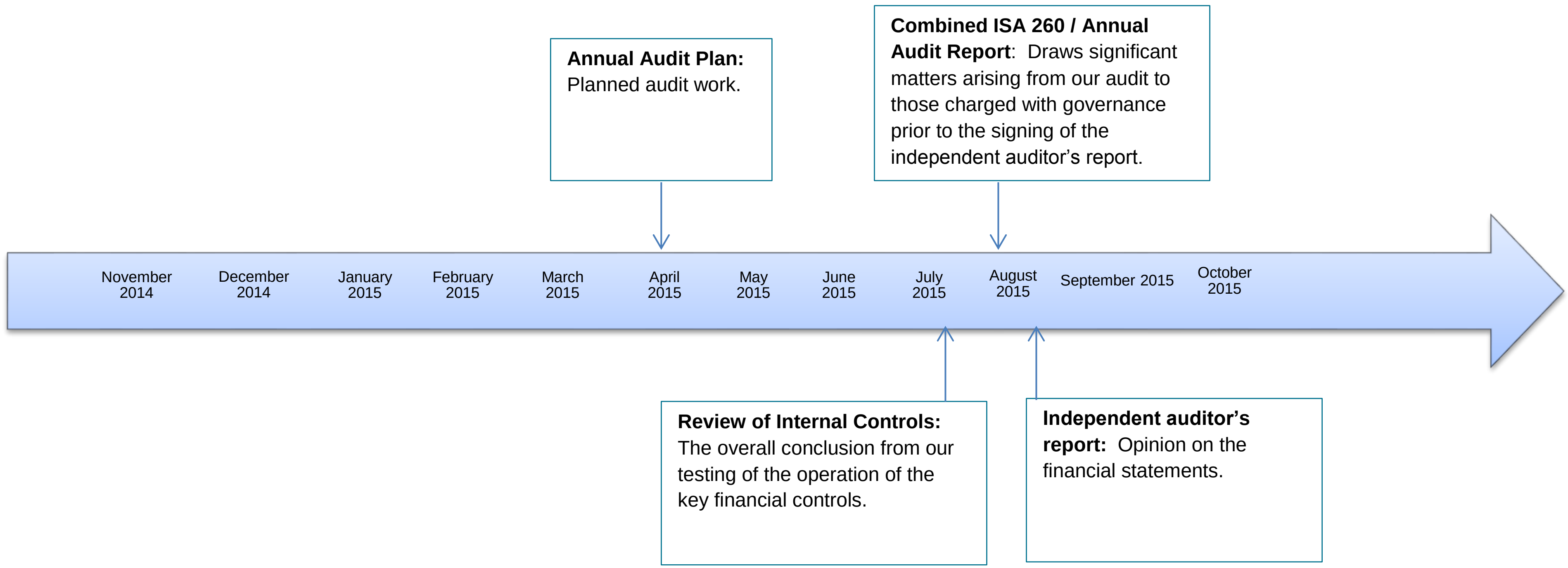
The table below sets out the audit risks, how we addressed each risk and our judgement in arriving at our opinion on the financial statements.

Audit Risk (identified in Annual Audit Plan)	Assurance procedure	Results and conclusions
Risk of material misstatement in financial statements		
Financial capacity Changes in and gaps in key Finance posts, in conjunction with additional work arising from the forthcoming merger, could result in attention being diverted from the preparation of the financial statements. This could lead to an increase in errors in the draft accounts requiring further audit work.	• We tested internal controls to confirm they operated throughout the year • We performed focussed substantive testing at year end • We reviewed arrangements in place to mitigate the loss of experienced staff • We met with officers to discuss audit expectations and confirm timeline for outputs	We concluded from our audit testing that internal controls were operating effectively during 2014/15. SCTS appointed an Interim Director of Finance who was responsible for overseeing the accounts preparation process. We concluded that the unaudited accounts were of a good standard.

Audit Risk (identified in Annual Audit Plan)	Assurance procedure	Results and conclusions
Risk of material misstatement due to fraud		
Income recognition ISA 240 *The auditor's responsibility to consider fraud in an audit of financial statements* requires auditors to presume a risk of fraud where income streams are significant. The Scottish Court Service receives over £30 million of income from fees and fines in addition to over £70 million funding from the Scottish Government. The extent of income means there is an inherent risk of fraud in accordance with ISA240.	• We reviewed relevant internal controls • We performed substantive testing of income and trade receivables • We planned to rely on Internal Audit's Fees and Fines Income report but when they told us during their audit they had identified some weaknesses, we conducted further testing of our own.	We concluded from our audit testing that income was correctly accounted for.
Financial Statements - management override of controls Auditing standards (ISA 240 *The auditor's responsibility to consider fraud in an audit of financial statements*) require auditors to consider, on all audits, management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.	• We performed detailed testing of journal entries • We reviewed accounting estimates • We evaluated significant transactions that were outside the normal course of business	We concluded from our audit testing that the 2014/15 journal entries, accounting estimates and judgments and significant transactions that we reviewed were appropriate.

Audit Risk (identified in Annual Audit Plan)	Assurance procedure	Results and conclusions
Audit risks from wider Code of Audit Practice responsibilities		
Merger with Scottish Tribunals Service Audit Scotland's June 2012 report "*Learning the lessons from public body mergers*" identified a number of areas where public sector mergers were not managed well. These included: • absence of permanent leaders early in the planning and implementation stages meant that some important decisions were deferred and key elements such as the long-term vision, objectives and structure were not well developed when the new body began to operate; • lack of clear, reliable and up-to-date information on costs and savings to allow public bodies to monitor, control and be accountable for the costs of the merger; • weaknesses in performance measures and baseline information made it difficult for merged bodies to demonstrate the impact of changes in the way they delivered services. Audit Scotland published a good practice guide along with its report. There is also an increased risk of fraud and error in times of significant organisational change.	• We assessed the SCS approach to the merger against Audit Scotland's good practice guide. • We reviewed anti-fraud and corruption policies and internal controls • We reviewed SCS' investigation of its National Fraud Initiative data matches.	We concluded that SCS followed good practice in planning for the merger. We concluded that arrangements for the prevention and detection of fraud were satisfactory.

Appendix II – Summary of local audit reports 2014/15



Appendix III – Summary of national reports 2014/15

May 2014 | June 2014 | July 2014 | August 2014 | September 2014 | October 2014 | November 2014 | December 2014 | January 2015 | February 2015 | March 2015 | April 2015 | May 2015 | June 2015

Scotland's public finances - a follow-up audit: Progress in meeting the challenges: Provides a high-level update on the financial position and on how public bodies are meeting the challenges of reduced public spending. It recommends that all public bodies should prepare a long-term financial strategy.

Superfast broadband for Scotland: a progress report: Assesses whether the Scottish Government and HIE have clear plans and arrangements in place to build their superfast broadband network in Scotland.

The rollout of superfast broadband may have implications for SCTS ICT projects.

Update on developing financial reporting: Reviews the principles of public financial management and provides an update on the actions the Scottish Government is taking to further develop financial reporting. It promotes transparency of financial reporting.

Managing ICT Contracts - update: an update on progress has found that the Scottish Government and central government bodies continue to encounter difficulties in managing Information and Communication Technology (ICT) programmes, through progress is being made to overcome these issues.

Appendix IV – Action plan

No. Para/page	Issue/risk/recommendation	Management action/response	Responsible officer	Target date
Financial audit Issues				
1 **10/7**	**Audit trail for exit packages** The audit trail for the exit packages disclosure in the financial statements was incomplete. Offer letters and employee acceptances were issued and received by the pension scheme administrator MyCSP on behalf of SCS; copies were not held by SCS. **Risk:** If all key documentation is not retained as an audit trail, SCS may not be able to demonstrate that exit packages are properly accounted for or that they demonstrate value for money. **Recommendation:** SCTS should retain copies of all documentation relating to exit packages, obtaining copies from third parties where relevant, to ensure there is a proper audit trail.	Agreed. The Human Resources Unit will review current processes to ensure that future copies of the offer letter and employee acceptance are retained on file.	Richard Maconachie Chief Finance Officer	August 2015

No. Para/page	Issue/risk/recommendation	Management action/response	Responsible officer	Target date
2 **30/10**	**Revisions to the Government Financial Reporting Manual (FReM)** The 2015/16 FReM requires significant changes to the disclosures within the 2015/16 Annual Report and Accounts. A performance report will be required, along with an accountability report comprising a corporate governance report; a remuneration and staff report; and a parliamentary and accountability report. Arrangements should be put in place to develop these disclosures (and retain any supporting documents as audit working papers). **Risk:** If SCTS does not comply with the FReM it may receive a modified audit opinion for 2015/16. **Recommendation:** SCTS should consider the new FReM disclosure requirements and ensure that these are included in the 2015/16 Annual Report and Accounts, adjusting the timetable for preparation if necessary.	Agreed. SCTS will ensure that the new FREM disclosure requirements are included in the Annual Report 15/16. We will prepare an outline 2015/16 Annual Report as a template.	Richard Maconachie Chief Finance Officer	December 2015

No. Para/page	Issue/risk/recommendation	Management action/response	Responsible officer	Target date
Wider audit issues				
3 **45/14**	**Transparency** SCTS holds its Board and committee meetings in private and the papers are not publicly available, although the minutes are published on the website. There are some areas of Board and committee business that would not be considered confidential and which could be made more accessible to the public. **Risk:** Holding all Board and committee meetings in private may not be seen as open and transparent decision making. **Recommendation:** SCTS should implement the recommendations relating to openness and transparency in decision making contained in the Scottish Government's 'On Board' guidance.	We will review our existing approach in relation to Board Meetings and meetings on issues that are likely to generate significant public interest. In doing so we will consider the appropriateness of open meetings in the context of the nature of the business of the SCTS.	Eric McQueen Chief Executive	28 February 2016

No. Para/page	Issue/risk/recommendation	Management action/response	Responsible officer	Target date
4 **71/18**	**Corporate plan for SCTS** The Corporate Plan 2014-17 was developed by the Scottish Court Service prior to the merger with the Scottish Tribunals Service. A new corporate plan for the Scottish Courts and Tribunals Service has not been prepared. **Risk:** The corporate plan does not give a full picture of the functions of the merged organisation. Failure to develop a revised corporate plan for SCTS may result in staff not understanding their role in contributing to or owning the strategy and direction of SCTS. **Recommendation:** SCTS should revise its corporate plan, by 31 March 2016, to reflect the full range of services within the new merged organisation.	The Board has taken the decision not to publish a revised SCTS corporate plan. The Corporate Plan sets out the three year ambitions for the SCTS, with the merger being a key deliverable. Both our framework agreement with the Scottish Government and our annual business plan now describe the operating environment, priorities and key relationships of the SCTS.	N/A	N/A

No. Para/page	Issue/risk/recommendation	Management action/response	Responsible officer	Target date
5 **73/18**	**Benefits realisation** The creation of the Scottish Courts and Tribunals Service from the merger of SCS and STS was not intended to realise savings or benefits. However, the feasibility study carried out to inform the merger identified that there was the potential to realise some benefits. **Risk:** The opportunity to identify and realise non-financial benefits from the merger may have been missed. **Recommendation:** SCTS should revisit the feasibility study and identify whether any benefits from the merger can be realised and build this into its corporate and business plans.	A Post-Implementation Review will be carried out next year to identify the benefits realised and whether there is an opportunity to realise more benefits.	Stephen Humphreys Executive Director Judicial Office	31 March 2016