



**Scott-Moncrieff**  
business advisers and accountants

# **Scottish Courts and Tribunal Service**

Annual report on the 2016/17 audit  
to Members and the Auditor General for  
Scotland

**August 2017**

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# Summary

## Annual report and accounts

SCTS approved the annual report and accounts for the year ended 31 March 2017 on 28 August 2017. We reported unqualified opinions on the financial statements, the regularity of transactions and on other prescribed matters.

## Wider Scope

The Code of Audit Practice frames the wider scope of public sector audit in terms of four dimensions. We summarise below our conclusions on each dimension:

### Financial management

- Adequate arrangements in place for financial management and the use of resources. However, weaknesses exist in the financial management of the ICMS development.
- Late adjustments caused a marginal overspend against the Departmental Expenditure Limit (£0.623million, 0.6%) and an overspend against Annually Managed Expenditure (£0.513m).
- We found the internal controls over the key financial systems to be adequate. However, the fees and fines control account had not been subject to sufficient review in 2016/17 resulting in a £1.2million un-reconciled balance.

### Governance and transparency

- SCTS has appropriate overarching governance arrangements in place. However, governance arrangements over ICMS require strengthening.
- SCTS should continue to examine the scope to introduce greater openness and transparency in governance arrangements going forward.
- SCTS has an established risk management framework subject to ongoing development.
- Arrangements for the registration of interests could be made more transparent.

## Conclusion

This report concludes our audit for 2016/17. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International

- An overspend of £0.623million (0.6%) against DEL resource allocations in 2016/17.
- Expenditure has risen by £11.213million (9%) to £131.886million principally due to the cost of judicial pensions recognised from 2016/17.
- Income has risen by £1.026million (4%) to £38.037million due to increases in fees charged.
- Total non-current assets held of £442.624million.
- Capital additions of £14.249million.
- £10.43million gain on property revaluations recognised in 2016/17.

### Financial sustainability

- SCTS has effective arrangements in place for annual financial planning. However, it has not yet fully developed medium or long term financial plans and all of the related supporting strategies. As noted in 2015/16, SCTS cannot currently demonstrate how it will deliver its key priorities within the available financial resources over the medium or longer term.
- Turnover of staff within the finance team has acted as an obstacle to the further development of the finance function.

### Value for money

- Generally effective performance arrangements are in place and performance against KPIs and business outcomes is monitored regularly.
- There is significant scope to enhance the project management arrangements over the ICMS development. After two years, the development is approximately £0.6million over the original planned 10 year life-cycle cost and does not yet deliver the expected functionality.
- SCTS maintains an assurance and best value framework that outlines the key assurance sources available to the organisation.

Standards on Auditing (UK and Ireland) and Ethical Standards.

**Scott-Moncrieff  
August 2017**

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# Introduction

# Introduction

## Overview

1. This report summarises the findings from our 2016/17 audit of the Scottish Courts and Tribunal Service (“SCTS”).
2. We outlined the scope of our audit in the external audit plan, which we presented to the Audit and Risk Committee in January 2017. The core elements of our audit work in 2016/17 have been:
  - an interim audit, taking into consideration the work of internal audit, of accounting systems and governance arrangements;
  - an audit of the 2016/17 annual report and accounts, including a review of the governance statement;
  - a review of arrangements as they relate to the four dimensions of wider-scope public audit: governance and transparency, financial management, financial sustainability and value for money;
  - consideration of SCTS’s arrangements for taking part in the National Fraud Initiative data-matching exercise; and
  - consideration of the local impact of Audit Scotland’s national performance report [The Role of Boards](#).
3. SCTS is responsible for preparing annual accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses and risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report 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.
4. We discussed and agreed the content of this report with the Director of Finance and Procurement and the Chief Financial Officer. We would like to thank all management and staff for their co-operation and assistance during our audit.

5. This report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions. We give each recommendation a grading to help SCTS assess their significance and prioritise the actions required.

## Independence

6. We can confirm that we have complied with the Financial Reporting Council’s Ethical Standard. In our professional judgement, the audit process has been independent and our objectivity has not been compromised. In particular, there have been no relationships between Scott-Moncrieff and SCTS members or senior management that may reasonably be thought to bear on our objectivity and independence.
7. We are required by International Standards on Auditing to communicate on a timely basis all facts and matters that may have a bearing on our independence.
8. The audit fee reported in our external audit plan was £85,000. Due to additional audit work being required (over and above that assumed in the audit plan) in order to gain sufficient assurance over the completeness and accuracy of the data held within the integrated civil case management system (ICMS), it was agreed with the Director of Finance to increase the audit fee to £89,000.

9. As disclosed within the SCTS financial statements, SCTS purchased non-audit services from Scott-Moncrieff totalling £23,304 during 2016/17. At the request of SCTS, Scott-Moncrieff assisted in the preparation of two business cases related to estates projects. The non-audit work consisted of reviewing the reasonableness and completeness of business case assumptions. This work did not involve management decision making and was undertaken by the Scott-Moncrieff Corporate Finance team, entirely separately from the Public Sector External Audit team.
10. In line with Audit Scotland planning guidance, approval was obtained from the Scott-Moncrieff ethics partner and Audit Scotland before commencing non-audit work.

## Adding value through the audit

11. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to SCTS through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help SCTS promote improved standards of governance, better management and decision making and more effective use of resources.
  12. We welcome any comments you may have on the quality of our work and this report via: [www.surveymonkey.co.uk/r/S2SPZBX](http://www.surveymonkey.co.uk/r/S2SPZBX).
  13. This report is addressed to both SCTS and the Auditor General for Scotland and will be published on Audit Scotland's website. [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
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# **Annual report and accounts**

# Annual report and accounts

## Introduction

14. SCTS's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. We outline the respective responsibilities of SCTS and the auditor in relation to the financial statements in Appendix 2.
15. In this section we summarise the issues arising from our audit of the 2016/17 annual report and accounts.

## Overall conclusion

### Unqualified audit opinions

16. SCTS approved the annual report and accounts for the year ended 31 March 2017 on 28 August 2017. We reported, within our independent auditor's report:
  - an unqualified opinion on the financial statements;
  - an unqualified opinion on regularity; and
  - an unqualified opinion on other prescribed matters.
17. We are also satisfied there are no matters that we are required to report by exception.

### Administrative processes were in place

18. We received the draft annual report and accounts and supporting papers of a high standard, in line with our agreed audit timetable. Our thanks go to all SCTS staff for their assistance throughout our audit.
19. Arrangements were in place to enable the annual report and accounts to be submitted to the Scottish Government and Auditor General for Scotland prior to the 31 October 2017 deadline.

## Our assessment of risks of material misstatement

20. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. We designed our audit procedures relating to these matters in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. We outline three significant risks below, with three further significant risks reported in the sections of this report financial sustainability, governance and transparency, and value for money.

## 1: Asset Valuation

SCTS holds a significant amount of high value estate (net book value of £418.116million in 2015/16). If this is not held at the correct value, this could result in a material misstatement in the financial statements. SCTS values its assets once every five years, with the last valuation being completed in 2014.



21. We have reviewed SCTS's approach to accounting for its assets and found that the treatment adopted complies with the 2016/17 Government Financial Reporting Manual (FR&M). The accounting policies for assets are appropriate and SCTS applied them consistently during the year.



22. At 31 March 2017, SCTS held property, plant and equipment to a value of £435.116million. The most significant elements of that balance were land (£33.102million) and buildings (£390.62million). In accordance with the FReM, all land and buildings have been subject to valuation by an external valuer every five years. Indexation is applied, at rates advised by the external valuer, in the years between full valuations. Where significant developments take place during the cycle they are subject to individual valuation. The latest full valuation was carried out as at 31 March 2014 with the next full valuation is expected as at 31 March 2019.

## 2: Revenue Recognition

Under ISA 240 - The auditor's responsibilities relating to fraud in an audit of financial statements, there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the SCTS could adopt accounting policies or recognise income in a way that materially misstates financial performance.



23. We have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements. To inform our conclusion we evaluated SCTS's key revenue streams and reviewed the controls in place over revenue accounting. We also carried out testing to confirm that the revenue recognition policy is appropriate and that it was consistently throughout the year.

## 3: Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA 240.



24. We have not identified any indications of management override in the year. We have reviewed SCTS's accounting records and obtained evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed the journal entries processed in the period and around the year end.

## Our application of materiality

25. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.
26. Our initial assessment of materiality for the financial statements was £2million, approximately 1.65% of SCTS's forecast expenditure. Upon receipt of the draft annual report and accounts we revised our materiality assessment to £2.2million, approximately 1.68% of reported expenditure.
27. Achieving a breakeven position through the application of both income and parliamentary funding is a key target for SCTS and one of the principal considerations for the users of the accounts when assessing financial performance.
28. We set a level of performance materiality for each area of work, which is based on a risk assessment for the area. We have performed audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we performed a greater level of testing on the areas deemed to be of significant risk of material misstatement.

Area risk assessment	Weighting	Performance materiality
High	40%	£0.88million
Medium	55%	£1.21million
Low	70%	£1.54million

29. We agreed to report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements.
  - Uncorrected misstatements over £50,000.
  - Misstatements below £50,000 that we believe warrant reporting on qualitative grounds.

### Other matters

30. As disclosed within the financial statements, 2016-17 is the first year that SCTS have recognised the following balances within the balance sheet:
- Fees and fines bank account and corresponding liability (increasing the cash and cash equivalent closing balances).
  - Compensation order and fines liability and corresponding bank balances (increasing the balance with Scottish Government).
31. The accounts disclose that it has been impracticable to adjust the comparative figures as SCTS did not collect the required information in prior periods in a way that readily allowed retrospective application. We found that the treatment and disclosure of this matter complies with accounting standards.

### Audit differences

32. We did not identify any systematic weaknesses in the accounting and internal control systems that we consider could result in a material misstatement in the financial statements. However, we comment below that the fees and fines control account had not been subject to regular review resulting in a £1.2million un-reconciled balance at the financial year-end.

33. We identified minor disclosure and presentational adjustments through the audit that SCTS reflected in the final financial statements. The adjustments, taken individually and in aggregate were immaterial to the accounts as a whole. There were no material adjustments to the draft financial statements arising from our audit.

### One unadjusted difference

34. As noted above, there was one unadjusted difference arising from our audit. At the outset of the audit, "Other receivables" within the balance sheet included a control account balance of £1.7million. Following investigatory work by SCTS, a £0.522million overstatement of income was identified and subsequently adjusted for in the financial statements. This matter was disclosed within the governance statement.
35. Due to difficulties in completing a comprehensive reconciliation of the fees and fines control account in time for the approval of the annual accounts, SCTS cannot state with certainty where the constituent parts of the remaining £1.2million balance should be posted. Reconciliations against the feeder income systems give reasonable assurance that income is not materially misstated. SCTS considers it most likely that the remaining £1.2million balance will be principally offset by entries within the "Corporate balance with Scottish Government", a payable within the balance sheet. SCTS consider this matter immaterial to the financial statements as a whole and we concur with that view.
36. The reconciliation of fees and fines is a particularly complex process with a very high number of low value transactions taking place daily. As commented upon earlier, 2016/17 was the first year that SCTS had recognised this balance within the financial statements and the workload associated with the required reconciliations was significant and only became apparent as the year progressed. Furthermore, the reconciliation process was hampered by the significant level of manual intervention required over ICMS data.

37. We initially identified a risk in relation to this control account reconciliation through our interim audit report. While SCTS considered that all reconciliations would be finalised in time for the approval of the annual accounts, in practice that target date has not been met.
38. There remains a risk to SCTS that key control account reconciliations are not being performed effectively. This could result in misstatements within the financial statements and reduced likelihood of detecting fraud or error. It is critical that SCTS put in place comprehensive reconciliation processes over the fees and fines control accounts as soon as is practicable.

#### Management action plan 4

#### Written representations

39. We have requested SCTS present a signed representation letter, covering a number of issues, to us at the date of signing the annual report and accounts. This letter includes specific confirmation of the unadjusted difference reported above.

#### An overview of the scope of our audit

40. We detailed the scope of our audit in our external audit plan. Our plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to SCTS. This ensures that our audit focuses on the areas of highest risk.

41. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.
42. At the planning stage we identified the significant risks that had the greatest effect on our audit. We then designed audit procedures to mitigate these risks. We base our standard audit approach on performing a review of the key accounting systems in place, substantive tests and detailed analytical review.
43. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work, we have applied the concept of materiality.
44. No additional significant risks, over and above those reported in our external audit plan, were identified during our work in 2016/17.

#### Regularity

45. We planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. We did not identify any instances of irregular activity.

### Qualitative aspects of accounting practices and financial reporting

46. We have considered the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our findings are summarised below:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We consider the significant accounting policies, which are disclosed in the financial statements, to be appropriate to SCTS.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting estimates and judgements used.	We consider the accounting estimates and judgements used by management in preparing the financial statements to be appropriate. The principal areas of estimates and judgements have been: property valuations, asset depreciation rates and the valuation of provisions. Where appropriate, SCTS has utilised the work of independent experts or sector practice to support the estimates made.
The potential effect on the financial statements of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the annual report and accounts or material inconsistencies with the financial statements.	The annual report and accounts contain no material misstatements or inconsistencies with the financial statements.
Any significant financial statements disclosures to bring to your attention.	There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or financial statements disclosure.	While some disclosure and presentational adjustments were made through the audit process, there was no material disagreement during the course of the audit over any significant accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

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# Financial Management

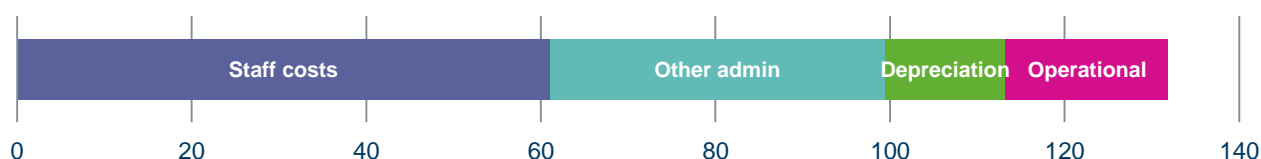
# Financial Management

47. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. SCTS is responsible for ensuring it conducts its financial affairs in a proper manner.

## Overall conclusion

48. SCTS has adequate arrangements in place for financial management and the use of resources. However, the value for money section of this report identifies weaknesses in the financial management of the ICMS development.

Principal expenditure streams in 2016/17 (£million)



Principal funding and income streams in 2016/17 (£million)



## Financial performance in 2016/17

### Late adjustments resulted in overspends against revenue allocations

49. The principal financial objective for SCTS is to work within the resource budget allocated to it by the Scottish Ministers.

50. The table below shows SCTS reported a marginal overspend of £0.623million (0.6%) against the DEL allocation principally due to the adjustment required to income identified from the late reconciliation of the fees and fines account (£0.522million, reported above).

Resource budget	Original budget £million	Revised budget £million	Actual outturn £million	Budget variance £million
Revenue - Departmental Expenditure Limit (DEL)	76.5	92.394	93.017	(0.623)
Revenue - Annually Managed Expenditure (AME)	-	0.23	0.743	(0.513)
Revenue – Notional auditor remuneration	-	-	0.089	(0.089)
<b>Revenue - total</b>	<b>76.5</b>	<b>92.624</b>	<b>93.849</b>	<b>(1.225)</b>

51. The overspend of £0.513million against AME allocations was due to adjustments made to the balance of provisions during the audit. In order to make the provision for dilapidations better reflect actual liabilities there was an increase of £0.667million in the provision. The draft financial statements presented for audit reported an underspend of £0.154million against DEL.

52. There was one significant revision (£10.1million) to the revenue budget during the year. This reflected the cost of judicial pensions falling to SCTS for the first time during 2016/17. Further minor variations also took place through the Scottish Government's Spring and Autumn budget revisions.

53. The principle variances in income and expenditure streams compared to 2015/16 were:

- Expenditure has risen by £11.213million to £131.886million, principally due to the cost of judicial pensions recognised from 2016/17.
- Government funding increased by £9.044million to £92.624million, principally due to the cost of judicial pensions falling to SCTS from 2016/17.
- Income has risen by £1.026million due to increases in fees.

#### SCTS invested £14.249million in assets

54. SCTS invested £14.249million in assets during 2016/17. This reflected a marginal underspend of £0.137million (1%) against a capital budget allocation of £14.386million. Asset additions comprised £11.705million in property, plant and equipment, and £2.545million in intangible assets. The major projects were:

Inverness Justice Centre £3.275million	Glasgow Sheriff Court £1.078million
Glasgow Supreme Court £1.533million	Integrated Case Management System £1.438million

## Financial control environment

### Adequate controls in place over the key financial systems

55. As reported within our interim audit report we found the internal controls over the key financial systems to be adequate. Our interim audit identified five areas where we considered that the control environment should be strengthened:

- Whilst a number of policies and procedures are in place across the finance functions, SCTS does not currently hold a set of comprehensive financial regulations, reflective of current and best practice, to guide the operations of all finance functions including those in the courts and tribunals.
- The format of some key account reconciliations has not been consistent during the year. In some cases the format of the reconciliations is still under development. In addition, evidence of secondary review of key account reconciliations is not retained
- SCTS has been implementing the new ICMS during 2016/17. The system enables the online processing for many payment actions. However, at present a high level of manual intervention is required before invoices can be processed.
- All officers with delegated authority to make purchases also have delegated authority to enter in to contracts. SCTS does not currently have certainty that the contract register is complete.
- Both Payroll and Human Resources staff have full access to the Resource Link system and both can make changes to standing data and process payroll. There is no evidence of secondary review of manual payroll calculations or of the last tax rate change input to the payroll system.

## Budget management and account receivables

56. During 2016/17 SCTS's internal audit service carried out a review of budget management and account receivables. Separate assurances were provided for each area to reflect that while controls were generally operating effectively, some specific improvements were identified.
57. Internal audit reported only limited assurance over accounts receivable, raising one high risk and two low risk recommendations. These findings were consistent with those reported within our interim audit report (commentary above) and focused on the impact of the implementation of the new ICMS:
- Invoice processing was subject to delays.
  - The process for raising invoices involved a transfer of information from ICMS to SCTS central finance following which invoices were raised manually.
  - A formal training plan had yet to be fully developed for the central finance team, which would cover the key elements of ICMS and surrounding processes.
58. Internal audit gave reasonable assurance over SCTS's budget management arrangements and noted a number of areas of good practice:

### Good practices in budget management identified by internal audit

- Formal delegated budget authority has been provided to the Chief Financial Officer setting out clearly and transparently the responsibilities for internal control.
- A robust process exists for the budget review.
- Three business partner roles have been created with clearly aligned areas of responsibility. The introduction of these roles has been welcomed by the business areas.
- Regular and comprehensive monthly 'business summary reports' are issued to business areas.
- Business summary reports include actuals, budgets, variances, forecast and trend analysis graphs which assists decision making.
- A monthly business summary report is presented to the executive team and a bi-monthly report to the SCTS Board.

## Internal Audit

59. The Scottish Government Internal Audit Directorate provides SCTS's internal audit service. To avoid duplication of effort and to ensure an efficient audit process we have taken cognisance of all of the work of internal audit.
60. To facilitate efficiency across a range of external audit appointments, Audit Scotland reviews the service provided by the Scottish Government Internal Audit Directorate. For 2016/17, Audit Scotland found the internal audit service complied with Public Sector Internal Audit Standards.
61. While we have not placed formal reliance on the work of internal audit in 2016/17 for our financial statements audit, we have taken account of internal audit's work in respect of our wider scope responsibilities. We are grateful to the internal audit team for their assistance during the course of our work.

## Fraud and irregularity

62. We have reviewed SCTS's arrangements for the prevention and detection of fraud and irregularities. Overall, we found the arrangements to be sufficient and appropriate.

## National fraud initiative

63. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error.
64. The NFI produces 'matches' by using data matching to compare a range of information held on bodies' systems to identify potential fraud or error. Bodies investigate these matches and record appropriate outcomes based on their investigations.
65. SCTS has only very limited exposure to the NFI and received two match reports directly, totalling 15 matches. We consider sufficient arrangements are in place for the investigation of matches and that the appropriate commitment has been demonstrated relative to SCTS's level of involvement in the NFI.



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# Financial sustainability

# Financial Sustainability

66. Financial sustainability looks forward to the medium and longer term to consider whether SCTS is planning effectively to continue to deliver its services or the way in which they should be delivered.

## Significant audit risk

67. As outlined in our audit plan, we considered there to be a significant risk to the wider scope of our audit in relation to financial sustainability:

## Financial sustainability

SCTS have identified the need to develop a long-term Financial Strategy and aimed to publish this by 31 December 2016. In addition, there was no People Strategy in place for 2015/16; SCTS set a target to publish this in January 2017.

If a long-term Financial Strategy is not in place, there is a risk that SCTS will not be able to deliver its key priorities within available resources over the longer term. It is necessary for SCTS to consider the needs of its workforce as part of its long-term financial planning.

## Overall Conclusion

68. SCTS has effective arrangements in place for short term financial planning. However, it has not yet fully developed medium or long term financial plans and all of the related supporting strategies. We consider the turnover of staff within the finance team has acted an obstacle to the further development of the finance function to date.

71. Budgets are principally prepared on an incremental basis, taking cognisance of the current year budget and forecast outturn. The executive team challenge the proposed budgets to ensure they are consistent with the content of the business plans. Any new areas of work are considered by the executive team through a zero based approach.

## Financial planning

69. The corporate plan sets out SCTS's strategic vision and priorities for the period 2017-20. Annually, a business plan is developed which sets out SCTS's operating environment and the desired business outcomes for the coming year. The business plan includes a high level financial summary based on the assumed level of funding that will be available. Each business unit prepares supporting business plans.
70. Budgeting is aligned to the business planning process. Business planning and budgeting guidance makes clear that the allocation of resources and agreement of budgets must be aligned to SCTS's strategic priorities. Objectives are set out by each business area as part of the business planning process and are subject to appropriate challenge.

## Long term financial plans

72. In the 2015/16 annual audit report to Members and the Auditor General for Scotland, Audit Scotland reported that while the corporate plan covered a three year period, SCTS had not prepared longer term financial plans.
73. Although 10 year financial projections have been prepared, SCTS is still in the process of developing a long term financial strategy in order to demonstrate the Service's financial sustainability. One aim of the strategy is to set out projected income, funding and expenditure over the next ten years. Once finalised, the strategy take cognisance of sensitivity analysis on variations in demand.
74. In due course SCTS expects the strategy to be updated to reflect outcomes from the evidence and procedure review which seeks to transform the way in which summary criminal cases are processed.

75. To date a baseline model of projected funding, income and expenditure has been developed to underpin the financial strategy and workshop style sessions have taken place with the executive team. Initial plans, in response to the 2015/16 annual audit report, were to have a long term financial strategy in place by 31 December 2016. The target date was not met.
76. As noted in 2015/16, SCTS cannot currently demonstrate how it will deliver its key priorities within the available financial resources over the longer term. SCTS should develop a long-term financial strategy that includes a clear understanding of its costs, savings options, scenario planning and how it will meet demand and deliver services. The long-term financial strategy should clearly link to other strategies including the corporate plan, people strategy and digital strategy.

***Management action plan 5***

**Asset management arrangements are in place**

77. Asset and estates management is undertaken through a 10 year estates strategy (2016-26) and the annual business plans for the property services unit (PSU). The PSU business plan contains financial details and all related budget papers are submitted for approval to the Estates, Health and Safety, Fire, and Security Committee. In due course, we would expect alignment between the financial strategy and the estates strategy.

**People strategy**

78. The 2015/16 annual audit report to Members and the Auditor General for Scotland also reported that SCTS was in the process of developing a People Strategy that would, set out the key priorities for maintaining and developing the workforce for the coming three to five years. SCTS initially planned to have the people strategy in place by 30 January 2017, but it has not yet been finalised.
79. As noted in 2015/16, without a current people strategy, succession planning, skills requirements and scenario planning for significant future changes (e.g. the potential for devolved tribunals) may not be properly addressed. SCTS should finalise and approve the people strategy as soon as possible. Progress against proposed actions should be regularly monitored by the People Committee.

***Management action plan 6***

**Turnover in the finance team**

80. There has been turnover of staff within the finance department in recent years. This has increased reliance on temporary staff and acted as an obstacle to the further development of the finance function. These challenges have been exacerbated by the impact of ICMS on the central finance team.
81. There remains a requirement for a high level of manual intervention over the financial aspects and outputs from ICMS. In practice, this has reduced the time available to the finance team for business as usual operations and may have led to the perception internally that the finance team does not have sufficient capacity to allow the required support, challenge and scrutiny to key projects within SCTS.

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# Governance & transparency

# Governance & transparency

82. Governance and transparency is concerned with the adequacy of governance, leadership and decision making, and transparent reporting of financial and performance information. SCTS is responsible for ensuring the proper conduct of its affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements

## Overall conclusion

83. SCTS has appropriate overarching governance arrangements in place. However, SCTS does not hold Board or committee meetings in public and arrangements for the registration of interests could be made more transparent. Additionally, the value for money section of this report identifies weaknesses in the governance of the ICMS development.

## Governance structure

84. The Lord President of the Court of Session is Chairman of the SCTS Board. The Board includes 13 other members: seven selected from the judiciary and six non-judicial members including the Chief Executive (Accountable Officer). The Board is supported by four committees:

SCTS Board			
People Committee	Estates, Health and Safety, Fire and Security Committee	Audit and Risk Committee	Remuneration Committee

85. It is common practice in the sector for executive directors (non-Board members) to attend Board meetings to represent their areas of delegated responsibility. The Chief Executive is the only executive SCTS Board member and we note that no other executive officer attends Board meetings as standard.

## The governance statement

86. We are satisfied that the governance statement within the annual report and accounts complies with the Scottish Ministers' guidance and that the content is consistent with the financial statements.

87. The Accountable Officer disclosed one significant issue in the 2016/17 governance statement:

*"Issues have been identified with the reconciliation processes in place for recognising fees and fines income, particularly with the implementation of ICMS. A misposting of £522k of fees income was identified and when adjusted has resulted in a DEL budget overspend of £486k. Finance continues to make improvements to key account reconciliations including secondary review of account reconciliations and journals."*

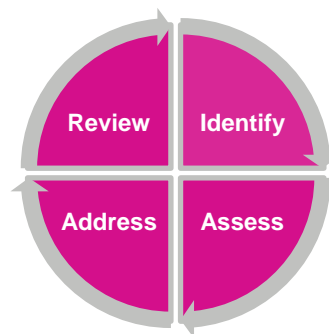
88. No other significant issues were raised and the reported position is consistent with the internal audit opinion which provided reasonable assurance for 2016/17.

## Systems of internal control

89. SCTS has adequate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any material weaknesses or governance issues in the accounting and internal control systems during our audit.

## Risk Management

### SCTS adopts a four-stage risk management process



- 90. SCTS has an established risk management framework in place with ongoing development and discussions taking place throughout 2016/17. The risk management framework, approved in 2015, sets out risk management: aims, policy, process, scope, objectives, vision, culture, structure, roles and responsibilities.
- 91. The executive team reviews corporate risks each time they meet. The Audit and Risk Committee reviews the overall risk management arrangements and reports to the Board at least annually. The Board and the Audit and Risk Committee jointly review risks and controls annually at a workshop session. The most recent workshop took place in February 2017. As a result, there was some consolidation of the risks within the register and some formatting changes to the risk register itself.

### Standards of conduct

- 92. In our opinion, SCTS's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate.
- 93. To inform our conclusion we reviewed the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and for complying with national and local codes of conduct.

### Arrangements for the registration of interests could be made more transparent

- 94. As outlined in *On Board: A guide for members of statutory boards*, public bodies have a duty to publish a register of board member interests. Board members are required to keep their entries in the register up-to-date, notifying any new interest or change within one month.
- 95. Members of the Audit and Risk Committee declare any interests at the start of each meeting. However, such declarations are not included as a standing item on any other committee agenda or at Board meetings.
- 96. While a register of declared interests exists, it is not published publically (though it is available upon request) and it is not formally reviewed by all members annually.
- 97. To make arrangements for the registration of interests more transparent we consider SCTS should publish the register of interests on its website and ensure members formally review all declarations at least annually.

#### Management action plan 1

### Role of boards

- 98. In September 2010 the Auditor General for Scotland published a report aiming to assess the role and work of boards across 67 public bodies and 39 colleges. The report made the following recommendations:

All non-executives should receive a formal induction	Boards should review the skills and expertise required on the Board and attract people to plug the gaps	Performance of non-executives should be assessed on a regular basis	Scrutiny efforts should be focused on organisational performance, financial and risk management
Performance information provided to the board could be improved	Boards should aim to maximise openness and accessibility of papers	Declarations of interests should be considered at every meeting	Boards should review the use of committees and ensure delegation levels are appropriate

99. As part of our work in 2016/17 we followed up on the issues highlighted by Audit Scotland. Our findings will be shared with Audit Scotland and summarised below.

#### Arrangements for scrutiny and decision-making are appropriate

100. In our opinion, the overarching arrangements for scrutiny and decision-making at SCTS are appropriate.

101. The governance framework is documented within the SCTS framework document, standing orders and members' code of conduct. The standing orders and code of conduct are reviewed annually (most recently in June 2017) to ensure they remain up to date and appropriate.

102. Through our attendance at the Audit and Risk Committee and our review of Board and committee minutes, we are satisfied that there is appropriate scrutiny and challenge from members. Published minutes demonstrate that policy decisions, service performance and programme management have been subject to scrutiny and formal approval.

103. Committee minutes are presented to the Board and each committee is required to present an annual report which allows the Board to assess the effectiveness of the committee during the year.

#### No Board or committee meetings are held in public

104. While minutes of all Board meetings are published online, Board and committee meetings are not open to the public and agendas are not published in advance. Board minutes include full paper references and specific papers may be made available to the public upon request, where it is deemed appropriate.

105. Previous annual audit reports highlighted that SCTS could improve the transparency of decision making by holding some meetings in public, and making more Board and committee papers publicly available.

106. SCTS has formally considered this position with the Board's focus on how best to balance the interests of transparency, effectiveness, efficiency and security. SCTS continues to consider the current approach to be appropriate.

107. While SCTS has decided that it should not routinely hold its meetings in public, it has considered holding an annual open meeting. Such a meeting has not yet taken place, but SCTS intend to consider their arrangements in relation to Board transparency further in the coming year.

108. We recognise that it would not be appropriate to prescribe arrangements. However, in view of increasing expectations for openness and transparency in public business, we consider that SCTS should keep this area under review and consider whether there is scope to enhance transparency in future.

#### Management action plan 2

##### Appropriate induction and training takes place for Board members

109. There is a comprehensive induction process in place to support Board members to understand and observe their respective roles and responsibilities. The Corporate Secretary is responsible for ensuring all Board members are familiar with the framework document, the standing orders and the Scottish Government's *On board* guidance. Individual member training needs are identified through members' annual appraisal.

##### Appropriate arrangements in place to handle complaints

110. There is a complaints handling policy in place with key information published on the SCTS website. This information clearly identifies who can complain, how to complain and how long it will take to resolve a complaint.

111. The complaints handling policy is based on the model guidance published by Scottish Public Services Ombudsman (SPSO). We note that the SPSO has not published any decision or investigation reports in relation to SCTS in 2016/17.

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## Significant audit risk

112. As outlined in our audit plan, we considered there to be one significant risk to the wider scope of our audit in relation to governance and transparency

### Bank accounts

SCTS holds a significant number of bank accounts, some of which hold third party funds. There is a risk that the governance and accounting arrangements, around the set up and use of these accounts, are not sufficient to prevent fraud or error. In addition there may be scope to increase the efficiency of SCTS's banking arrangements.



113. We have considered SCTS's accounting for third party assets and found that the treatment adopted complies with the requirements of the FReM. As at 31 March 2017, SCTS held cash balances of £31.1million on behalf of third parties. These funds are principally consigned into court in respect of liquidations, cautions, expenses in civil actions and unclaimed dividends. SCTS acts as custodian of these third party funds but SCTS, nor government more generally, has a direct beneficial interest. As a result, these funds do not fall to be recognised within the primary financial statements, but are disclosed within the notes to the accounts.



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# Value for money

# Value for money

**114.** Value for money is concerned with using resources effectively and continually improving services. In this section we report on our audit work as it relates to the SCTS's reported performance.

## Overall conclusions

**115.** We found that the SCTS has generally effective performance management arrangements in place to support the achievement of value for money. However, there is significant scope to enhance the management arrangements in place around the strategic project to deliver ICMS.

## Assurance and best value framework

**116.** SCTS maintains an assurance and best value framework that outlines the key assurance sources available to the organisation in respect of the achievement of seven best value themes:

- Sustainability
- Vision and leadership
- Performance management
- Governance and accountability
- Equality
- Use of resources
- Effective partnership

**117.** The framework sets out, for each business area: the lead officer, the relevant best value themes, the three levels of assurance sources (business management, corporate oversight and independent assurance), any proposals for development and the key associated corporate risks reflected in the corporate risk register.

## Performance management arrangements

**118.** The 2016-17 SCTS Business Plan sets out 36 desired outcomes. At each meeting, the Board receives an update on the progress against the outcomes and any planned activity ahead of the next update. SCTS publishes performance information against the business plan on their website.

**119.** Of the 36 outcomes within the SCTS plan, 27 were fully completed during 2016/17 and five were reported as on track to be completed. The four remaining outcomes were not completed and had to be re-profiled. Commentary on the four outstanding outcomes is provided below:

Business plan outcome not met	SCTS performance commentary
Develop and publish a new People Strategy for the period 2016-2019.	Production of the final strategy has been delayed to complete consultation and development.
Commence construction of a new justice centre facility in Inverness.	This is a multi-year project that will continue to feature in SCTS Business Plan objectives for the coming 2-3 years.
Launch a new integrated case management system for all Civil Business.	The amber status of this outcome reflects the challenging go-live and the fact that go live in the Court of session and the Civil Online portal have been deferred to the new business year. A detailed review and lessons learned exercise has been conducted to ensure that further development is well planned.
Speed up the process for paying compensation to entitled parties by introducing a new BACS payment system.	Impact - no substantive impact caused by the delay. The existing process for payments remains in place and meets our obligations. Introduction of the new system will improve speed and reduce administrative overheads. This was recognised during the project development hence the broadening of its scope

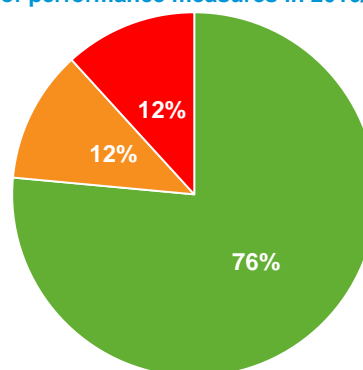
## Key performance indicators

120. In addition to reviewing performance against the delivery of key outcomes, the Board reviews SCTS's operational performance using a range of key performance indicators (KPIs). Performance against KPIs is monitored quarterly using a performance scorecard. The score card includes a range of seventeen measures categorised across SCTS's eight strategic priorities:

- A well supported judiciary
- Satisfied courts & tribunals users
- Skilled engaged and motivated people
- A well managed estate
- Efficient business processes
- Digital innovation
- Purposeful collaboration with justice bodies
- Funding & best value

121. The scorecard reports a red, amber, green (RAG) rating for each indicator and commentary is provided for every measure to facilitate discussion and scrutiny. During 2016/17 the majority of scorecard indicators reported green throughout the year with two exceptions: "Disposal of summary criminal cases within 26 weeks" and "court business waiting times (non-summary)".

Summary of performance measures in 2016/17



Priority	Measure	RAG	SCTS Commentary on indicators rated as 'Red'
Satisfied Court Users	Disposal of summary criminal cases within 26 weeks	Red	This system-wide indicator (measuring the time period from police caution and charge through to disposal of the case) reported that 62.2% of summary criminal cases were disposed of within 26 weeks in 2016-17. This is a modest (0.5%) improvement compared with the figure at the end of 2015-16. Waiting periods in relation to the court stages of such cases have reduced over the course of this year and are within their optimal timescales
Efficient Business Processes	Court business waiting times (non-summary)	Red	11 of the 12 indicators within this measure reported green throughout the year with the exception being the average period between a High Court case being first cited to a preliminary hearing and the conclusion of the trial - which has reported over its 21-week target for the full year. This reflects the pressure on High Court capacity that led to the approval of 2 additional courtrooms in Glasgow, which are now beginning to positively impact on waiting periods.

## Significant audit risk

122. As outlined in our audit plan, we considered there to be one significant risk to the wider scope of our audit in relation to value for money:

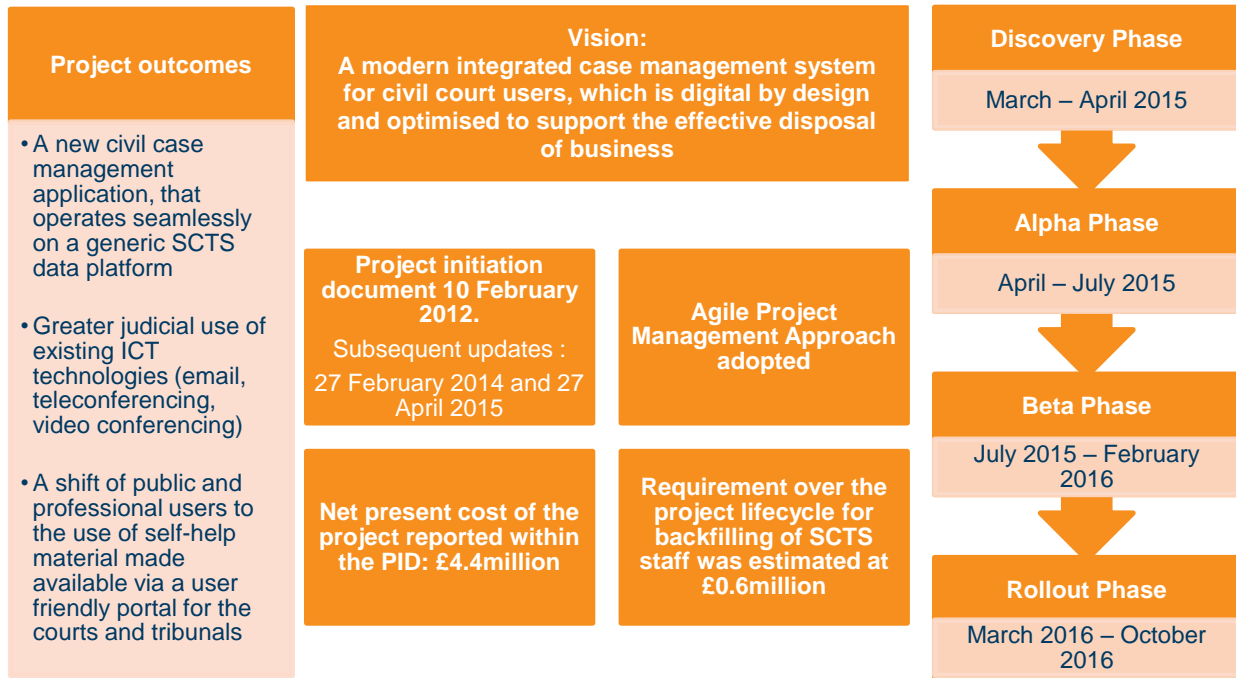
### New case management system

SCTS have implemented a new case management system within 2016/17. To achieve value for money, it is important that the system is effective, has been implemented correctly and is subject to regular review. In addition, SCTS do not have a digital strategy in place. With no formal framework for monitoring effective implementation, there is a risk that SCTS will not be able to demonstrate that new digital initiatives are effective and providing value for money.



**123.** We reviewed the extent to which effective management processes and controls were implemented over the development of ICMS. Overall we have concluded that there is significant scope to enhance the management controls around this key strategic project. In particular, we consider there is a clear need for improved management and control over project expenditure.

### Key facts about the ICMS project



### Background to ICMS

- 124.** In July 2014, SCTS undertook a procurement exercise for ICMS to replace the existing Court Management System (CMS) which was over 15 years old and approaching the end of its useful life.
- 125.** The successful bidder for developing and implementing ICMS was Kainos. The projected 10-year lifecycle cost of ICMS was set out in the business case as £4.4m. The contract with Kainos was signed in January 2015 and work commenced in March 2015.
- 126.** ICMS has been managed as an Agile project which represented a significant change in approach to project delivery within the SCTS. A dedicated Programme Board has been in place for the duration of the Programme. This has been accountable to the SCTS Board and the Executive Director, Judicial Office is the Programme Executive Lead.

**127.** During April 2016, the project scope changed resulting in ICMS being hosted within a cloud environment. The Programme Board approved this change six months prior to the launch of simple procedures processes within ICMS.

### Scope of our review of ICMS management

- 128.** Our audit work focused on the extent to which there were effective management processes and controls in place over the ICMS development.
- 129.** Our interim audit report described that the ICMS system is now live with further functionality to be added over time. However, a high level of manual intervention was required before invoices can be processed. That position remains the case.

### Management action plan 7

### Significant scope to enhance management arrangements, in particular over project expenditure

130. There is significant scope to enhance the management controls around the ICMS development and a clear need for improved management and control over project expenditure.
131. As reported by internal audit, while annual and monthly projected and actual spend is reported to the Board, there was no whole life project budget reported, or clear alignment of any budget variances to original scope and deliverables.
132. Our work to date has indicated that the Director of Finance and the Chief Financial Officer have not had sufficient oversight or authority to effectively challenge spend on the ICMS development. While it is recognised that the Executive Director, Judicial Office had delegated authority from the SCTS Board to approve budget variations, there is a concern that the finance function does not hold the appropriate level of authority within SCTS to challenge and scrutinise ICMS expenditure.
133. ICMS does not yet deliver the full level of functionality outlined in the project plan. Our analysis indicates that at the end of May 2017 the project was approximately £0.6million over the total project budget set out in the initial business case. Our forward projection, based on current burn rate, is that the budget will be 62% in excess of the original project budget by May 2018. We are aware that there have been a number of changes made to the project deliverables which have increased the core cost base.
134. We have been unable to review the detail of the approved changes as there is currently no comprehensive record of the approved adjustments to the overall project budget. As a result, we are unable to determine the revised approved budget and measure performance against it.
135. To enable adequate oversight to take place there is a clear need for SCTS to produce a revised whole life budget for the project showing the expected outturn against the budget set out in the business case as well as identifying any requirement for amendments to the project budget that may be required. Any amendments that are proposed to the budget should be subject to the scrutiny and challenge by the SCTS financial governance process and the Board.
136. We could not find evidence to confirm that benefits identified within the business case will be achieved. A benefits management strategy should be developed in order to facilitate the achievement of each benefit. In addition, each benefit should be assigned a benefits owner who is responsible for ensuring that benefits are achieved.
137. The Project Initiation Documentation (PID) is a live document that should be revised following significant project changes. We found that the PID had not been revised to reflect changes made to the project, E.g. the approved changes which necessitated additional budget approval.
138. RAID (Risks, Assumptions, Issues and Dependencies) logs have not been maintained consistently during the course of the programme. For example, the risk register had not been updated since November 2016. Furthermore, minutes of Programme Board meetings do not reference risks and issues being considered as the Project Executive Lead only wished decisions and actions to be documented in meeting minutes. In addition, project plans have not been kept up to date during the course of the project.
139. This was the first project and development to be operated by SCTS using the Agile methodology. Senior programme personnel were involved in site visits to another public sector body to observe how they were implementing Agile developments. There was, however, no evidence of work being undertaken either within the organisation or as part of the project to ensure effective culture and process change to support the use of Agile, nor has there been any assessment of the effectiveness of the implementation of Agile to date.

**140.** There is a continuing risk that ICMS does not deliver the expected functionality or benefits and that the costs, both incurred and projected, on the development are not subject to the appropriate scrutiny and challenge. Additionally, implementation of ICMS has placed significant administrative burden on the central finance function which has been detrimental to day to day operations.

**141.** There is a high reliance on inefficient manual interventions over system outputs. If SCTS are to ensure that ICMS is an “end to end” system the requirements of all users, and the implications of inefficiencies at every stage of processing, should be understood and responded to.

**142.** As a key strategic project for SCTS, it is essential that further development of the ICMS is properly planned, monitored and reported at an appropriately senior level. SCTS has conducted a lessons learned exercise to ensure that further development appropriately planned. Additionally, a detailed contract management review is also underway as is a technical assurance review. We endorse SCTS’s decision to conduct the lessons learned exercise, detailed contract management review and technical assurance review.

**143.** SCTS should ensure that the weaknesses identified through our review are responded to and remedial action taken, in line with the findings from internal reviews, to strengthen arrangements as part for a consolidated plan for action going forward.

**Management action plan 3**

## Digital strategy

**144.** In the 2015/16 annual audit report to Members and the Auditor General for Scotland, Audit Scotland reported that SCTS had not prepared a local strategy setting out how it will implement the national digital strategy and support the digital developments necessary to deliver the corporate plan. SCTS initially planned to have the local digital strategy in place by 31 March 2017, but it has not yet been finalised.

**145.** As noted in 2015/16, there is no formal basis to monitor the progress of digital delivery targets, and against which the costs and benefits of digital investment can be assessed. SCTS should finalise and approve the digital strategy as soon as possible, and ensure it is supported by a delivery plan against which progress can be monitored. We consider this matter to be of particular importance to SCTS given the ICMS development and our related commentary within the value for money section of this report.

**Management action plan 8**

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## Appendices

# Appendix 1: Management action plan

Our action plan details the control weaknesses and opportunities for improvement that we have identified during our audit. The action plan details the officer responsible for implementing the recommendation and an implementation date. SCTS should assess the recommendation for wider implications before approving the action plan.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work and may not be all that exist. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvement in management arrangements. Communication in this report of matters arising from the audit of the annual accounts 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.

## Action plan grading structure

To assist SCTS in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. The rating structure is summarised as follows:

<b>Grade 5</b>	Very high risk exposure – major concerns requiring Board attention
<b>Grade 4</b>	High risk exposure – material observations requiring senior management attention
<b>Grade 3</b>	Moderate risk exposure – significant observations requiring management attention
<b>Grade 2</b>	Limited risk exposure – minor observations requiring management attention
<b>Grade 1</b>	Efficiency / housekeeping point



## Recommendations raised in this report

No.	Issue & recommendation	Management comments
1.	<p><b>Registration and disclosure of interests</b></p> <p>Members of the Audit and Risk Committee declare any interests at the start of each meeting. However, such declarations are not included as a standing item on any other committee agenda or at Board meetings. While a register of declared interests exists, it is not published publically (though it is available upon request) and it is not formally reviewed by all members annually.</p> <p>There is a risk that SCTS is not meeting the standards set out <i>On Board: A guide for members of statutory boards</i>.</p> <p>To make arrangements for the registration of interests more transparent we consider SCTS should publish the register of interests on its website and ensure members formally review all declarations at least annually</p>	<p><b>Accepted</b></p> <p>Subject to Board approval SCTS will make arrangements to publish the members' register of interests on the SCTS website and will introduce a formal process whereby all Board members are asked to review all declarations contained in their entry on the members' register of interests at least annually.</p> <p><b>Action owner:</b> Corporate Secretary</p> <p><b>Due Date:</b> December 2017</p>
	<p><b>Rating</b></p>	
	<p><b>Grade</b> 3</p>	
	<p><b>Para</b> 97</p>	
No.	Issue & recommendation	Management comments
2.	<p><b>Openness and transparency</b></p> <p>While minutes of all Board meetings are published online, Board and committee meetings are not open to the public and agenda are not published in advance.</p> <p>Previous annual audit reports highlighted that SCTS could improve the transparency of decision making by holding some meetings in public, and making more Board and committee papers publicly available. SCTS has formally considered this position with the Board's focus on how best to balance the interests of transparency, effectiveness, efficiency and security. SCTS continues to consider the current approach to be appropriate.</p> <p>We recognise that it would not be appropriate to prescribe arrangements. However, In view of increasing expectations for openness and transparency in public business, we consider that SCTS should keep this area under review and consider whether there is scope to enhance transparency in future.</p>	<p><b>Accepted</b></p> <p>The SCTS Executive will ensure that the issue of Board transparency is considered by the Board before the end of 2017, laying out a range of potential steps that could be taken to promote transparency whilst balancing this with Board effectiveness, efficiency and security.</p> <p><b>Action owner:</b> Corporate Secretary</p> <p><b>Due Date:</b> December 2017</p>
	<p><b>Rating</b></p>	
	<p><b>Grade</b> 3</p>	
	<p><b>Para</b> 108</p>	

No.	Issue & recommendation	Management comments
3.	<p><b>ICMS</b></p>	<p><b>Accepted</b></p>
Rating	<p>There is significant scope to enhance the management controls around this key strategic project. In particular, we consider there is a clear need for improved management and control over project expenditure.</p>	<p>The governance arrangements do need to be strengthened. The Full Business Case will be reviewed and V2 tabled with the Audit &amp; Risk Committee for comment, and then updated for feedback and tabled with the ICMS Project Board for approval later in 2017. That will:</p>
Grade 4	<p>There is a continuing risk that ICMS does not deliver the expected functionality or benefits and that the costs, both incurred and projected, on the development are not subject to the appropriate scrutiny and challenge.</p>	<ul style="list-style-type: none"> <li>• Confirm the revised level of project expenditure and update the benefits as realised and projected</li> <li>• Allow for appropriate scrutiny and challenge</li> </ul>
Para	<p>As a key strategic project for SCTS, it is essential that further development of the ICMS is properly planned, monitored and reported at an appropriately senior level.</p>	<p>Action Plans are now in place for the lessons learned exercise, the contract review and technical assurance review.</p>
143	<p>We endorse SCTS's decision to conduct the lessons learned exercise, detailed contract management review and technical assurance review. SCTS should ensure that the weaknesses identified through our review are responded to and remedial action taken, in line with the findings from internal reviews, to strengthen arrangements as part for a consolidated plan for action going forward.</p>	<p><b>Action owner:</b> Director Civil Court Reform</p> <p><b>Due Date:</b> 31 December 2017</p>

## Outstanding recommendations from previous reports

No.	Original issue & recommendation & update	Management update
4.	<p><b>Key account reconciliations</b></p> <p>Month end checks are carried out for key accounts within the nominal ledger. However, the format of some key reconciliations conducted have not been consistent during the year. In some cases the format of the reconciliations is still under development, this includes those carried out over fees and fines, and bank accounts. We consider these two areas to be of high risk to SCTS. In addition, evidence of secondary review of key account reconciliations is not retained.</p> <p>There is a risk that key account reconciliations are not being performed, are being performed incorrectly and are not subject secondary review. This could result in misstatements within the financial statements and reduced likelihood of detecting fraud or error.</p> <p>Management have recognised this issue and plan to standardise key account reconciliations and retain evidence of secondary review.</p> <p><b>Audit Update</b></p> <p>While SCTS considered that all reconciliations would be finalised in time for the approval of the annual accounts, in practice that target date has not been met. There remains a risk to SCTS that key control account reconciliations are not being performed effectively.</p>	<p><b>Accepted</b></p> <p>All reconciliations will be reviewed during August/September with a standard approach adopted. Secondary review will be implemented with the reconciliations signed off and saved electronically.</p> <p>The implementation of SCTS's own ledger on SEAS (expected October 2017) will improve the processing of financial information and consequently improve the reconciliation processes.</p> <p><b>Responsible Officer:</b> Head of Financial Accounting</p> <p><b>Completion Date:</b> 30 September 2017</p>
	<p><b>Rating</b></p>	
	<p><b>Grade</b> 4</p>	
	<p><b>Para</b></p>	
	<p><b>38</b></p>	
No.	Original issue & recommendation & update	Management update
5.	<p><b>Long term financial strategy</b></p> <p>The Scottish Courts and Tribunals Service's corporate plan covers a 3 year period. It does not currently have a longer term financial plan.</p> <p>SCTS cannot demonstrate how it will deliver its key priorities within available resources over the longer term.</p> <p>The Scottish Courts and Tribunals Service should develop a long-term financial strategy that includes a clear understanding of its costs, savings options, scenario planning and how it will meet demand and deliver services. The long-term financial strategy should clearly link to other strategies including the corporate plan, people strategy and digital strategy.</p> <p><b>Audit Update</b></p> <p>SCTS is still in the process of developing a long term financial strategy in order to demonstrate the services financial sustainability</p>	<p><b>Accepted</b></p> <p>The development of a long-term Financial Strategy is one of our corporate goals and will be published by 31 December 2017.</p> <p>The strategy will build on the existing 10 year financial projection model and will be informed by the SCTS Corporate Plan 2017-20 and will identify cost drivers and pressures, investment opportunities and income projections.</p> <p>It will link through to other corporate strategies including the people and digital strategies</p> <p><b>Responsible Officer:</b> Chief Finance Officer</p> <p><b>Completion Date:</b> 31 December 2017</p>
	<p><b>Rating</b></p>	
	<p><b>Grade</b> 4</p>	
	<p><b>Para</b></p>	
	<p><b>76</b></p>	

No.	Original issue & recommendation & update	Management update
6.	<p><b>People Strategy</b></p> <p>A People Strategy which will set out the key priorities for maintaining and developing the workforce for the coming three to five years is being developed.</p> <p>Without a current People Strategy, succession planning, skills requirements and scenario planning for significant future changes (e.g. the potential for devolved tribunals) may not be properly addressed.</p> <p>Management should ensure that the People Strategy is finalised and approved as soon as possible. Progress against proposed actions should be regularly monitored by the People Committee.</p> <p><b>Audit Update</b></p> <p>The strategy has not yet been finalised or formally approved</p>	<p><b>Accepted</b></p> <p>Final draft considered by Executive Team week commencing 31 July 2017.</p> <p>Consultation with PCS Union will then be undertaken prior to submission of the Strategy to the People Committee meeting of 23 August.</p> <p>Expecting People Strategy to be launched no later than the end of September 2017.</p> <p><b>Responsible Officer:</b> Chief Finance Officer</p> <p><b>Completion Date:</b> 30 September 2017</p>
	<p><b>Rating</b></p> <p><b>Grade 3</b></p> <p><b>Para</b></p> <p><b>79</b></p>	
No.	Original issue & recommendation & update	Management update
7.	<p><b>ICMS fees and invoices</b></p> <p>SCTS has been implementing ICMS during 2016/17. The system enables the online processing for many fee actions. The ICMS system is now live, with further functionality to be added over time. At present a high level of manual intervention is required before invoices can be processed.</p> <p>There is a risk that invoices raised are inaccurate or incomplete due to the level of manual intervention required. The level of manual work required also results in inefficiencies within the finance team.</p> <p>Until the system offers the full functionality required by SCTS management should ensure appropriate checks are in place to highlight any errors made during manual adjustments. Checks against ICMS reports and invoices raised in SEAS should be clearly documented and subject to second review.</p> <p><b>Audit Update</b></p> <p>A high level of manual intervention is still required before invoices can be processed.</p>	<p><b>Accepted</b></p> <p>Checks against ICMS reports and invoices raised in SEAS are carried out but they are not currently documented and subject to second review.</p> <p>This will be implemented for the end August invoicing process.</p> <p><b>Responsible Officer:</b> Head of Financial Accounting</p> <p><b>Completion Date:</b> 31 August 2017</p>
	<p><b>Rating</b></p> <p><b>Grade 3</b></p> <p><b>Para</b></p> <p><b>129</b></p>	

No.	Original issue & recommendation & update	Management update
8.	<p><b>Digital strategy</b></p>	<p><b>Accepted</b></p>
Rating	<p>A digital strategy that defines how the Scottish Courts and Tribunals Service's investment in digital technology will support both corporate requirements and the delivery of the Digital Strategy for Justice in Scotland is being developed.</p>	<p>As set out in our current Business Plan, SCTS has begun work on creating a digital strategy.</p>
Grade 3	<p>There is no formal basis to monitor the progress of digital delivery targets, and against which the costs and benefits of digital investment can be assessed.</p>	<p>An initial draft has been prepared and work is ongoing to develop this. We will publish the finalised SCTS Digital Strategy by 31 October 2017.</p>
Para	<p>Management should finalise and approve the digital strategy as soon as possible, and ensure it is supported by a delivery plan against which progress can be monitored.</p>	<p>The strategy will be informed by the SCTS Corporate Plan 2017-20, the SG Digital Strategy, Justice Digital Strategy and the emerging Evidence and Procedure outcomes.</p>
145	<p><b>Audit Update</b></p> <p>SCTS initially planned to have the local digital strategy in place by 31 March 2017, but it has not yet been finalised.</p>	<p>A methodology for monitoring progress of implementation &amp; ongoing review of the overarching strategy, and any specific initiatives, will be included in the strategy document itself.</p> <p><b>Responsible Officer:</b> Chief Finance Officer</p> <p><b>Completion Date:</b> 31 October 2017</p>

# Appendix 2: Respective responsibilities of SCTS and the Auditor

## Responsibility for the preparation of the annual report and accounts

The Principal Accountable Officer of the Scottish Administration has designated the Chief Executive of SCTS as the Accountable Officer. The relevant responsibilities as Accountable Officer, including responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accountable Officers' Memorandum issued by the Principal Accountable Officer of the Scottish Administration.

The Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2016/17 Government Financial Reporting Manual (the 2016/17 FReM).

In preparing accounts the Accountable Officer is required to comply with the requirements of the Government Financial Reporting Manual and the Scottish Public Finance Manual and in particular to:

- Observe the accounts direction issued by the Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- Make judgements and estimates on a reasonable basis.
- State whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements.
- Prepare the financial statements on a going concern basis.

The Accountable Officer is responsible for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Accountable Officer is responsible for maintaining a sound system of governance that supports the achievement of SCTS's policies, aims and objectives, whilst safeguarding the public funds and assets for which he is personally responsible.

The Accountable Officer is responsible for the other information in the annual report and accounts and for ensuring the regularity of expenditure and income.

The Accountable Officer is responsible for taking all steps that he ought to have taken to make himself aware of any relevant audit information, and to establish that the entity's auditors are aware of this information.

## Auditor responsibilities

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

We audit the annual report and accounts and give an opinion on whether:

- the financial statements give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2017 and of its net expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 FReM;
- the financial statements have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers;

- in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000;
- in all material respects the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998;
- the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

We are also required to report by exception if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the auditable part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

## Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the annual accounts, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions. As part of our annual audit we will consider and report against these four dimensions: financial management; financial sustainability; governance and transparency; and value for money.



**Scott-Moncrieff**  
business advisers and accountants

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