



**Scott-Moncrieff**  
business advisers and accountants

# **Scottish Courts and Tribunals Service**

2017/18 Annual Audit Report to the Board and  
the Auditor General for Scotland

**July 2018**

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# Key messages

## Annual accounts audit

The annual accounts for the year ended 31 March 2018 were approved by the Board on 20 August 2018. We reported within our independent auditor's report an unqualified opinion on the annual accounts, regularity and on other prescribed matters.

The annual accounts and supporting schedules were of a high standard. Our thanks go to staff at the Scottish Courts and Tribunals Service for their assistance with our work.

## Wider scope audit

### Financial sustainability

The SCTS invested time and effort in 2017/18 in developing a five year financial strategy.

The strategy highlights that while SCTS is forecasting that they will operate within budget in 2018/19 there is a projected shortfall of £6.6m in 2019/20 which rises to £22.5m by 2023/24.

SCTS should now focus on identifying options to allow them to meet budget in future years.



### Financial management

SCTS has adequate arrangements in place for financial management.

SCTS operated within its Grant-in-Aid resource limits, delivering a small underspend in 2017/18.

We found the systems of internal control to be adequate with only minor improvements identified.



### Governance & transparency

Governance arrangements at SCTS are deemed to be appropriate, however, we note there is scope to improve the transparency of Board decisions.

Our assessment has been informed by a review of the corporate governance arrangements in place, the information provided to the Board and Committees as well as the risk management arrangements in place.



### Value for money

SCTS has an established and appropriate performance management framework in place.

SCTS met 12 out of 17 key performance indicators on a consistent basis across 2017/18. In addition, 24 out of 31 objectives from the business plan were delivered in year.



## Key facts

- SCTS reported a small underspend of £0.20 million against the DEL resource allocation in 2017/18
- Expenditure has increased by £2.90 million (2%) principally due to a small increase in staff numbers and pay awards
- Income has risen by £2.82m (7.4%) to £40.85 million due to increases in fees charged
- Total non-current assets held of £450.57 million which includes capital additions of £14.45 million
- Indexation adjustments recognised in 2017/18 led to a gain of £8.46 million in land and buildings asset values.

## Conclusion

This report concludes our audit for 2017/18. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

## Scott-Moncrieff, July 2018

# 1

## Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of the Scottish Courts and Tribunals Service for 2017/18.

We carry out our audit in accordance with Audit Scotland's Code of Audit Practice (May 2016). This report also fulfils the requirements of International Standards on Auditing (UK) 260: Communication with those charged with governance.

At the Scottish Courts and Tribunals Service, the Audit and Risk Committee has been designated as "those charged with governance".

# Introduction

1. This report summarises the findings from our 2017/18 audit of the Scottish Courts and Tribunals Service (“SCTS”).
2. We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit and Risk Committee in January 2018. The core elements of our work include:
  - an audit of the 2017/18 financial statements and related matters;
  - consideration of the wider dimensions of public audit work, as set out in Exhibit 1; and
  - any other work requested by Audit Scotland, for example, input into performance audit work.

## Exhibit 1: Audit Dimensions within the Code of Audit Practice



Source: Audit Scotland Code of Audit Practice, May 2016

3. SCTS is responsible for preparing an annual report and accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified 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 annual report and 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.
  4. The report contains an action plan with specific recommendations, responsible officers and dates for implementation. We give each recommendation a grading to help SCTS assess their significance and prioritise the actions required.
  5. We discussed and agreed the content of this report with the Director of Finance and Procurement. We would like to thank all management and staff for their co-operation and assistance during our audit.
- ### Confirmation of independence
6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
  7. We confirm that we have complied with the Financial Reporting Council’s (FRC) Ethical Standards. In our professional judgement, the

audit process is independent and our objectivity has not been compromised in any way.

8. The audit fee reported in our external audit plan was £89,500. In addition to our standard audit work we delivered non-audit services in relation to the preparation of two business cases. Additional fees of £14,364 were charged for these services and are disclosed appropriately in the financial statements.
9. This work did not involve management decision making and was undertaken by an independent team. The audit team had no involvement in the non-audit services and applied appropriate safeguards to maintain our independence.
10. In line with Audit Scotland planning guidance, approval was obtained from the SM ethics partner and Audit Scotland prior to commencing the non-audit work.

### Adding value through the audit

11. All of our clients 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.

### Feedback

12. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey:  
[www.surveymonkey.co.uk/r/S2SPZBX](http://www.surveymonkey.co.uk/r/S2SPZBX)
13. While this report is addressed to SCTS, it will be published on Audit Scotland's website  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

# 2

# Annual report and accounts

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.

In this section we summarise the findings from our audit of the 2017/18 annual report and accounts.

# Annual report and accounts

The annual report and accounts for the year ended 31 March 2018 are due to be approved by the Board on 20 August 2018. We intend to report unqualified opinions within our independent auditor's report. We did not identify any significant adjustments to the unaudited annual report and accounts.

SCTS has appropriate administrative processes in place to prepare the annual report and accounts and the required supporting working papers.

## Overall conclusion

### An unqualified audit opinion on the annual report and accounts

- 14. The annual report and accounts for the year ended 31 March 2018 were considered by the Audit and Risk Committee on 6 August 2018 and were approved by the Board on 20 August 2018. 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.
- 15. We are also satisfied that there were no matters which we are required to report by exception.

### Appropriate administrative processes were in place

- 16. We received unaudited annual accounts and supporting papers of a good standard, in line

with our agreed audit timetable. Our thanks go to staff at the SCTS for their assistance.

- 17. The accounts were submitted to the Scottish Government and Auditor General for Scotland prior to the 31 October 2018 deadline.

### Our assessment of risks of material misstatement

- 18. The assessed risks of material misstatement described in Exhibit 2 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. Our audit procedures relating to these matters were designed 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. Our opinion on the annual report and accounts is not modified with respect to any of the risks described in Exhibit 2.

## Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

**1. Revenue recognition**

Under ISA (UK) 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.

*Excerpt from the 2017/18 External Audit Plan*



- 19. At the planning stage of our audit we considered that the risk of fraud in relation to revenue recognition was present in all non-government revenue streams. We evaluated each type of revenue transaction and documented our conclusions.
- 20. We have gained reasonable assurance on the completeness and occurrence of income



## Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

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 applied consistently throughout the year.

### 2. Risk of fraud in the recognition of expenditure

The FRC published Practice Note 10 which applies to the audit of financial statements for periods commencing after June 2016. The Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

*Excerpt from the 2017/18 External Audit Plan*

21. While we did not suspect incidences of material fraud and error, we evaluated each expenditure stream and documented our conclusions. We have gained reasonable assurance on the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements. To inform our conclusion we carried out testing to confirm that SCTS's policy for recognising expenditure is appropriate and has been applied 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 (UK) 240 – The auditor's responsibilities relating to fraud in an audit of financial statements.

*Excerpt from the 2017/18 External Audit Plan*

22. We have not identified any indications of management override in the year. We have reviewed SCTS's accounting records and obtained evidence that transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

### 4. Key account reconciliations

Due to difficulties in completing a comprehensive reconciliation of the fees and fines control account in time for the approval of the annual accounts, a £1.20 million unadjusted difference was reported in our 2016/17 annual audit report. Initial audit planning has indicated that SCTS cannot yet state with certainty where the constituent parts of the £1.20 million balance should be posted.

The reconciliation of fees and fines is a particularly complex process with a very high number of low value transactions taking place daily and a large number of historic reconciling items. There remains a risk to SCTS that key control account reconciliations are not effective. This could result in misstatements within the financial statements and reduced likelihood of detecting fraud or error.

## Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

### *Excerpt from the 2017/18 External Audit Plan*

23. We reviewed the work undertaken by SCTS during 2017/18 to ensure key account reconciliations are completed in a timely manner. SCTS now maintain a reconciliation tracker which records the completion and approval date of all key reconciliations. Our testing confirmed that year-end reconciliations had been appropriately completed for all key accounts.
24. As at 31 March 2018, the balance on the fees and fines control account is £0.73 million. Our understanding is that the reconciling items arise mainly due to timing differences and SCTS has taken significant action in 2017/18 to improve controls around the reconciliation of the accounts. Journals are now completed daily rather than monthly and individual journals above £0.10 million are subject to approval by the Head of Financial Accounting prior to posting, to minimise the risk of significant errors. We have gained assurance that appropriate controls are in place and were operational in 2017/18.

### 5. Asset valuation and additions

SCTS holds a significant amount of high value estate (net book value of land and buildings was £418.116 million at 31 March 2017). SCTS values its assets once every five years, with the last full formal valuation being completed in 2014. Given the level of assets held, any misstatement in asset value could potentially result in a material misstatement in the financial statements.

In addition to the assets recognised in previous years, SCTS expects to make significant capital additions during 2017/18. Capital commitments of £21.458 million were disclosed in the 2016/17 financial statements and SCTS expect significant capital spend on the Inverness Justice Centre as well as lower levels of spend on the new integrated case management system (ICMS) and other capital works. SCTS has also entered in to a new long term lease to house its new Tribunals Centre at Atlantic Quay following a rationalisation of accommodation in Glasgow.

### *Excerpt from the 2017/18 External Audit Plan*

25. We reviewed SCTS's approach to accounting for assets and found that the treatment adopted complies with the Government Financial Reporting Manual (the FReM). The accounting policies are appropriate and applied consistently during the year.
26. In accordance with the FReM, all land and buildings have been subject to valuation by an external valuer every five years. The latest full valuation was carried out at 31 March 2014, with the next full valuation expected as at 31 March 2019. We confirmed that indexation was appropriately applied in 2017/18, at rates advised by the external valuer.
27. Capital additions in 2017/18 totalled £11.61 million for property, plant and equipment, and £2.84 million for intangible assets. Through our detailed testing, we gained assurance over the accuracy of additions and are satisfied that these are free from material misstatement.
28. As part of our work on additions we found that staff costs, with a net book value of £0.62 million had been capitalised in 2017/18. Upon investigation we found that there was not a clear audit trail between the capitalised costs and a specific asset. In line with accounting standards staff costs should only be capitalised when they directly relate to the construction or development of a specific asset. There is a risk that staff costs are incorrectly capitalised.

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## Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

### Action plan point 1

29. In November 2017 the SCTS signed a lease for Atlantic Quay, however the property was not occupied until April 2018. The lease is deemed to be an operating lease and an appropriate commitment has been recognised in the notes to the financial statements.
30. In addition to the commitments we considered the treatment for dilapidations. SCTS use an independent valuer to inform its judgements on the likely value of dilapidations over the course of the lease. With regards to Atlantic Quay the expected dilapidation level was £6.40 million and over our materiality level. In line with IAS 37 a provision should be recognised when there is a legal or constructive obligation i.e. the signing of the lease and it is probable that there would be an outflow of resources i.e. through the occurrence of wear and tear. As the building was not occupied in 2017/18 it is unlikely there would be any damage and therefore we deemed it appropriate that no provision was recognised in 2017/18.
31. When reviewing the treatment of dilapidations for Atlantic Quay we conducted additional in depth testing on the overall dilapidations provision (£1.18m). We found that the provision had been recognised in full at the inception of the lease, however, to be in line with IAS 37 the annual provision should reflect: the extent of damage, wear and tear at the period end; and the time value of money. We therefore consider the provision to be overstated up to a maximum value of £1.18 million. We would encourage SCTS to review its estimation methodology for calculating dilapidations.

### Action plan point 2

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## Our application of materiality

32. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual accounts.
33. Our initial assessment of materiality for SCTS's annual accounts was £2.25 million. On receipt of the 2017/18 draft accounts, we reassessed materiality and set a new threshold of £2.29 million. This equates to approximately 1.7% of SCTS's actual gross expenditure. Achieving a breakeven position through the application of both income and government funding is a key target for SCTS and one of the principal considerations for the users of the accounts when assessing financial performance.

## Performance materiality

34. Performance materiality is the amount set by the auditor at less than overall materiality for the annual accounts as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed materiality for the annual accounts as a whole.
35. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We performed audit procedures on all transactions and balances that exceeded 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. Performance testing thresholds used are set out in the following table:

Area risk assessment	Weighting	Performance materiality
High	40%	£0.91 million
Medium	55%	£1.26 million
Low	75%	£1.72 million

36. We agreed with the Audit and Risk Committee that we would report all material corrected misstatements, uncorrected misstatements with a value in excess of £67,500, as well as other misstatements below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the annual accounts.

### Audit differences

37. We are pleased to report that our audit identified no material adjustments. As noted above we have identified one unadjusted error relating to the dilapidations provision which would have a maximum value of £1.18 million. Management have elected not to adjust for the error on the grounds of materiality.

38. In addition we identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual accounts.

### An overview of the scope of our audit

39. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit and Risk Committee at the outset of our audit. The 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. 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.
40. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.

41. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical review. 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, which is explained earlier in this report.

### Other matters identified during our audit

42. During the course of our audit we noted the following:

#### Other information in the annual report and accounts

43. "Other information" in the annual report and accounts comprises any information other than the financial statements and our independent auditor's report. We do not express any form of assurance conclusion on the "other information" except as specifically stated below.

#### The performance report

44. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It comprises an overview of the organisation and a detailed summary of how the entity measures performance.

45. We have concluded that the performance report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.

#### The accountability report

46. The accountability report is required in order to meet key parliamentary accountability requirements and comprises three sections: a corporate governance report (including the governance statement), a remuneration and staff report; and a parliamentary accountability report.

#### Governance statement

47. We consider the coverage of the Governance Statement to be broadly in line with expectations. SCTS highlight that whilst internal audit provided reasonable assurance overall, they provided limited assurance on Contract Management arrangements within

SCTS. No significant control issues have been identified.

48. Three data breaches were reported to the Information Commissioner's Office (ICO) during 2017/18. In all three cases, the ICO concluded that no formal enforcement action was required and that SCTS had acted appropriately.
49. We have concluded that the governance statement has been prepared in accordance with the Scottish Public Finance Manual and directions from Scottish Ministers, and is consistent with the financial statements.

#### **Remuneration and staff report**

50. We have concluded that the audited part of the remuneration and staff report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions from Scottish Ministers.

#### **Regularity**

51. We have 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**

52. During the course of our audit, we consider 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 annual accounts. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the annual accounts, are in line with the Government Financial Reporting Manual and are considered appropriate.
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.
The appropriateness of the accounting estimates and judgements used.	<p>Significant estimates have been made in relation to the valuation of property, plant and equipment. These estimates have been informed by advice from qualified, independent experts. We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the expert is appropriate.</p> <p>Other principal areas of estimation and judgement include asset depreciation rates, valuation of provisions and accruals. Our testing did not identify any indication of management bias and aside from issues raised on dilapidations provisions we are satisfied the accounting estimates and judgements are appropriate.</p>
The appropriateness of the going concern assumption	We have reviewed the detailed financial forecasts for 2018/19. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that SCTS will continue to operate for at least 12 months from the signing date.
The potential effect on the annual accounts 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 annual accounts.
The extent to which the annual accounts 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 or material inconsistencies with the financial statements.	The annual report contains no material misstatements or inconsistencies with the financial statements.
Any significant annual accounts disclosures to bring to your attention.	There are no significant annual accounts 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 annual accounts disclosure.	While disclosure and presentational adjustments were made during the audit there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

# 3

## Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

# Financial management



SCTS has adequate arrangements in place for financial management.

SCTS operated within its Grant-in-Aid resource limits, delivering a small underspend in 2017/18.

We found the systems of internal control to be adequate with only minor improvements identified.

## Financial performance

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

54. The table below shows the SCTS reported a marginal underspend against its revenue allocation in 2017/18.

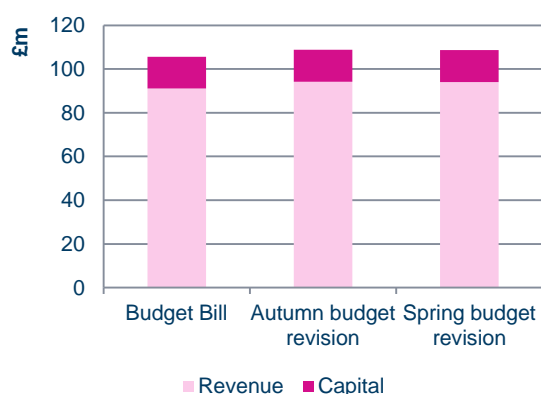
### Exhibit 3: SCTS performance against ministerial budget

Revenue	Initial budget £000	Budget £000	Actual £000	Variance £000
Departmental Expenditure Limit (DEL)	91,058	93,966	93,892	74
Annually Managed Expenditure (AME)	-	-	(55)	55
Auditors remuneration	-	-	90	(90)
<b>Total</b>	<b>91,058</b>	<b>93,966</b>	<b>93,927</b>	<b>39</b>

55. The budget moved during the year by £3.16 million as shown in Exhibit 4 below.

56. The variations took place through the Scottish Government spring and autumn budget revisions.

### Exhibit 4: Budget variations



57. SCTS created a revenue budget of £95.27 million which was based on the Scottish Government budget of £91.06 million and projected in year funding of £4.21 million.

58. The projected in year funding related to anticipated funding for domestic violence measures and the transfer of devolved tribunals. The autumn budget revision confirmed an in year transfer of £3.27 million of revenue funding based on a reduction of tribunal activity levels, which resulted in a revised DEL revenue budget of £94.26 million (this was further reduced to £93.97million at the spring budget revision).



59. The SCTS reported a reduction in depreciation of £2.35 million which primarily related to a movement in the phasing of additions. The reduction in depreciation meant no further savings were required.

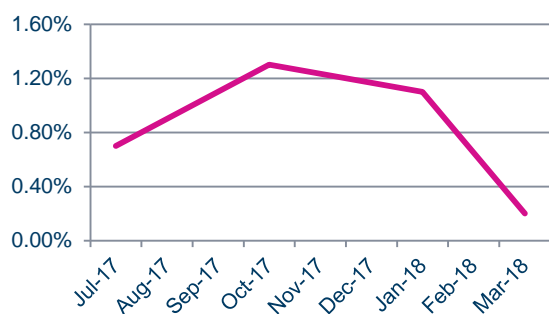
### Capital monitoring

60. The capital DEL allocation remained broadly constant over the course of the year as shown in exhibit 4. The final spend was £14.45 million, a 0.8% variance against the budget of £14.57 million. The capital spend was mostly on property, plant and equipment (£11.61 million) with the most significant element being on the Inverness Justice Centre. The remaining £2.84 million was on intangibles with £1.4 million invested in the Integrated Case Management System.

### Budget monitoring

61. We reviewed SCTS budgetary processes and budget monitoring arrangements in 2017/18. The Board receive financial monitoring reports at each meeting.
62. Reports presented are at a strategic level and include sufficient explanations for variances.
63. Throughout the year the SCTS managed expenditure to within 1.5% of the budgeted figures (Exhibit 5).

**Exhibit 5: Reported movement as a percentage of budget**



64. The budget was achieved through regular engagement with the Scottish Government on unexpected issues including lower than expected fine income and a significant VAT bill.

## Prevention and detection of fraud and irregularity

65. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity.
66. Overall, we found the Board's arrangements for the prevention and detection of fraud and other irregularities to be adequate. However, the Fraud Policy prepared by SCTS has not been subject to review since March 2015. There has been significant change to the management structure since this time and there is therefore a risk that the policy no longer reflects the arrangements in place.

*Action plan point 3*

### National Fraud Initiative

67. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.
68. We last reviewed the Board's participation in the 2016/17 NFI in February 2018. The exercise identified 15 matches of which none were recommended for investigation. As at February 2018 SCTS had investigated 40% of the NFI matches. Our review at the year-end confirmed all cases had been closed with no issues arising. We concluded that the SCTS's participation in the NFI had been satisfactory.

### Standards of conduct

69. In our opinion the Board's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial regulations and schemes of delegation and for complying with national and local codes of conduct.
70. In 2016/17 we reported that while a number of policies and procedures are in place across the finance functions at SCTS, there is not a comprehensive set of financial regulations. Our follow up work in 2017/18 identified this as an outstanding action as reported in Appendix 3.

## Internal audit

71. An effective internal audit service is an important element of the SCTS's overall governance arrangements. The Scottish Government Internal Audit Directorate provides SCTS's internal audit service. During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and make the most efficient use of the Board's total audit resource.
72. To facilitate efficiency across a range of external audit appointments, Audit Scotland reviews the service provided by the Scottish Government Internal Audit Directorate. In 2017/18 Audit Scotland reported that the Scottish Government Internal Audit Directorate were not compliant with the Public Sector Internal Audit Standards in a number of areas covering audit planning, documentation, audit reporting and management review.
73. In addition to this we found that while the proposed audit coverage for the 2017/18 audit plan was included as an appendix to the January 2017 Internal Audit Progress Report, a formal audit plan for 2017/18 was not presented to the Audit and Risk Committee. Furthermore it is not clear from the minutes whether this received the level of scrutiny and challenge we would expect.

### *Action plan point 4*

74. In 2017/18 we did not place formal reliance on the work of internal audit. However, we have considered their findings in respect of our wider scope responsibilities and we are grateful to the internal audit team for their assistance during the course of our work.

## Systems of internal control

75. We have evaluated the SCTS's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach has included documenting the key internal financial controls and performing walkthroughs to confirm that they are operating as intended.
76. We identified a number of areas for improvement in 2016/17 which were followed up at interim and subsequently at year end. We have reported progress against outstanding actions in Appendix 3.

77. We identified a minor issue with regards asset verification as follows:

### **Asset Verifications**

78. SCTS has a large asset base (net book value of £442million as at 31 March 2018) that is varied in both nature and location.
79. During our audit, we confirmed that SCTS do not complete regular asset verification checks. We were unable to complete any of our own asset verification testing due to a lack of key asset management controls.
80. Not all assets are given an identity tag and the location is not clearly or reliably recorded on the asset register. Hence, it is not possible to trace an entry on the asset register to a physical asset, or vice versa.
81. With no regular verification, there is a risk that SCTS will continue to account for assets that have been disposed of. In addition, SCTS is unable to formally assess whether there is any indication of impairment. As a result, the value of property, plant and equipment may be overstated in the annual accounts.

### *Action plan point 5*

# 4

## Financial sustainability

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.

# Financial sustainability



The SCTS invested time and effort in 2017/18 in developing a five year financial strategy.

The strategy highlights that while SCTS is forecasting that they will operate within budget in 2018/19 there is a projected shortfall from 2019/20 onwards.

SCTS should now focus on identifying options to allow them to meet budget in future years.

## Significant audit risk

82. 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:

### Long term financial strategy

The SCTS corporate plan covers a 3 year period but the organisation does not currently have a longer term financial plan. As a result SCTS cannot demonstrate how it will deliver its key priorities within available resources over the longer term.

The development of a long-term Financial Strategy was one of SCTS's corporate goals for 2017/18 and was due to be published by 31 December 2017. However, at the time of our initial audit planning the long-term Financial Strategy had not been published.

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.

*Excerpt from the 2017/18 External Audit Plan*

83. We reviewed SCTS financial planning systems and assessed their effectiveness in supporting the business over the medium to long term. Following our audit recommendation in 2016/17 SCTS took measures to develop a financial strategy which links to the annual business plan. This strategy includes clear consideration of up to five years, however, detailed figures are only included for 2018/19.
84. The finance strategy focuses on the key areas of risk to delivering services within budget and has highlighted the pressures on SCTS to maintain service delivery from 2019/20 onwards.

## Financial planning

### Financial projections 2018/19

85. On an annual basis SCTS prepare a business plan to support the overall delivery of its strategic vision as outlined in the Corporate Plan.
86. The Scottish Government has indicated that the SCTS resource and capital budget for 2018/19 will be £117.70 million. This has been adjusted to reflect expected in year transfers of £6.30 million to account for the ongoing transfer of tribunal business to SCTS. This brings the total budget for 2018/19 to £124 million.
87. The SCTS is currently budgeting expenditure of £167.98 million, with the excess expenditure costs being met from fees, fines and rental income.
88. The short term financial planning process is built up through the business units and based on prior year financial performance. Budgets are reviewed by the executive team to ensure they align to the business plan and the Scottish Government allocations.

## Long term financial planning

89. SCTS developed a financial strategy in 2017/18 to support the objectives as outlined by Corporate Plan. The financial strategy is also linked to the estates strategy, digital strategy and people strategy and was underpinned by four main strands of work:

- determining future resources forecasts;
- establishing future cost pressures;
- calculating the potential funding gap; and
- identifying ways to align resources with SCTS strategic priorities.

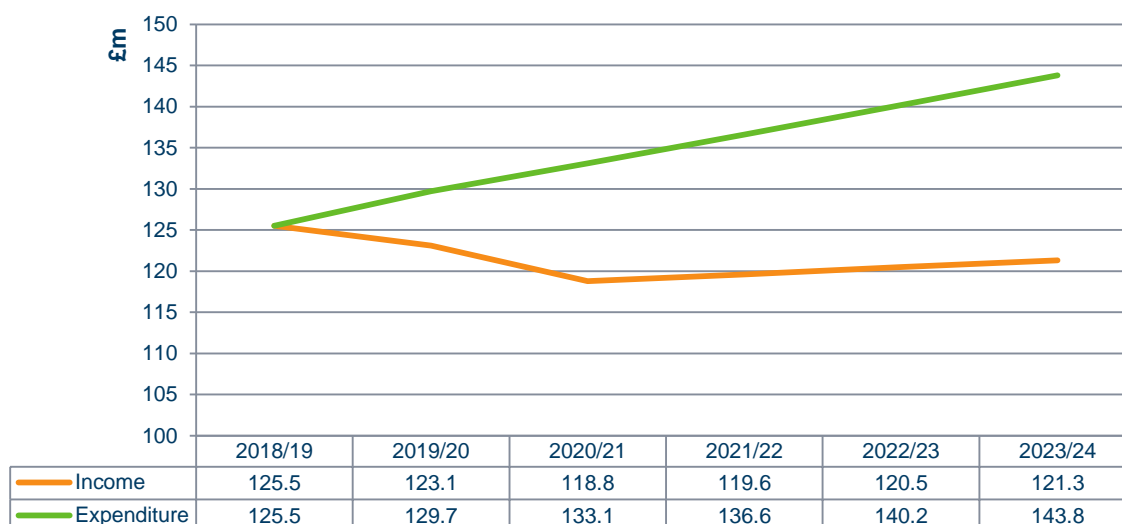
90. As part of the development of the financial strategy the SCTS developed a range of key assumptions. The assumptions were subject to challenge by the executive team and the Board.

The SCTS also reviewed the assumptions under a range of scenarios: pessimistic; central and optimistic.

91. In total there were twelve key areas of assumption including SG funding, fees, rents, inflation and pay award. The highest impact and variability between scenarios is the pay award, which reflects the Scottish Government decision to lift the public sector pay cap. SCTS has projected a variance of £12.3 million in staff costs between optimistic and pessimistic scenarios at the end of the 5 year period.

92. The long term financial strategy has been presented to the Board and recognises the significant challenge going forward.

## Exhibit 6: Projected shortfall against budget (central assumptions)



93. A shortfall in funds has been identified in all three scenarios. Under the central assumptions a shortfall of £6.6 million in 2019/20 rising to £22.5 million in 2023/24 has been identified. This has helped focus the SCTS on the key risks it faces, however the process did not fully address how it will continue to deliver services or identify savings options.

94. Looking forward SCTS should seek to build on the positive steps made in 2017/18 through the development of savings options.

## Estates strategy

95. SCTS has an extensive estate covering a range of buildings across Scotland. SCTS has noted challenges with the estates which includes a significant proportion of pre-1960's buildings.

96. This brings a significant maintenance cost and a high level of backlog maintenance. The Corporate Plan and Estates Strategy includes a number of investment priorities over the period 2016- 26.

### Action plan point 6

97. The implications of the costs associated with the estates strategy have been considered as part of the financial strategy and are identified as an area of cost pressure.

105. A number of formal scoping activities have been conducted with regards to the workforce stream to date, alongside this an informal assessment has not highlighted major issues.

106. From our work across other public bodies we are aware that the impact of the EU withdrawal on workforce is deemed to be a risk. We will therefore review progress made in this area as part of our 2018/19 audit work.

## People Strategy

98. In line with prior year audit recommendations SCTS has developed a People Strategy covering the period 2018-23. This strategy was approved by the SCTS Board at their meeting on 5 February 2018 and it was published during February 2018. It focuses on how the SCTS will maintain a skilled and motivated workforce.

99. The People Strategy describes the current workforce; looks at the changing world of work and outlines our key people themes: Valuing everyone's contribution; Our Team; Learning and Realising Potential.

100. The People Strategy sets out a main activity within the theme "Our Team" to be: "We will develop flexible workforce planning processes and tools so we can adapt to changes and deliver our business, now and in the future".

101. Early work began on workforce planning in 2017/18 but there was no detailed consideration of what the future workforce should be, skills requirements or succession planning. The Human Resources Unit Business Plan 2018/19 contains an objective to "Develop flexible workforce planning processes and tools so SCTS can adapt to business, people and financial changes, and continues to deliver the business objectives, now and in the future."

## EU withdrawal

102. Audit Scotland has identified EU withdrawal as an emerging significant risk facing public bodies across Scotland. Three streams of potential impact were identified:

- Workforce
- Funding
- Regulation.

103. SCTS has considered the impact across all three areas and has a draft Project Implementation Document.

104. From an initial assessment of the funding and regulation streams no significant implications have been identified as yet.

5

# Governance and transparency

Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.



# Governance and transparency



Governance arrangements at SCTS are deemed to be appropriate, however we have noted opportunity to improve the transparency of Board decisions.

Our assessment has been informed by a review of the corporate governance arrangements in place, the information provided to the Board and Committees as well as the risk management arrangements in place.

A separate assessment of the governance arrangements for the Integrated Case Management System is included as part of the value for money section.

## Governance Arrangements

107. In 2017/18 we have reviewed the governance structures in place at SCTS. There were no significant changes in the financial year. The Board continues to operate under the chairmanship of the Lord President of the Court of Session and is supported by four committees:

### Exhibit 7: Committee structure at SCTS

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

108. The Chief Executive sits on the Board and represents the executive team. We are aware that the Chief Executive is fully briefed on key issues by the executive team prior to all Board meetings thus ensuring he can provide informed responses to member's queries. The Board may wish to consider if it would be beneficial for members of the executive team to also attend Board meetings to provide advice and support relevant to their operational responsibilities and address any queries or challenge by the Board.

109. In May 2018 the Scottish Government updated it's guidance for audit committees in the public sector through an update to its Audit Committee Handbook.

110. The revised handbook sets out the fundamental principles relating to the role, membership and work of the Audit and Assurance Committees.

111. We have summarised the changes to the Audit Committee Handbook and shared with SCTS management. The changes may require action from the Audit and Risk Committee to ensure it remains compliant. Our audit work in 2018/19 will include consideration of actions to align to the new handbook.

## Openness and transparency

112. One of the sector risks identified by Audit Scotland for 2017/18 relates to public sector organisations keeping pace with public expectations relating to openness and transparency.

113. Audit Scotland's Role of Boards report, published in September 2010, found that there was wide variation in the openness and transparency of boards of public bodies. Central government organisations were the least open of public boards in 2010, with 0% holding board meetings in public, against an average of 41% across the public sector. In line with this finding SCTS do not hold its meetings in public.

114. Transparency can also be achieved through giving the public access to information about how the Board is making decisions. SCTS publish detailed board minutes on its website but no other papers or minutes are published. SCTS has noted that specific papers may be made available to the public on request where it is deemed appropriate.

115. The Ethical Standards in Public Life etc. (Scotland) Act 2000 requires all public bodies to keep a public list, or register, of individual board members' interests.



- 116. In 2016/17 we noted issues with the register of interests including a need to ensure it was formally reviewed on at least an annual basis and a recommendation to improve transparency through public on the website.
- 117. SCTS formally considered the position in regards to the publication of papers and register of interests and considered the current approach to be appropriate.
- 118. Public expectations with regards to openness and transparency in the conduct of business are increasing therefore SCTS should continue to consider areas where there may be scope to enhance transparency.

## Risk Management

- 119. Public sector bodies face increasing demand for quality service at a time of significant financial pressure. Well-developed risk management arrangements help bodies to make effective decisions and secure better use of resources.
- 120. SCTS has an established risk management framework in place which sets out the risk management process and culture. Risk management reports are presented as a standing item to the Audit and Risk Committee and are report to the Board on a six monthly basis.
- 121. SCTS risk management arrangements and top strategic risks are outlined in the annual report and accounts. We concluded that in 2017/18 the SCTS has adequate risk management arrangements in place.

## Information Governance

### Cyber Security

- 122. In May 2017, a number of health boards across NHS Scotland were affected by the Wannacry global ransomware attack. In response to this the Scottish Government launched 'A Cyber Resilience Strategy for Scotland: Public Sector Action Plan, 2017/18'.
- 123. The action plan outlines a number of requirements that public bodies should be taking forward. This includes an action for public bodies to achieve a Cyber Essentials Plus certification by the end of October 2018.
- 124. SCTS is currently reviewing and refreshing its suite of information security policies. In addition

to this an Information Security Policy Framework is in draft.

### General Data Protection Regulations

- 125. The General Data Protection Regulations came into force in the UK on 25 May 2018. The regulations replace the Data Protection Act 1998 and, as well as strengthening existing regulations, the Act has brought in new legislative duties for SCTS. The regulations bring significant potential penalties for non-compliance.
- 126. The Audit and Risk Committee had a deep dive session on Information Management and Data Protection in November 2017 which covered the risks to compliance with the Regulations. The deep dive session identified key priorities for 2017/18 in order to comply with the revised regulations.
- 127. At the April 2018 Audit and Risk Committee the risk around the General Data Protection Regulations had been reduced to low and actions outstanding were outlined.
- 128. Compliance with the Regulations is an ongoing process, which we will continue to monitor as part of our annual audit procedures in the future. We have not identified any significant risks to compliance with the regulations at this stage.

# 6

## Value for money

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 SCTS's own reporting of its performance.

# Value for money



SCTS has an established and appropriate performance management framework in place.

SCTS met 12 out of 17 key performance indicators on a consistent basis across 2017/18. In addition to this 24 out of 31 objectives from the business plan were delivered in year.

## Significant audit risk

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

### Integrated Case Management System (ICMS)

SCTS implemented ICMS during 2016/17, with further features rolled out during 2017/18. To achieve value for money, it is vital that the system is effective, has been implemented correctly and is subject to regular review. Our work in 2016/17 concluded that there was significant scope to enhance the management controls around this key strategic project. In particular, we considered there was a clear need for improved management and control over project expenditure.

SCTS recognised that the governance arrangements around ICMS need to be strengthened. SCTS advised that the Full Business Case would be reviewed by 31 December 2017, with a view to:

- confirming the revised level of project expenditure and update the benefits as realised and projected; and
- allowing appropriate scrutiny and challenge.

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. 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.

*Excerpt from the 2017/18 External Audit Plan*

130. In 2017/18 we reviewed the level of progress made by SCTS, focusing particularly on the governance of the project and the implementation of actions identified by previous audit findings.

We have outlined our findings at paragraphs 139 to 161 and recommended a number of actions which are outlined in Appendix 2.

### SCTS has demonstrated good performance against targets overall, but a small decline in performance against prior year

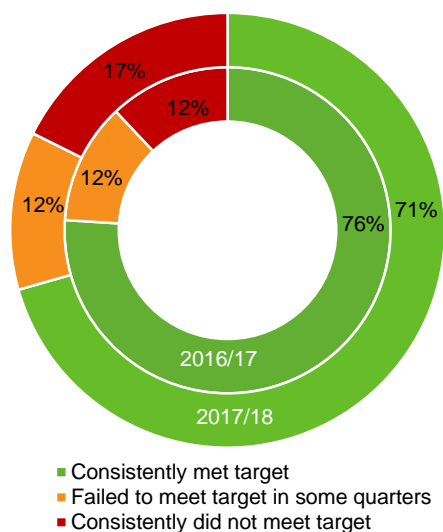
131. SCTS reported against 17 key performance indicators, which are aligned to strategic priorities in 2017/18. We have analysed the performance against target as those which are:

- meeting target throughout the year;
- mixed performance over the year; and

- consistently below target across the year.

132. Our analysis shows a good performance in general with 71% of targets being met or exceeded and only 17% which had consistent exceptions over the course of the year.

**Exhibit 8: Performance against target in 2017/18**



**133.** Performance in 2017/18 has fallen compared to the prior year with a greater number of indicators showing varied performance across the year. The areas of underperformance have moved in year as shown by the table below there are 2 areas where the performance was in line with target over the year in 2016/17 but not in 2017/18.

**134.** In addition, in 2016/17 it was reported that the average period between a High Court preliminary hearing and the conclusion of the trial exceeded the 21 week target due to pressure on high court capacity. It was noted that at the end of 2016/17 remedial action had been taken and was having impact. The impact of this action is demonstrated through the reported achievement of this target consistently in 2017/18.

**Exhibit 9: Key performance indicators consistently not met in 2017/18**

KPI target not met	SCTS commentary	Issue in prior year
Percentage of summary criminal cases disposed of within 26 weeks	SCTS has noted that this target relies on partnership working and although the overall target was not reached across the year it has ensured that the optimum period for the court element of this process (16 weeks) has been achieved consistently.	Yes
Investment in the estate (assessment of investment levels to ensure backlog maintenance is being managed effectively)	SCTS noted that considerable resource was dedicated to tackling backlog maintenance over the course of the year the value covered (£4.8 million) fell short of the 2017/18 target (£5.1 million).	No
The proportion of summary trials at which no evidence was led and were subsequently adjourned to another diet.	This indicator remained at amber (30- 35%). The SCTS has noted that it has limited control over the achievement of this indicator as the majority relate to either the non-attendance of essential witnesses or parties not being prepared.	No

**Performance against business plan**

**135.** In addition to monitoring the key performance indicators the SCTS monitor performance against the objectives as set out in the annual business plan.

**136.** The 2017-18 Business Plan sets out 31 desired outcomes, of which 24 were fully completed within the financial year, three were partially delivered, three were deferred until 2018/19 and one was closed as legislation to secure its delivery was not secured at the UK Parliament. Those deferred into 2018/19 are outlined below:

- the extension of the use of automated payment facilities to include payments to jurors;
- the procurement of a framework contract for the development and support of hosting a unified intranet and website platform; and
- addressing the backlog maintenance across the estate.

137. SCTS has taken action to ensure that the outstanding actions from 2017/18 are re-profiled into the 2018/19 business plan actions.

### Integrated Case Management System

138. In July 2014, SCTS undertook a procurement exercise for ICMS to replace the existing Court Management System (CMS) which was 16 years old and approaching the end of its useful life.

139. The successful bidder for developing and implementing ICMS was Kainos. The projected 10-year lifecycle cost of ICMS was set out in the original business case as £4.4m. The contract with Kainos was signed in January 2015 and work commenced in March 2015.

140. Since the awarding of the contract, a number of significant changes have been made to the core platform and civil online. This has resulted in the size of the product being increased. This includes a decision towards hosting ICMS within a cloud environment, as opposed to the originally planned on-site hosting.

141. In 2018, a revised business case was prepared for the ICMS project. This was approved in March 2018, and contained revised projected lifecycle costs of £12.7m. The revised business case showed an increase in the estimated build time from 20 months to 55 months.

142. It is expected that by September 2019, phase one and two of Civil Online, the functionality to introduce case management within the Court of Session and the functionality to support Simple Procedure Special Claims (SPSC) will be in place.

143. In September 2017, a new project manager was recruited for and appointed to the ICMS project. We were informed that this has supported improvements in project planning and governance.

### Business case

144. SCTS has committed to continuing investment in the Integrated Case Management System (ICMS). Since the original business case was approved, the expected project cost has increased by approximately 300% (i.e. from £4.4m to £12.7m). A revised business case was approved in March 2018.

145. Unusually for a business case, alternative options/solutions were not identified and evaluated for the ICMS project. Instead the business case adopts the current project pathway as the most appropriate for digitising activities.

### Action plan point 7

### Project progress

146. Phase 1 of Civil Online was launched on 13 March 2018. The release date was in line with the revised Civil Online Phase 1 plan, which was finalised on 14 September 2017. Phase 1 enables end-users to track their cases on line. Phase 2 is currently in development mode and is expected to be rolled out in early 2019. Phase 2 will enable end users to transact with the courts electronically, and specifically, this will allow: online case registration, electronic submission of documents, and automated fee payments.

147. A monthly project progress report is prepared and reported to the project board on a monthly basis. The latest progress report (dated 12 July 2018) showed a "Red" RAG status for the project. The red rating was due to phase 2 of Civil Online no longer being developed within the current 18 + 2 sprint model. As a result, there is a risk that phase 2 will not be implemented in Q1 of 2019.

148. The extension of development element of Phase 2 beyond the original July date is due to emerging requirements as development has progressed. . This has resulted in an increase in the size of the expected product. A scope and size exercise is currently in progress and following completion of this, project plans will be updated.

**149.** The unexpected increase in demand highlights the need for improved disciplines and approach in identifying requirements within the organisation. SCTS is in the process of completing the discovery stage for the implementation of ICMS into the Court of Session. This will help identify the requirements and delivery approach for implementation of ICMS into the Court of Session and is expected to be completed in July 2018. It is likely that development work for the Court of Session will be impacted by the extended development of phase 2.

#### **Contract discussions**

**150.** At the time of our review, SCTS was in contract negotiations with Kainos regarding charge rates for future deliverables. An agreement had not been reached at the time of our review and work was being progressed for the time being 'at risk'. It will be important that SCTS reaches an agreement with Kainos that provides value for money and which does not put further phases of the project at risk.

#### ***Action plan point 8***

#### **Progressing actions from reviews**

**151.** During the course of the ICMS project there have been a number of reviews performed. In addition to our own work, there have been reviews conducted by Internal Audit, Scottish Government Technical Assurance team and an independent third party who has reviewed the procurement and contract management arrangements.

**152.** We noted that trackers are being maintained of all recommendations and agreed actions from each review. From reviewing these trackers, it is evident that there is a process in place where the actions are being monitored for progress. We did note a small number where it was not evident what progress is being made in addressing actions. For example, recommendations 2, 3 and 5 from the Technical Assurance review in February 2018 state that, for both May and July 2018, there is "no update".

#### ***Action plan point 9***

# 7

## Appendices

# Appendix 1: Respective responsibilities of SCTS and the Auditor

## Responsibility for the preparation of the annual accounts

It is the responsibility of SCTS and the Chief Executive, as Accountable Officer, to prepare financial statements in accordance with the Government Financial Reporting Manual (FRoM) issued by HM Treasury and the accounts directions issued by Scottish Ministers under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000.

**In preparing the annual report and accounts, SCTS and the Chief Executive, as Accountable Officer are required to:**

- apply on a consistent basis the accounting policies and standards approved by Scottish Ministers;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Financial Reporting Manual have not been followed where the effect of the departure is material;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Board will continue to operate; and
- ensure the regularity of expenditure and income.

**Board members are also responsible for;**

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Auditor responsibilities

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

- they 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 board's affairs as at 31 March 2018 and of its net expenditure for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 FRoM ;
- they 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 auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the



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

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 annual accounts and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

## 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 financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

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

## Independence

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. We can confirm that we have complied with the Financial Reporting Council's Ethical Standards. 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, its Board members or senior management that may reasonably be thought to bear on our objectivity and independence.

# Appendix 2: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

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. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist. The weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication of the 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:

Grade	Explanation
Grade 5	Very high risk exposure - Major concerns requiring immediate attention.
Grade 4	High risk exposure - Material observations requiring management attention.
Grade 3	Moderate risk exposure - Significant observations requiring management attention.
Grade 2	Limited risk exposure - Minor observations requiring management attention
Grade 1	Efficiency / housekeeping point.

Action plan point	Issue, Risk & Recommendation	Management Comments
1. Capitalisation of staff costs	<p><b>Issue</b></p> <p>Finance will capitalise staff costs based on information provided by the relevant Service Unit. It is expected that Business Partners will have reviewed this information, however they do not provide any formal assurance to Finance that it is appropriate to capitalise these costs, or that all relevant costs have been identified.</p> <p>In addition, Finance cannot identify which assets this spend relates to and so will recognise on the register as a separate asset, rather than an addition to a specific asset.</p> <p><b>Risk</b></p> <p>There is a risk that SCTS is not appropriately capitalising staff costs in line with the accounting standards and subsequently holding assets at an incorrect value.</p> <p><b>Recommendation</b></p> <p>Finance should only capitalise costs on receipt of formal approval from the Business Partner and evidence of this should be retained.</p> <p>Where staff costs are capitalised, this should be recognised on the asset register as part of an existing asset, and not as a separate entry.</p>	<p>This recommendation is accepted and work is underway to review and further formalise the process for capitalising of staff costs.</p> <p><b>Responsible officer:</b> Director of Finance &amp; Procurement</p> <p><b>Implementation date:</b> December 2018</p>
Rating		
Grade 2		
Paragraph ref		
28		

Action plan point	Issue, Risk & Recommendation	Management Comments
<b>2. Dilapidations provision</b>	<p><b>Issue</b></p> <p>SCTS receive an estimate of the dilapidations on leased properties from independent valuers. Historically the estimated dilapidation has been recognised as a provision at the inception of the lease. However, this is not in line with IAS 37 which states that a provision should only be recognised when there is a probable outflow of resources. This would generally be when the wear and tear or damage has occurred.</p> <p><b>Risk</b></p> <p>There is a risk that the dilapidations provision is overstated up to a maximum of £1.183 million.</p> <p><b>Recommendation</b></p> <p>We recommend that SCTS review its estimation methodology and judgements in this area to ensure an appropriate provision is recognised.</p>	<p>This recommendation is accepted and work will be undertaken to review the estimation methodology and judgements of the dilapidations provisions.</p> <p><b>Responsible officer:</b> Director of Finance &amp; Procurement</p> <p><b>Implementation date: December 2018</b></p>
<b>Rating</b>		
<b>Grade 3</b>		
<b>Paragraph ref</b>		
<b>31</b>		

Action plan point	Issue, Risk & Recommendation	Management Comments
<b>3. Fraud policy</b>	<p><b>Issue</b></p> <p>SCTS have a published fraud policy, however we have noted that the policy has not been reviewed since March 2015.</p> <p><b>Risk</b></p> <p>There is a risk that fraud goes undetected or reported due to out of date or inaccurate information included in the fraud policy.</p> <p><b>Recommendation</b></p> <p>SCTS should review and update their fraud policy as appropriate and should ensure the policy is subject to regular review.</p>	<p>The anti-fraud policy will be updated for submission to the November Audit &amp; Risk Committee for approval. Consideration will be given to staff awareness and communication of the revised policy.</p> <p><b>Responsible officer:</b> Head of Financial Governance</p> <p><b>Implementation date:</b> December 2018</p>
<b>Rating</b>		
<b>Grade 3</b>		
<b>Paragraph ref</b>		
<b>66</b>		

Action plan point	Issue, Risk & Recommendation	Management Comments
<b>4. Internal audit plan</b>	<p><b>Issue</b></p> <p>In 2017/18 the proposed coverage for the Internal Audit Plan was included as an appendix to the January 2017 Progress Report. A formal audit plan was not presented to the Board and therefore did not receive the level of scrutiny and challenge expected.</p> <p><b>Risk</b></p> <p>There is a risk that internal audit work does not address the concerns of those charged with governance and does not provide the desired coverage and assurance required by the Audit and Risk Committee.</p> <p><b>Recommendation</b></p> <p>SCTS ensure the Audit and Risk Committee receive a formal audit plan prior to the start of the financial year.</p>	<p>The presentation of the Internal Audit plan to the Audit &amp; Risk Committee for 2017-18 was not in accordance with usual practice because of a number of factors including changes to the audit year. Internal Audit advised the Committee in April that 'The Draft plan for the 2017/18 audit year presented to the last Committee meeting and discussed with ARC members on 6 February 2017, was approved by the Accountable Officer.'</p> <p>The 2018-19 Internal Audit plan was presented to the Audit &amp; Risk Committee as a separate paper in April 2018.</p> <p>No further action planned.</p> <p><b>Responsible officer:</b> Head of Financial Governance</p> <p><b>Implementation date:</b> No further action required.</p>
<b>Rating</b>		
<b>Grade 3</b>		
<b>Paragraph ref</b>		
<b>73</b>		

Action plan point	Issue, Risk & Recommendation	Management Comments
<b>5. Asset Verification</b>	<p><b>Issue</b></p> <p>SCTS are unable to undertake regular asset verification exercises as they do not have the necessary arrangements in place.</p> <p>Assets are not tagged and location is not clearly or reliably recorded on the fixed asset register. Hence it is not possible to trace an entry on the register to a physical asset, or vice versa.</p> <p><b>Risk</b></p> <p>With no regular verification, there is a risk that SCTS will continue to hold assets on their register that are no longer in use. Additionally, SCTS are unable to systematically and formally review all assets held for any indication of impairment.</p> <p>As a result, the value of property, plant and equipment may be overstated in SCTS annual accounts.</p>	<p>This recommendation is accepted and we will undertake an asset verification exercise at least annually for all high risk assets shown in our annual accounts.</p> <p><b>Responsible officer:</b> Director of Finance &amp; Procurement</p> <p><b>Implementation date:</b> June 2019</p>
<b>Rating</b>		
<b>Grade 3</b>		
<b>Paragraph ref</b>		
<b>81</b>		

<b>Recommendation</b>	
SCTS should undertake an asset verification exercise at least annually for all high risk assets.	

Action plan point	Issue, Risk & Recommendation	Management Comments
<b>6. Developing savings options</b>	<p><b>Issue</b></p> <p>In 2017/18 SCTS developed a Financial Strategy, which identified a shortfall of funds in each of the years from 2019/20 to 2023/24. This has helped focus the SCTS on the key risks it faces with regards to financial sustainability; however the process did not fully address how SCTS will bridge the predicted funding shortfall.</p> <p><b>Risk</b></p> <p>There is a risk that the level and quality of service delivery is not maintained due to lack of long term financial planning.</p> <p><b>Recommendation</b></p> <p>Looking forward SCTS should develop savings options to bridge the funding gap.</p>	<p>The SCTS will identify and quantify opportunities for efficiency and economy through the Spending Review process. To support our input to the Spending Review we have established a Cost Reduction Group and a Pay and Salary Cost Group.</p> <p>The Financial Strategy reflects 5 strategic priorities to ensure that stable and sustainable funding remains in place for SCTS in the medium and long term.</p> <p>In particular we will ensure, through Government, that access to the courts and tribunals are afforded appropriate protection through seeking to strengthen our framework agreement with Scottish Government and setting out the appropriate level of service that SCTS must provide to ensure access to justice.</p> <p><b>Responsible officer:</b> Chief Finance Officer</p> <p><b>Implementation date:</b> March 2019</p>
<b>Rating</b>		
<b>Grade 3</b>		
<b>Paragraph ref</b>		
<b>94</b>		

Action plan point	Issue, Risk & Recommendation	Management Comments
<b>7. ICMS business case</b>	<b>Issue</b> SCTS approved a revised business case for the ICMS system in March 2018. We noted that alternative options and solutions were not identified or evaluated for the project.	As a live document the refreshed businesses case reflected the increased scope and whole life costs of ICMS.
<b>Rating</b>		
<b>Grade 4</b>	<b>Risk</b> There is a risk that ICMS does not represent the most effective option for SCTS and that an alternative system may offer better value for money.	The longer term ICMS road map is being reviewed to inform the future procurement strategy and commercial relationship. The supporting business case will analyse all potential options in detail.
<b>Paragraph ref</b>		
<b>145</b>	<b>Recommendation</b> Future business cases should include details of all options that have been explored by SCTS. Each of these options should be subject to a detailed analysis to allow management and the Board to confirm that the preferred option delivers best value to the organisation.	<b>Responsible officer:</b> Kay McCorquodale <b>Implementation date:</b> March 2019

Action plan point	Issue, Risk & Recommendation	Management Comments
<b>8. ICMS contract management</b>	<b>Issue</b> At the time of our review, SCTS was in contract negotiations with Kainos. Agreement had not been reached at the time of our review and work was being progressed for the time being 'at risk'.	Negotiations are well advanced and expected to be completed by end August.
<b>Rating</b>		Contingency, risk and impact assessments have informed our negotiations.
<b>Grade 3</b>	<b>Risk</b> It will be important that SCTS reaches an agreement with Kainos that provides value for money and which does not put further phases of the project at risk.	<b>Responsible officer:</b> Kay McCorquodale
<b>Paragraph ref</b>		<b>Implementation date:</b> September 2018
<b>150</b>	<b>Recommendation</b> Management should develop formal contingency plans in the event that a satisfactory agreement cannot be reached with Kainos to continue development of ICMS beyond 31 July 2018. This should include detailed risk and impact assessment for Phases 2 and 3 of the project and identification of alternative strategies beyond that date.	

Action plan point	Issue, Risk & Recommendation	Management Comments
<b>9. ICMS action tracking</b>	<p><b>Issue</b></p> <p>Our review considered the actions arising from previous audit work and other reviews of the ICMS system. SCTS have trackers in place for all recommendations and our review noted that there is evidence that actions are being monitored. However, we noted that for a number of actions in both the May and July report no update was provided.</p> <p><b>Risk</b></p> <p>There is a risk that actions are not implemented appropriately.</p> <p><b>Recommendation</b></p> <p>Management should ensure that all actions from ICMS reviews are appropriately progressed. If there are reasons why updates cannot be provided, this should be formally documented.</p>	<p>The three actions identified were either long term actions that did not require a monthly update or actions that were not updated due to annual leave during July. Neither had any impact on the progress of the actions.</p> <p>All actions are tracked and reported to the Project Board</p> <p><b>Responsible officer:</b></p> <p>Alison Adams</p> <p><b>Implementation date:</b></p> <p>Complete</p>
<b>Rating</b>		
<b>Grade 3</b>		
<b>Paragraph ref</b>		
<b>152</b>		



# Appendix 3: Follow up on prior year action plan

## Outstanding recommendations from 2015/16

Action plan point	Issue & Recommendation	Previous Management Comments	2017/18 year-end update
<p><b>Long term financial strategy</b></p> <p><b>Grade 4</b></p>	<p><b>Issue identified</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><b>Recommendation</b></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>The development of a long-term Financial Strategy has already been identified as one of our corporate goals and the strategy will be published by 31 December 2016.</p> <p>The strategy 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></p> <p>Chief Finance Officer</p> <p><b>Completion date:</b></p> <p>31 December 2016</p> <p><b>2016/17 update</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><b>Responsible Officer:</b></p> <p>Chief Finance Officer</p> <p><b>Completion date:</b></p> <p>31 December 2017</p>	<p><b>External audit update</b></p> <p>Management considered this action closed as at 31 March 2018, following approval of the financial strategy.</p> <p>SCTS have delayed publishing it however, until after the publication of the Scottish Government financial strategy.</p> <p><b>Action substantially complete</b></p> <p><b>Management comments:</b></p> <p>A review of the approved financial strategy will be undertaken to ensure that it captures the assumptions used in the now published SG financial strategy. Once this review is complete we will close off this action.</p> <p><b>Responsible officer:</b></p> <p>Chief Finance Officer</p> <p><b>Implementation date:</b></p> <p>October 2018</p>

Action plan point	Issue & Recommendation	Previous Management Comments	2017/18 year-end update
<p><b>Digital strategy</b></p> <p><b>Grade 3</b></p>	<p><b>Issue identified</b></p> <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>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><b>Recommendation</b></p> <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>As set out in our current Business Plan, SCTS has begun work on creating a digital strategy.</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 March 2017.</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> <p>An implementation plan will be delivered for ongoing monitoring of progress.</p> <p><b>Responsible Officer:</b></p> <p>Chief Finance Officer</p> <p><b>Completion date:</b></p> <p>31 March 2017</p> <hr/> <p><b>2016/17 update</b></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> <p><b>Responsible Officer:</b></p> <p>Chief Finance Officer</p> <p><b>Completion date:</b></p> <p>31 October 2017</p>	<p><b>External audit update</b></p> <p>Digital strategy was approved by the Board in 2018 and subsequently published.</p> <p><b>Action complete</b></p>

## Outstanding recommendations from 2016/17

Action plan point	Issue & Recommendation	Previous Management Comments	2017/18 year –end update
ICMS	<p><b>Issue identified</b></p> <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>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> <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><b>Recommendation</b></p> <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>Accepted.</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> <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> <p>Action Plans are now in place for the lessons learned exercise, the contract review and technical assurance review.</p> <p><b>Responsible Officer:</b> Director Civil Court Reform</p> <p><b>Completion date:</b> 31 December 2017</p>	<p><b>External audit update</b></p> <p>Our review found that there was a need for a lessons learned review of processes defining requirements for ICMS developments.</p> <p><b>Management comments:</b></p> <p>In conducting this review, SCTS will assess whether operating a hybrid (part-Waterfall/part-Agile) project methodology has had any impact on the process.</p> <p><b>Responsible officer:</b> Chief Development and Innovation Officer</p> <p><b>Implementation date:</b> March 2019</p>
Grade 4			

Action plan point	Issue & Recommendation	Previous Management Comments	2017/18 year-end update
Key account rec's	<p><b>Issue identified</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><b>Recommendation:</b></p> <p>Management have recognised this issue and plan to standardise key account reconciliations and retain evidence of secondary review.</p>	<p>Accepted.</p> <p>All reconciliations will be reviewed in April with a standard approach adopted. Secondary review will be implemented with the reconciliations signed off and saved electronically.</p> <p><b>Responsible Officer:</b></p> <p>Director of Finance and Procurement</p> <p><b>Completion date:</b></p> <p>31 May 2017</p>	<p><b>External audit update:</b></p> <p>Standardised reconciliations have been implemented and completion is monitored through the reconciliation tracker. We confirmed that year-end reconciliations have been appropriately completed for all key accounts.</p> <p>Considerable investigatory work has been conducted by SCTS over the fees and fines control account reconciliation. Additional controls were implemented in 2017/18 to minimise the level of error going forward. Journals are now completed daily rather than monthly and individual journals above £100k are subject to approval by the Head of Financial Accounting prior to posting. As at 31 March 2018, the balance on the control account is £0.73million.</p> <p><b>Action complete</b></p>
Grade 4			

Action plan point	Issue & Recommendation	Previous Management Comments	2017/18 year-end update
Payroll controls	<p><b>Issue identified</b></p> <p>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 are no system controls in place enforce segregation of duties.</p> <p>There is no evidence of secondary review of manual payroll calculations, such as leavers annual leave entitlement and new start's first salary payment.</p> <p>There is no evidence of secondary review of the last tax rate change input to the payroll system.</p> <p>There is a risk that inaccurate or inappropriate amendments are made to payroll data resulting in erroneous or fraudulent payments being made.</p> <p><b>Recommendation</b></p> <p>SCTS should review the access available to Resource Link and consider whether access restrictions are appropriately. All changes made to standing payroll data should be subject to review.</p>	Accepted.	<p><b>External audit update</b></p> <p><u>Access to Resource Link:</u> This action was closed by Audit &amp; Risk Committee in November 2017 as a plan is in place with payroll provided Northgate to improve segregation of duties within the system.</p> <p>However, at the time our audit, no changes had been made and both Payroll and HR teams had full access to the Resource Link system.</p> <p>No further mitigating controls have been implemented to address this.</p> <p><b>Management comments</b></p> <p>HRU continue to adopt a proportionate and effective risk based and continuous improvement approach to system access and payroll processing within the HR and payroll functions.</p> <p>Our payroll system providers, NGA, have provided information on how to set up audit functionality within our payroll system. However, this solution has implications that would make the payroll system work less efficiently than we require, therefore implementation of this recommendation in full would not be proportionate or beneficial. SCTS will continue to manage this on a risk based approach until the review of all our HR systems, including payroll, with a tender exercise due to take place mid-2019.</p> <p><b>Responsible officer:</b></p> <p>HR Director</p> <p><b>Implementation date:</b></p> <p>January 2020</p>
Grade 3		<p><u>Access to Resource Link:</u> HR will be arranging a meeting with Northgate (HR/Payroll system provider) to discuss options for ensuring segregation of duties built into Resource Link. Action by 30 June 2017</p> <p>Depending on result of meeting will put in place a plan for improving segregation of duties. Action by 30 September 2017</p> <p><u>Secondary review of manual calculations:</u> HR has put in place a process for secondary review of 100% of manual payroll calculations for new starts and leavers. There is a sample secondary review for all other manual calculations.</p> <p><u>Evidence of last tax rate change:</u> HR has put in place a process for secondary review of the tax rate change applicable for the 2017/18 tax year. This will be actioned by 30 April 2017.</p> <p><b>Responsible Officer:</b></p> <p>Director of HR</p> <p><b>Completion date:</b></p> <p>30 September 2017</p>	



Action plan point	Issue & Recommendation	Previous Management Comments	2017/18 year-end update
<p><b>Financial regs, policies and procedure</b></p>	<p><b>Issue identified</b></p> <p>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 centrally and within the courts. Management have recognised this issue and plans are in place to revise and improve the extant corporate documentation.</p> <p>A number of policies and procedures are in place across the finance functions. However discussions with officers indicated that the procedures in place do not always reflect current practice and are not always readily accessible.</p> <p>There is a risk that processes and controls are not being applied consistently resulting in misstatements within the financial statements, unapproved spend or reduced likelihood of detecting fraud. Given the high level of staff turnover within the finance function in recent years, the relative lack of experience within the team and the introduction of new processes we consider well documented procedures to be crucial to ensure a strong control environment.</p> <p><b>Recommendation</b></p> <p>SCTS should ensure that comprehensive Financial Regulations are produced, maintained and subject to regular review. The regulations should be supported by a proportionate suite of policies and procedures outlining the practical controls to be operated across all finance functions.</p>	<p>Accepted.</p> <p>A review and update of all Financial Regulations and supporting policies and procedures will be undertaken during 2017-18</p> <p><b>Responsible Officer:</b></p> <p>Director of Finance and Procurement</p> <p><b>Completion date:</b></p> <p>31 March 2018</p>	<p><b>External audit update</b></p> <p>Draft financial regulations have been prepared. However, work is still on-going to establish, collate and develop the underlying set of policies and procedures.</p> <p>There are a number of policies and procedures in place across SCTS. No one individual or team has oversight of these however, and so a high level of time and resource is required to collate these.</p> <p>Further work required to complete this action.</p> <p><b>Management comments</b></p> <p>The observation regarding lack of overall oversight/ownership of policies and procedures is recognised and one which we seek to address. The development plan going ahead for this work is:</p> <p>Draft revised overarching 'Financial Regulations' document and prioritised list of policies and guidance requiring update/preparation – December 2018</p> <p>Development of policies and guidance – Ongoing.</p> <p><b>Responsible officer:</b></p> <p>Head of Financial Governance</p> <p><b>Implementation date:</b></p> <p>March 2019</p>
<p><b>Grade 3</b></p>			

Action plan point	Issue & Recommendation	Previous Management Comments	2017/18 year-end update
Delegated contract authority	<p><b>Issue identified</b></p> <p>All officers with delegated authority to make purchases also have delegated authority to enter in to contracts.</p>	<p>Accepted.</p> <p>A review of the Scheme of Financial Delegation will be undertaken during 2017-18.</p>	<p><b>External audit update</b></p> <p>Revised Scheme of Financial Delegation was approved by the Executive Team in April 2018 and published on the staff intranet. We confirmed that this also covers delegated contract authority.</p>
Grade 3	<p>SCTS cannot be certain that the contract register is complete and there is a risk that officers enter into contracts without appropriate review from Procurement. This could result in contract commitments that do not achieve value for money or an adequate quality of service. Disclosures of contract commitments within the financial statements could also be misstated.</p> <p><b>Recommendation</b></p> <p>SCTS should review the scheme of contracting authority and consider whether the current approach remains appropriate. All contracting officers should be aware of the requirement to achieve value for money.</p>	<p>The review will determine what authority is required, including the authority definition and make risk based recommendations to the Executive Team.</p> <p>The outcome of the review will also inform the Financial Regulations in respect of contracting officer responsibility to secure value for money.</p> <p>The implementation of PECOS (eProcurement tool) during 2017-18 will help to improve the visibility of contract commitments.</p> <p><b>Responsible Officer:</b></p> <p>Director of Finance and Procurement</p> <p><b>Completion date:</b></p> <p>31 March 2018</p>	<p>PECOS was implemented during 2-17/18, which has improved visibility of contract commitments.</p> <p><b>Action deemed complete</b></p>



## Recommendation not yet due

Action plan point	Issue & Recommendation	Previous Management Comments	2017/18 year-end update
<p><b>ICMS fees and invoices</b></p> <p><b>Grade 3</b></p>	<p><b>Issue identified</b></p> <p>SCTS has been implementing the new integrated case management system (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><b>Recommendation</b></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>Accepted.</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 April invoicing process.</p> <p><b>Responsible Officer:</b></p> <p>Director of Finance and Procurement</p> <p><b>Completion date:</b></p> <p>31 May 2017</p>	<p><b>External audit update</b></p> <p>SCTS now has a documented procedure in place. However, the procedure has not been in place for the full year to date and evidence of secondary review could not be confirmed during our visit.</p> <p>Additionally, a high level of manual intervention is still required in this process. We consider risk remains that invoices are inaccurate or incomplete, and that the invoices process is inefficient due to the high level of manual intervention required.</p> <p><b>Management comments</b></p> <p>Action closed by ARC at the Nov 2017 meeting as new processes are in place to verify the invoice data accuracy. Until an interface exists between ICMS and SEAS we will rely on a manual process, but considerable process improvements have been implemented so we have robust mitigating controls in place now. The interface is scheduled to be available to SCTS c. 6 months post go live of "own ledger", which is being delivered by SG FSD, so earliest possible date is December 2018.</p> <p><b>Responsible officer:</b></p> <p>Director of Finance and Procurement</p> <p><b>Implementation date:</b></p> <p>March 2019</p>



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