

Scottish Courts and Tribunals Service

2018/19 Annual Audit Report to the
Accountable Officer and the
Auditor General for Scotland

August 2019

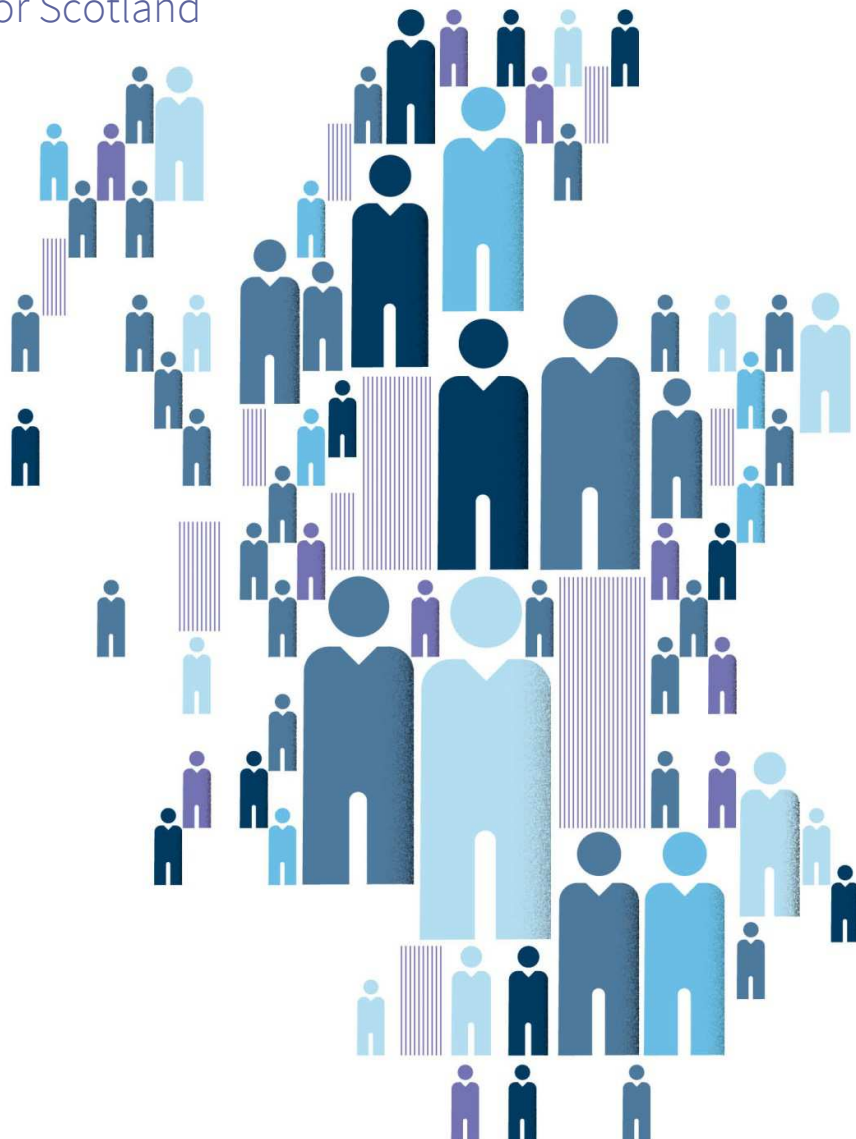
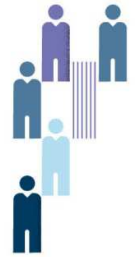




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1. Key messages



Annual accounts audit

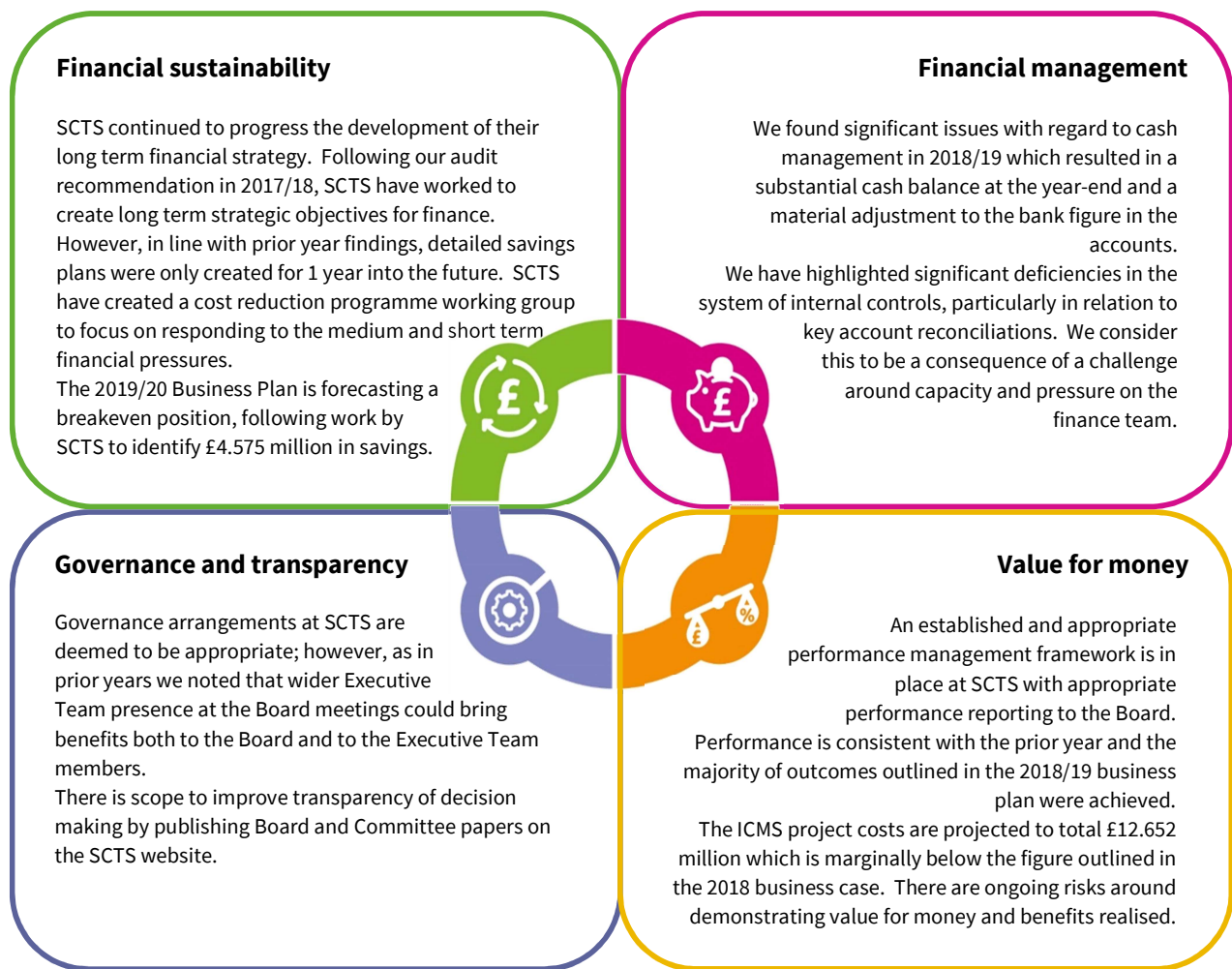
The SCTS met the overall budgetary requirements for the Departmental Expenditure Limit (DEL) in 2018/19 reporting a small underspend of £1.991 million, however, it was noted that in order to achieve this, a saving on the non-cash budget had to be utilised.

There was a significant overspend on the Annually Managed Expenditure budget (AME). It has been agreed with the Scottish Government that this will be met by the overall AME budget.

The annual report and accounts are due to be approved by SCTS on 19 August 2019. We intend to report within our independent auditor’s report an unqualified opinion on the annual accounts, regularity and on other prescribed matters.

We highlight issues in the audit process including the completeness and quality of working papers. This resulted in significant pressure on the finance team and the audit team in year.

Wider scope audit



Conclusion

This report concludes our audit for 2018/19. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.



2. 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 2018/19.

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.

The Accountable Officer and the Scottish Courts and Tribunals Service Board have designated the Audit and Risk Committee as “those charged with governance” for the purposes of audit communication.



Introduction

1. This report summarises the findings from our 2018/19 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 at the outset of our audit. The core elements of our work include:
 - an audit of the 2018/19 annual report and accounts and related matters;
 - a review of SCTS' arrangements for governance and transparency, financial management, financial sustainability and value for money;
 - monitoring SCTS' participation in the National Fraud Initiative (NFI); and
 - any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice



3. SCTS is responsible for preparing an annual report and accounts which 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. Senior management should assess these recommendations and consider their wider implications before deciding on appropriate actions. 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 Chief Finance Officer. 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) Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.
8. We set out in Appendix 1 our assessment and confirmation of independence.



Adding value through the audit

9. 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 standard of governance, better management and decision making and more effective use of resources.

Feedback

10. 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
11. While this report is addressed to SCTS and the Auditor General for Scotland, it will be published on Audit Scotland's website www.audit-scotland.gov.uk



3. Annual report and accounts

The Scottish Courts & Tribunals Service 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 2018/19 annual report and accounts.



Annual report and accounts

An unqualified audit opinion on the annual report and accounts

The annual report and accounts for the year ended 31 March 2019 are due to be approved by Scottish Courts and Tribunals Service on 19 August 2019.

Our audit of the annual accounts identified a number of significant issues in relation to: financial management; the capacity and skills within the finance team; and systems of internal financial control. The issues are discussed fully in the financial management section of this report; however, we note that these issues have resulted in material adjustments being made to the draft annual accounts presented for audit.

We have worked with the finance team to resolve the issues relating to the financial statements and we intend to report unqualified opinions within our independent auditor's report.

Overall conclusion

An unqualified audit opinion on the annual report and accounts

12. The annual report and accounts for the year ended 31 March 2019 are due to be considered by the Audit and Risk Committee on 5 August 2019 and approved by the Board on 19 August 2019. Subject to the satisfactory completion of our expenditure testing, we intend to report 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.

13. We are also satisfied that there are no matters which we are required to report by exception.

Administrative processes in place to prepare the accounts require significant improvement

14. We received the unaudited annual report and accounts and supporting papers in line with our audit timetable, however, there were a number of areas where the supporting documentation was not available at the commencement of the audit and in some instances not in line with our requirements. We have raised specific issues throughout this report.

15. Our thanks go to staff at SCTS for their assistance with our work.

16. The annual report and accounts will be submitted to the Scottish Government and Auditor General for Scotland by the 31 October 2019 deadline.



Our assessment of risks of material misstatement

17. 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. Management override

In any organisation there exists a risk that management has 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 2018/19 External Audit Plan

18. We have reviewed the SCTS' accounting records and obtained evidence to ensure that transactions outside normal processes 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.
19. While we have not identified any instances of management override from our testing in year we noted as part of our interim review that there was a lack of clarity over the finance team's access rights and restrictions to the new ledger. We are satisfied that we have obtained sufficient assurance that the figures in the annual report and accounts are not materially misstatement, however, we recognise there are control improvements required.

Action Plan point 1

2. Revenue recognition

Under ISA (UK) 240– *The auditors 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 SCTS could adopt accounting policies or recognise revenue transactions in such a way as to lead to material misstatement in the reported financial position.

Excerpt from the 2018/19 External Audit Plan

20. At the planning stage of our audit, we reported that we did not consider there to be a significant risk of fraud in relation to revenue recognition from government resourcing streams. For all non-government income, we have evaluated the type and extent of revenue transactions and reviewed the controls in place over revenue accounting. We have considered the board's key revenue transactions from non-government sources and carried out testing to confirm that the board's revenue recognition policy is appropriate and has been applied consistently throughout the year.
21. While we did not consider government grant income to be a significant risk we conduct testing on receipts to ensure the completeness and accuracy of this income as part of our standard audit approach. The SCTS finance team identified that £8.800 million of government grant income had not been receipted on to the ledger, however, corrective



action was not taken prior to the accounts being presented to the audit team, therefore the accounts included a material understatement of funding received in 2018/19. This has been adjusted in the revised accounts and is set out further in Appendix 3.

22. This adjustment was linked to significant weaknesses in the cash management processes across the year which are discussed fully as part of the financial management section.

3. Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 “The Audit of Public Sector Financial Statements” which applies to the audit of public sector financial statements for periods commencing after June 2016. This 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 2018/19 External Audit Plan

23. We have evaluated each type of expenditure transaction and documented our conclusions. We gained reasonable assurance from our testing over completeness and occurrence of expenditure and are satisfied that expenditure is not misstated in the annual accounts. To inform our conclusion we carried out testing to confirm that the board’s policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

4. Asset valuation and additions

SCTS has an extensive estate covering a range of buildings across Scotland. The value of land and buildings recorded in the 2017/18 accounts was £423.722 million. SCTS has noted challenges with the estates which includes a significant proportion of pre-1960’s buildings. The estates strategy outlines significant expenditure on repairs and maintenance but also significant capital spend to improve the buildings. Capital commitments of £24.530million were disclosed in the 2017/18 financial statements with the most significant element being the Inverness Justice Centre (£21,900). This is expected to be completed in 2018/19 and therefore a significant addition is expected.

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. Given the level of assets held, any misstatement in asset value could potentially result in a material misstatement in the financial statements.

Excerpt from the 2018/19 External Audit Plan

24. SCTS undertook a full valuation of the asset portfolio in 2018/19 with the value of assets as at 31 March 2019 being provided. This resulted in a net upwards movement across the estate of £52.936 million.
25. In 2018/19 SCTS employed an external valuer to provide the valuation of the land and buildings for the financial statements. In line with ISA 500 we have reviewed the competence, capability and objectivity of the valuer and gained an understanding of the scope and nature of their work.
26. ISA 500 requires that we evaluate the appropriateness of the experts work. As part of our review we compared the valuer’s results to our experience across the sector and identified a number of areas which we found to be unusual or inconsistent with our expectations. SCTS liaised with the valuer to investigate the reason for movements which included a number of differences in the key assumptions for calculating the Gross



Replacement Cost and Obsolescence Allowances.

27. Following detailed further review we are satisfied that the information used to inform the valuer's calculations is appropriate and that the assumptions applied by the valuer were in line with the guidance contained in the FReM (which requires valuers use the RICS red book). We are therefore satisfied that the value of the assets is not materially misstated in the accounts. However, we have requested that additional disclosure is included in the accounts regarding the estimation techniques applied and the impact on the accounts. We are pleased to note that the revised accounts were updated with an appropriate level of detail.
28. Our initial review of the valuer's report identified a number of inconsistencies with previously held information on asset values which required significant further investigation to resolve. We note that there was limited evidence to confirm that a similar in depth review had been conducted by management prior to adopting the asset valuations into the draft annual accounts. The valuer is seen as a management expert and it is the responsibility of management to ensure they are confident the information provided by the expert is appropriate and in line with expectations. We would therefore expect the management team to apply greater scrutiny and challenge on the results presented by the valuer going forward.

Action plan point 2

29. SCTS recorded in year additions of £24.236 million. We have reviewed capital transactions to ensure that they have been accounted for in line with the Government Financial Reporting Manual ('the FReM') and SCTS' accounting policies. We have gained assurance over the completeness and accuracy of these transactions and we are satisfied that the carrying value of additions in the financial statements is materially correct.

5. Dilapidations provision

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 appropriate commitment has been recognised in the notes to the financial statements.

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. Historically SCTS has estimated and recognised dilapidations 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 obligations arising from past event exist independently of an entity's future actions

We highlighted in 2017/18 that there was a potential overstatement of the dilapidations provision of £1.183 million.

Excerpt from the 2018/19 External Audit Plan

30. The dilapidations provision at the end of 2018/19 is £3.407m a decrease of £1.175m compared to 2017/18. This is as a result of a review of the accounting policies which in prior years recognised the full dilapidations provision at the inception of the lease. As outlined above this was not in line with IAS 37.
31. We have reviewed the current provision for dilapidations which includes an element relating to the restoration of the property following leasehold improvements and represents the costs associated with removing client furniture and fittings. A further element of provision is created for wear and tear over time and this is released over the life of asset. We have considered this and deem it to be an appropriate approximation of



the impact of the passage of time on the leased property.

32. This is a change in accounting policy; however, SCTS have elected not to restate prior year figures on the basis of materiality. We are satisfied that the net impact of the change in the accounting policy would not have a material impact in prior years and therefore we are satisfied that a prior year restatement is not required.

6. Accounting records

In 2018/19 SCTS moved to create their own independent ledger within SEAS, the Scottish Government accounting software. Moving between systems brings with it additional risk of misstatement. The key risks are that the data is incomplete following transfer or that the transferred figures are inaccurate.

Excerpt from the 2018/19 External Audit Plan

33. The transfer from the integrated Scottish Executive Accountancy Software (SEAS) ledger to an independent ledger within SEAS took place in June 2018 after several deferrals. The governance of the project was structured according to Prince 2 with the Scottish Government Financial Services Division (FSD) leading on the project as senior supplier and providing the Project Manager. SCTS were the customer with the SCTS CFO as Project Sponsor and the SCTS Head of Business Support as senior user. SCTS engaged the services of an external consultant to support the project internally. A significant volume of work was required to move period one and two transactions between the ledgers. The finance team used a migration account to transfer balances from the old ledger to the new SCTS ledger. This complex process, involving significant volumes of data, was done manually on the insistence of Scottish Government FSD, on a transaction by transaction basis tying up significant finance team resource for a number of months.
34. Our audit found that the transition process did not progress as planned reflecting a number of inter-related issues which impacted on the effectiveness of the process. We have listed a number of these issues below:
- The inclusion of PECOS (P2P) as part of the delivery of own ledger which imposed further burdens and stresses on the project.
 - There was a lack of sufficient resource within Scottish Government FSD to design and deliver electronic data migration. This required SCTS to deliver a manual data migration.
 - This approach was complex and unduly increased the resource and skill burden on the finance team and also introduced a higher risk of error into the migration process.
 - Faced with the inability to use an automated process, steps were taken by SCTS Finance to reduce the volumes of transactions to be manually entered including processing and paying as many accounts payable invoices as possible before migration and holding back later accounts payable invoices until they could be processed in the new ledger. Accounts receivable invoices for May 2018 were not raised in the old ledger but were held back until June 2018 so they could be raised in the new ledger. A temporary credit controller was engaged to reduce the accounts receivable balance.
 - There were insufficient Oracle skills and resources within the finance team to fully manage the level of work required to undertake the manual migration and the issues arising from the migration process. This resulted in tasks essential to running the business (e.g. bank reconciliations) being de-prioritised for the majority of 2018/19. The Scottish Government FSD had committed to support SCTS during the early stages of the migration, however due to conflicting priorities; the level of support required was not delivered.
 - Communication and liaison between the SCTS and Scottish Government teams was not fully effective leading to 'expectations gaps' around relative roles and responsibilities during the migration process. This led to a greater resource input from the SCTS finance



- team than expected to support the migration project and caused a number of tasks to be delayed.
- During the 2018/19 year, a number of issues arose which were logged but some of which were not fully resolved. Intervention came from the Scottish Government late in the year when the Scottish Government were alerted that the SCTS ledger needed attention to ensure the year end close could be achieved satisfactorily.
 - Regular reporting was undertaken by the Scottish Government project manager as well as the Consultant engaged by SCTS. The project sponsor was kept abreast of progress. There were several movements in the implementation date throughout the project which were discussed between SCTS and the Scottish Government. The final decisions were ratified by the Project Board.
35. At the year-end there was a small balance of £0.052 million on the migration account which reflects a potential error in the migration. In addition, accounts receivable had a balance of £1.664 million which had been transferred to the new ledger but due to the nature of the sub-ledger, could not be removed from the old ledger without being credited through migration. This balance was not removed due to time constraints but was mirrored in the new entity.
36. SCTS is working with the Scottish Government to clear and close the shadow accounts as well as the accounts receivable and accounts payable sub ledgers from the old ledger. SCTS do not have the authority to clear the shadow bank accounts and there was £12.336 million of such balances still held on the old ledger at the point of migration in period 3. The delay is due to the manual nature of the work
37. We have reviewed the balances on the ledger at the year-end to ensure the completeness of disclosures in the financial statements and we are satisfied that there is no material misstatement in the financial statements. We would encourage SCTS to complete the migration as soon as possible and review the process to identify lessons learned from this exercise.

Action plan point 3

Our application of materiality

38. 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 financial statements.
39. Our initial assessment of materiality for the financial statements was £2.250 million. On receipt of the 2018/19 draft financial statements, we reassessed materiality and maintained the £2.250 million threshold. We consider that our assessment has remained appropriate throughout our audit.
40. Our assessment of materiality is set with reference to SCTS' expenditure. We consider this to be the principal consideration for the users of the financial statements when assessing the financial performance.

Performance materiality

41. Performance materiality is the amount set by the auditor for each financial statement area, to reduce to an appropriately low level the probability that collectively any uncorrected and undetected misstatements are less than materiality for the financial statements as a whole.
42. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we are performing 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 table below:



| | Area risk assessment £million | | |
|-------------------------|----------------------------------|--------|-------|
| | High | Medium | Low |
| Performance materiality | 0.900 | 1.238 | 1.575 |

43. We agreed with the Audit and Risk Committee that we would report on all material corrected misstatements, uncorrected misstatements with a value in excess of £0.090 million, as well as other misstatements below that threshold which, in our view, warranted reporting on qualitative grounds.

Audit differences

44. We have highlighted one audit adjustment which was made to the unaudited financial statements for a material amount. This related to adjustments required to the bank account for items not appropriately processed to the ledger. The most significant was £8.800 million of funding from the Scottish Government which had not been recognised in the ledger.
45. We identified some disclosure and presentational adjustments during our audit which have been reflected in the final set of accounts.
46. We also identified three unadjusted errors which are not considered material to the annual accounts. These have been reported to the management and are included as an appendix to the letter of representation. The letter covers a number of issues and we have requested that it be presented to us at the date of signing the annual accounts.
47. All audit differences are detailed in full in Appendix 3.

An overview of the scope of our audit

48. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit and Risk Committee in January 2019. 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.
49. 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.
50. Our standard audit approach is based on performing a review of the key financial systems in

place, substantive tests and detailed analytical procedures. 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

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

Other information in the annual report and accounts

52. "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

53. 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.
54. 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

55. 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

56. We reviewed the draft governance statement as part of our audit work and we consider the coverage of the governance statement to be in line with our expectations.
57. Internal Audit provides a report on an annual basis which includes an independent opinion over the risk management, control and governance arrangements to support the governance statement. The 2018-19 report provided an opinion of reasonable assurance. However, limited



assurance was provided in relation to ICMS change management arrangements. This has been appropriately reflected in the Governance Statement and does not represent a control weakness we are required to consider as part of our work on the financial statements.

58. We have concluded that the governance statement has been prepared in accordance directions from Scottish Ministers and is consistent with the financial statements.

Remuneration and staff report

59. We have concluded that the audited part of the remuneration and staff report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.

Regularity

60. 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.

Whole of Government Accounts

61. SCTS is required to complete a Scottish Government consolidation pack. This pack contains a section to detail information on the whole of government accounts (WGA), which are consolidated financial statements for the public sector in the UK.
62. We are not required to audit this section of the pack as SCTS is below the de-minimus level of audit of £350 million of gross expenditure.
63. SCTS are still required to submit a return to the Scottish Government along with an assurance statement from the auditor. We have received the unaudited pack and expect to meet the Scottish Government submission deadline.

Looking forward – IFRS 16 Leases

64. IFRS 16 Leases will be effective from 1 April 2020. This will lead to a substantial change in accounting practice for lessees where the current distinction between operating and finance leases will be removed. Instead, it requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased property, and a lease liability

representing the lessee's obligation to pay for that right.

65. There are new requirements for measurement of the lease liability, which will initially be measured at the present value of the lease payments payable over the lease term but may rise to reflect any reassessment or lease modifications, or revised lease payments.
66. The finance team has commenced work to quantify the financial impact of the change in accounting standard. This will be a key area of focus for our 2019/20 audit.

Qualitative aspects of accounting practices and financial reporting

67. 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 consistent with the requirements of the FReM, with the exception of the policy for dilapidations provision which was amended in 2018/19 to bring in line with IAS 37 following audit recommendations. |
| 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>We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts. Significant estimates have been made in relation to the valuation of non-current assets, depreciation and provisions. 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>We recommended that improvements were made to the disclosures in the financial statements with regard to the use of estimates including detail of the methodology and assumptions used by the valuer. We are pleased to note that this was included in the final version of the accounts.</p> |
| The appropriateness of the going concern assumption | We have reviewed the detailed financial forecasts for 2019/20. 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 |



| Qualitative aspect considered | Audit conclusion |
|-------------------------------|------------------|
|-------------------------------|------------------|

over any accounting treatment or disclosure.

Difficulties encountered in the audit.

There were significant issues encountered during the audit relating to the completeness of information and availability of key working papers. This has put significant pressure on both the finance team and the audit team. We recognise this was a challenging period for the finance team and recommend that measures for improvement are put in place for the 2019/20 year end.

Action plan point 4



4. Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the SCTS' planning processes support the future delivery of services.



SCTS continued to progress the development of their long term financial strategy. Following our audit recommendation in 2017/18, SCTS have worked to create long term strategic objectives for finance. However, in line with prior year findings, detailed savings plans were only created for 1 year into the future. SCTS have created a cost reduction programme working group to focus on a response to the medium and short term financial pressures.

The 2019/20 Business Plan is forecasting a breakeven position, following work by SCTS to identify £4.575 million in savings.



Significant audit risk

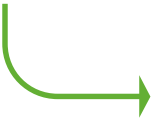
Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities.

Financial sustainability: increasing financial pressures

Following our audit recommendation in 2016/17, SCTS developed a longer term financial strategy in 2017/18 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.

The longer term financial strategy identified a breakeven position in 2018/19 but identified a potential shortfall of £6.6 million in 2019/20, rising to £22.5 million shortfall in 2023/24. While this process helped the SCTS focus on the key risks it faces the process did not fully address how it will continue to deliver services within the projected constraints or identify savings options.

Excerpt from the 2018/19 External Audit Plan

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68. We have reviewed the actions taken by SCTS to improve its approach to long term financial planning. SCTS has developed an appropriate finance strategy which focuses on the key areas of risk to delivering services within budget and highlights the pressures on SCTS to maintain service delivery.
 69. The financial strategy presented to the Board in January 2019 identified a gap of between £4.000 million and £11.900 million, based on a range of optimistic to pessimistic assumptions.
 70. We have note that a detailed savings plan has been created for 2019/20, however, longer term savings plans remain high level and focused on strategic priorities as follows:
 - to ensure through Government that access to the Courts and Tribunals are afforded appropriate protection as part of the core machinery of government;
 - SCTS will work with the Scottish Government and justice partners to redefine criminal Scotland's justice system;
 - to improve our service and increase sustainability, SCTS will focus on the realisation of increased digitalisation;
 - to reduce volatility SCTS will negotiate the baselining of Retained Fines income with the Scottish Government; and
 - to being increased stability, SCTS will establish a capital funding plan for major estates works with the Scottish Government.
 71. We have concluded that financial sustainability continues to be a significant risk for 2019/20 onwards with challenges around delivering consistent high quality services while meeting budgetary constraints.

Short term financial planning

72. SCTS reviewed its five year financial strategy in November 2018 and presented the 2019/20 Business Plan to the Board in February 2019.
73. The 2019/20 Business Plan is based on the budget announcement from the Scottish Government and central cost assumptions. The projected resource

expenditure for the year is £138.202 million. This will be funded by Scottish Government grant funding (£77.0 million) and fees fines and other income (£44.546 million). It is assumed the remaining balance of £16.656 million will be supported by in year funding from the Scottish Government, however, it should be noted that the amount of in year funding in 2018/19 was below



expectations and therefore this represents a risk to the breakeven position in 2019/20.

74. SCTS will monitor costs and develop savings plans if pessimistic assumptions should come to fruition.

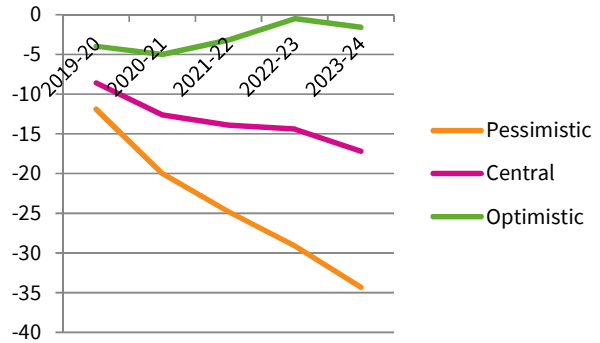
Capital budgets

75. SCTS has a significant estate encompassing approximately 50 sites across Scotland, many of which date back to before 1960 and therefore require a significant degree of maintenance.
76. Estates and property service costs in 2019/20 are budgeted to be £42.240 million (31% of overall costs). The capital element of this is £12.936 million, which includes £8.200m investment in the Inverness Justice Centre and £2.700 million to improve facilities in Kirkcaldy.
77. The Scottish Government has identified funding gaps in the overall long term capital budget. It is therefore likely this is an area where SCTS will face ongoing pressure in the future. A key priority for SCTS is to create a capital funding plan for major estates works with the Scottish Government.

Long term financial strategy

78. The five year strategy which was updated in November 2018 covers the period from 2019-2024 and outlines an increasing financial gap over the five years to 2024 as show in Exhibit 3.

Exhibit 3: Future Financial Gap (£m)

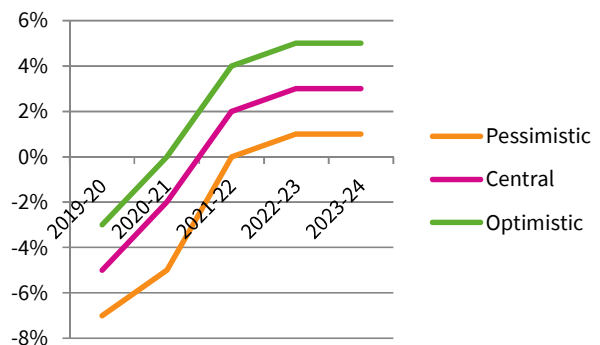


Source: SCTS Financial Strategy 2019-24

Key assumptions and risks in the Financial Plan

79. As part of the development of the long term financial plan, SCTS developed a range of assumptions, which were subject to scrutiny and challenge by the Board and Audit and Risk Committee.
80. SCTS prepared assumptions under a range of scenarios: pessimistic; central and optimistic.
81. The key areas of assumption included Scottish Government funding, fees and fines income, inflation and pay award. The highest impact and variability between scenarios is the year on year increase in Scottish Government Grant Funding which varies from a reduction of 7% in 2019/20 under pessimistic conditions to a 3% reduction in 2019/20 under optimistic conditions.

Exhibit 4: Scottish Government Grant Assumptions



Source: SCTS Financial Strategy 2019-24

82. There is also significant variation between the level of pay inflation. Based on a static number of FTE employees the difference between the pessimistic pay (£66.800 million) and optimistic pay (£60.6 million) by 2024 is £6.200million (9.5%).



83. A deficit position has been identified across all five years over all scenarios which allowed SCTS to identify the impact the financial reductions would have on the risks faced by SCTS.

Exhibit 5: Financial impact on risks

Failure to maintain a skilled, motivated and adaptable workforce

Essential business and services compromised due to critical incidents

Ineffective planning and delivery of core business and reform

Financial pressures impact on delivery of core business or the reform programme

Source: Audit and Risk Committee review of financial strategy

Cost Reduction

- 84. SCTS has recognised the significant pressures from 2020/21 onwards and have created a working group to develop a Cost Reduction programme.
- 85. The programme’s objective is to review costs and distinguish between essential and non-essential costs by department.

86. The most significant area of expenditure at SCTS is staff costs (39% of total expenditure in 2018/19). SCTS has established a Pay Monitoring Group. In 2019/20 a cost pressure of £6.300 million was identified which includes pressures arising from increased Employer Contributions to the pension scheme.

87. SCTS have assumed that the Scottish Government will meet most of the increased pension costs of £3.300 million and has identified the remaining of £3.000 million savings requirement through vacancy management.

88. The Pay Monitoring Group will continue to focus on longer term challenges as laid out in the Financial Strategy including the pressures associated with the annual pay award.

Scottish Government Spending Review

- 89. in May 2019 the Scottish Government published its Medium Term Financial Strategy which provides a high level framework for a Scottish Government Spending Review.
- 90. There are plans for the Scottish Government to review spending beyond 2020/21 to ensure public services meet the needs and expectations of users. The time line for this review is set out below.
- 91. This will impact the long term planning at SCTS and will allow for increased accuracy of forecasting information. We anticipate SCTS will use this information when preparing budgets from 2020 onwards.

Exhibit 6: Timeline for spending review



Source: Scottish Government website



5. Financial management

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



The SCTS met the overall budgetary requirements for the Departmental Expenditure Limit (DEL) in 2018/19, however, it was noted that in order to achieve this, a saving on the non-cash budget had to be utilised.

There was a significant overspend on the Annually Managed Expenditure budget (AME) It has been agreed with the Scottish Government that this will be met by the overall AME budget.

We found significant issues with regard to cash management in 2018/19 which resulted in a substantial cash balance at the year -end and a material adjustment to the bank figure.

We have highlighted significant deficiencies in the system of internal controls, particularly in relation to key account reconciliations. We consider this to be a consequence of a challenge around capacity and skills and pressure on the finance



Financial performance

- 92. All central government bodies have to work within the resource limits and cash requirements of the Scottish Government. 1.55%. However, in order to achieve this SCTS had to utilise an underspend on the non-cash budget (depreciation) to support the ongoing operating costs. SCTS has recognised this is not a long term solution and will build this into long term financial planning with the Scottish Government.
- 93. SCTS achieved a saving against its revenue Departmental Expenditure Limit (DEL) of £1.991 million which represents an overall underspend of

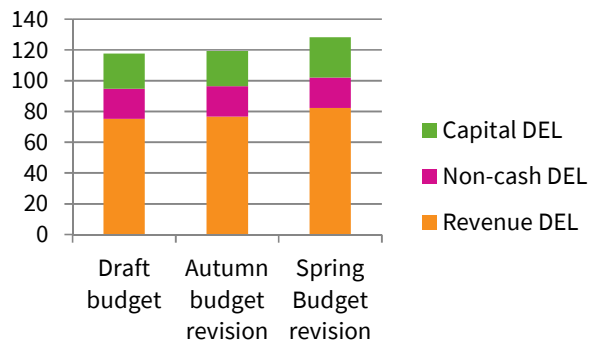
Exhibit 7: 2018/19 Performance against SBR budget

| | Revised budget £m | Actual outturn £m | Variance £m |
|--|----------------------|----------------------|----------------|
| Capital DEL | 26.308 | 26.333 | (0.025) |
| Revenue DEL | 101.634 | 99.526 | 2.108 |
| Auditors Remuneration | 0 | 0.092 | (0.092) |
| Capital Annually Managed Expenditure (AME) | 0 | 3.615 | (3.615) |
| Revenue AME | 0.358 | 2.120 | (1.762) |
| Total | 128.300 | 131.686 | 3.386 |

Revenue monitoring

- 94. The 2018/19 business plan created a revenue expenditure budget of £125.458 million which was funded by Scottish Government grants of £75.200 million and fines, fees and other income of £44.023 million. The remaining £6.235 million was planned to be met through in year funding from the Scottish Government.
- 95. The in year funding movements totalled £10.600 million with £7.200 million relating to revenue budget movements.

Exhibit 8: In year budget variations



- 96. The most significant element of the in year funding movement relates to a transfer from Communities and Local Government to cover costs incurred by the SCTS to hear Private Rented Sector and Private Tenant’s cases (£2.200m) and a transfer to cover a shortfall from retained fines (£1.500 million).
- 97. The in year funding therefore exceeded budgeted levels, however, levels of expenditure also increased which resulted in the non-cash element of DEL being required to cover cash DEL overspend.



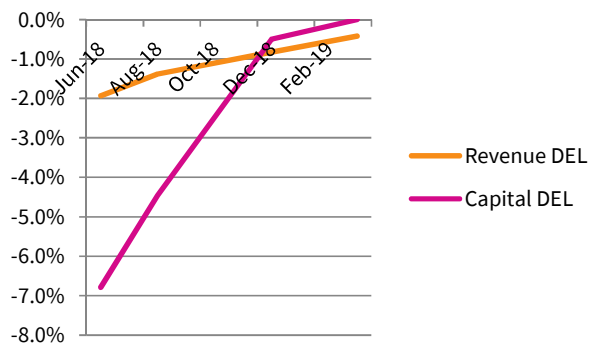
Capital monitoring

98. There was a significant increase in the capital DEL allocation in year with £3.400 million (14.8% of original budget) of additional funding allocated at the Spring Budget Revision. Half of the increase related to an increase from the Justice Digital Transformation Fund.
99. The majority of capital spend was on property, plant and equipment (£24.236 million) with the most significant element being the construction costs of the Inverness Justice Centre. The remaining £2.097 million was invested in intangibles, including the Integrated Case Management System.

Budget monitoring

100. We reviewed the budget monitoring arrangements in 2018/19. The SCTS Board receive financial monitoring reports at each meeting. The year-end report highlighted the over spend position against budgeted expenditure to Board members.

Exhibit 9: Forecast figures compared to year end actual balance



101. Both revenue and capital DEL forecast figures were consistently within 7% of the year end actuals. We noted that the most significant movement was between forecast capital expenditure of £24.159 million in June which moved to £26.333 million in March 2019. The movement is aligned to a change in the Scottish Government budget provision in the Spring Budget Revision.
102. The AME budget was significantly overspent in 2018/19. AME is generally more unpredictable than DEL expenditure and the budget was set very early in Nov 2018. The areas of overspend relate to the quinquennial estate revaluation (downward revaluation of £3.615 million) and the inclusion of a dilapidations provision for the Atlantic Quay lease.
103. The potential impact of the revaluation and dilapidations provision were not reported to the

Board throughout the year and the first time the overspend was reported was to the June 2019 Board as part of the year end finance report.

104. While we acknowledge the exact figures were not available throughout the financial year (the figures only emerged March/April) the risks associated with valuation and dilapidations provisions could have been shared with the Board at an earlier stage. We recommend the potential risks are included as a standard element of finance reports going forward.

Action plan point 4

105. SCTS has noted that there was engagement with the Scottish Government at an early stage to highlight the overspend and obtain confirmation that this could be met within the overall Justice AME budget.

106. We have been provided with evidence that the overspend will be met within the Justice AME budget, however, there is no written evidence of early engagement with the Scottish Government. We would recommend that any engagement with the Scottish Government is recorded as evidence of proactive financial management.

Action plan point 6

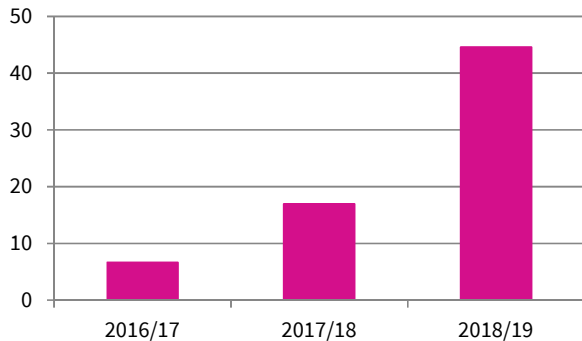
Cash management

107. As a central government body SCTS is required to comply with the Scottish Public Finance Manual which states that grants should not be paid in advance of need.
108. In 2018/19 SCTS took on responsibilities to become self-funding and to make all its own payments directly for the first time and as a result drew down £129.965 million over 12 instalments. In addition the SCTS received income from fees, retained fines & rents receivable of £37.649 million. During the year SCTS received total fines monies of £31.0 million of which £27.0 million was required to be remitted onwards to the Scottish Government.
109. At the year end the cash balance held by SCTS had increased to £44.554 million from £16.962 million in 2017/18. In general we would expect cash held at the year end to only be the amount required to cover working capital needs. We noted that the cash position was significantly reduced in early 2019/20.

We have noted a significant rise in the cash held at the year-end over the past three years which is indicative that SCTS may be drawing down grant funds in advance of need. Action plan point 7



Exhibit 10: Cash balances held at 31 March over 3 years



110. From period three onwards SCTS were not conducting regular monthly bank reconciliations or fully monitoring the cash position across the accounts.
111. SCTS is in a unique position within central government in that it receives a significant portion of income from sources other than Scottish Government grants and collects income on behalf of the Scottish Government. As a result 7 bank accounts are operated.
112. Due to the fact that bank reconciliations were not always taking place, the level of cash held was not accurately recorded in the ledger and there was no one individual with oversight of the level of actual cash held by the organisation. Cash was therefore drawn down from the Scottish Government without full consideration of the level required to deliver services.
113. In addition to drawing down cash in advance of need the lack of control resulted in differences between the ledger and the bank statements for a number of accounts with no explanation available at the start of the audit. The most significant variance was on the Government Banking Service (GBS) account.
114. The total difference between the ledger and the GBS bank account at the year-end was £9.031 million (including the £8.800 million adjustment to the funding account), this has been investigated at the year-end and an adjustment processed to the financial statements as outlined in Appendix 3.
115. Following this adjustment there were £0.626 million of reconciling items across all 7 bank accounts. An element of these relates to timing differences which potentially should have been posted in to the 2018/19 ledger figures. We have calculated the maximum amount which could incorrectly be

excluded to be £0.207 million and we have included this as an unadjusted error in Appendix 3.

116. The control weakness in this area has significant consequences and we would recommend SCTS take immediate action to improve controls in this area.

Action plan point 8

Financial capacity

117. As part of our consideration of financial management we considered the capacity within the finance team including:
- the organisational structure and influence of the most senior finance professional; and
 - the quality and finance capability of the operational finance function.
118. SCTS most senior finance officer is the Chief Finance Officer who is a core member of the Executive Team and regularly attends the Audit and Risk Committee. We have noted in prior years that there is no representative from finance on the Board and this may impact on the status of finance when making strategic decisions. We also note that there are significant projects which will impact the financial position and work of the finance team and yet the representation from the finance team is not at a senior level for example the ICMS project.
119. The finance team has restructured in 2018/19 and we note that there has been an increase in junior staff numbers employed in a finance role, there are few fully qualified staff. We have, however, noted that there has been a high level of turnover which has created a loss of expertise and knowledge and creates increased pressure on the finance team due to the reallocation of duties and training requirements.
120. In addition to the level of staff turnover we are aware that key activities such as the migration of the ledger and the integration with ICMS rely on manual processes which increases the workload for the finance team. We found that time spent by senior finance team members on the manual processes takes focus away from more strategic and value adding activities and can lead to delays in finalising key activities.
121. We consider that the staffing issues have resulted in a number of atypical control weaknesses, a decrease in the quality of working papers and an increase in errors to the financial statements in 2018/19. We would recommend succession planning is considered to ensure continuity of service throughout team changes.

Action plan point 9



Systems of internal control

122. We have evaluated the Board'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.
123. We have highlighted a number of control weaknesses throughout our report which we consider to be significant deficiencies in the control environment. In addition we have identified a key weakness regarding control account reconciliations, in particular, in relation to payroll, accounts receivable and accounts payable.
124. We found that across 2018/19 there were no reconciliations between the feeder systems and the general ledger.
125. There were no issues in reconciling the accounts receivable and accounts payable sub ledgers with the general ledger, however, there were differences between the payroll system and the general ledger.
126. We have identified and audited the reconciling items, however, it should be noted some of this exercise was conducted by the audit team.
127. The reconciliations are a key element of good financial control and if neglected can lead to an increased risk of fraud and error. It is the responsibility of SCTS to ensure the accuracy and completeness of the financial information and we consider it essential that comprehensive control account reconciliations are prepared on a regular basis and that the finance team is appropriately trained in performing reconciliations.

Action plan point 10

Prevention and detection of fraud and irregularity

128. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found the board's arrangements for the prevention and detection of fraud and other irregularities to be adequate and appropriate.
129. In line with our audit recommendation in 2017/18 a revised Fraud Policy was published in 2018/19 and presented to the Audit and Risk Committee.

National fraud initiative

130. 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.
131. Participating bodies were required to submit data in October 2018 and received matches for investigation in January 2019. Investigation work is now complete and the results recorded on the NFI system.
132. We reviewed SCTS' participation in the NFI scheme in June 2019, including an assessment of progress in addressing identified matches. We are satisfied that SCTS is appropriately prioritising matches and the majority of matches have either been closed or are being actively investigated.
133. To date, results of the NFI investigation have not identified any frauds, errors or other such observations. Based on our review, we have concluded that NFI arrangements are satisfactory and SCTS will report to the August Audit and Risk Committee that the exercise is now complete.

Standards of conduct

134. In our opinion SCTS' 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 instructions and scheme of delegation and for complying with national and local codes of conduct. We have also considered compliance with the regulatory guidance produced by Scottish Ministers throughout the year.

Internal audit

135. An effective internal audit service is an important element of SCTS' governance arrangements and supports the system of internal control. The SCTS internal audit service is provided by the Scottish Government Internal Audit Directorate. The service operates in line with Public Sector Internal Audit Standards.
136. During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and make the most efficient use of SCTS' audit resource.



6. Governance and transparency

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



Governance arrangements at SCTS are deemed to be appropriate; however, as in prior years we noted that wider Executive Team presence at the Board meetings could bring benefits both to the Board and to the Executive Team members.

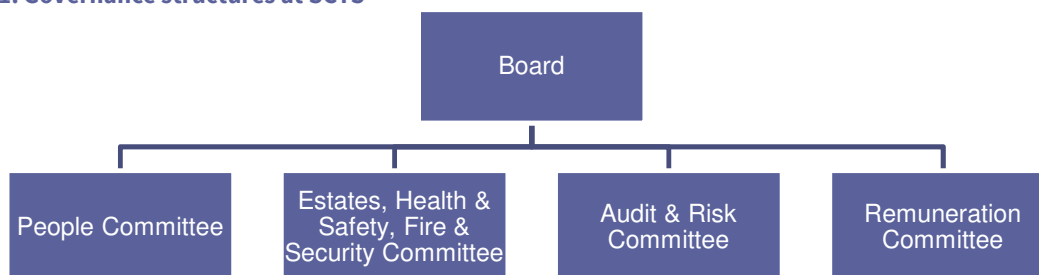
There is scope to improve the transparency of decision making by publishing Board and Committee papers on the SCTS website.



Governance and transparency

137. The SCTS Board is responsible for establishing the overall strategic direction and fulfilling the legislative powers of the organisation.
138. The Board continues to operate under the chairmanship of the Lord President of the Court of Session and the Chief Executive is the only member of the Executive Team who is a regular attendee of the Board.
139. We have previously highlighted that the Board may benefit from attendance from the wider Executive Team. We also feel that the Executive Team may benefit from attending the Board as this would give them the opportunity to hear the Board's thoughts on strategic direction and concerns directly.

Exhibit 11: Governance structures at SCTS



140. In May 2018, Scottish Government updated its guidance for Audit and Risk Committees in the public sector through an update to the Audit and Risk Committee Handbook. The revised handbook sets out the fundamental principles relating to the role, membership and work of Audit and Risk Committees. We are satisfied that SCTS has implemented appropriate revisions in year to ensure it remains compliant with the revised requirements of the Audit and Risk Committee handbook.

Openness & Transparency

141. We highlighted in previous reports the importance of openness and transparency in ensuring the public have access to understandable, relevant and timely information about how public sector organisations take decisions and utilise resources. A key risk identified by Audit Scotland in their 2018/19 planning guidance is that public bodies do not keep pace with public expectations over transparency.
142. We have reported in both 2016/17 and 2017/18 that SCTS publish Board minutes on their website but no other papers and minutes are published. In addition we have reported that registers of interests are not available other than through the financial statements.
143. While we accept that some items require to be discussed in private, in our opinion SCTS should keep this area under review with the aim of moving towards best practice.

Impact of EU withdrawal

144. Audit Scotland has highlighted EU withdrawal as a significant risk facing public bodies across Scotland. Three streams of potential impact were identified:
- Workforce;
 - Funding; and
 - Regulation.
145. SCTS has continued to assess the impact of EU withdrawal on each of the above areas and has included assessment of the risk in this area. The key area of risk for SCTS is where court and tribunal laws are underpinned by EU Law. SCTS has conducted a mapping exercise of those areas most likely to be impacted.
146. SCTS are working with the Scottish Government and UK Government to prepare for the potential impact on existing court rules and attend weekly meetings of the Scottish Government Brexit Communications Group.
147. In 2018/19 Internal Audit conducted a review of Brexit impact and preparation and concluded substantial assurance could be provided in this area.

Key supplier dependency

148. Following the collapse of Carillion, it became apparent that public sector bodies face significant



- risks where suppliers are experiencing difficult trading conditions.
149. We have evaluated SCTS' key suppliers and considered the contract management arrangements as part of our work on expenditure and the ICMS.
150. We consider the key area of risk to be in relation to the ongoing ICMS project due to the specific nature of the project and the value attached to it. During 2018/19 we have focused particularly on the contract with Kainos as part of the ICMS project which is reported in the value for money section.



7. Value for money

Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered



An established and appropriate performance management framework is in place at SCTS with appropriate performance reporting to the Board.

Performance is consistent with the prior year and the majority of outcomes outlined in the 2018/19 business plan were achieved.

The ICMS project costs are projected to total £12.652 million which is marginally below the figure outlined in the 2018 business case. There are ongoing risks around demonstrating value for money and benefits realised. This will be a key priority for SCTS following completion of the project in September 2019.



Significant audit risk

Our audit plan identified a significant risk in relation to value for money under our wider scope responsibilities.

Value for money

SCTS implemented ICMS during 2016/17, with a further features rolled out during 2017/18. To achieve value for money, it is vital that the system is effective, had been implemented correctly and is subject to regular review. 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.

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. It is expected that by September 2019, phase one and two of Civil Online and some of the functionality to introduce case management within the Court of Session will be in place

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 2018/19 External Audit Plan

151. In 2018/19 we followed up our work on ICMS. We noted that there was improvement in project scoping, quality arrangements and project management. Our findings are outlined in our focused review of the ICMS project within this section of the report.
152. We have concluded that there are ongoing risks that ICMS does not represent value for money due to the increasing costs of the project and the current position with benefits realisation being unclear due to lack of data. We will therefore consider this further in 2019/20, following the completion of the project.

Performance management framework

153. SCTS developed a corporate plan in 2017/18 which covers the 3 year period from 2017 – 2020. The Corporate Plan outlines 7 strategic priorities:

Exhibit 12: Strategic priorities at SCTS



154. SCTS monitors performance in two ways:

- progress against key performance indicators created with reference to the strategic priorities in the Corporate Plan; and
- progress against the annual outcomes which are driven by the business plan which is published on an annual basis. This is aligned to the overall strategic objectives but is focused at a more operational level for the current year.

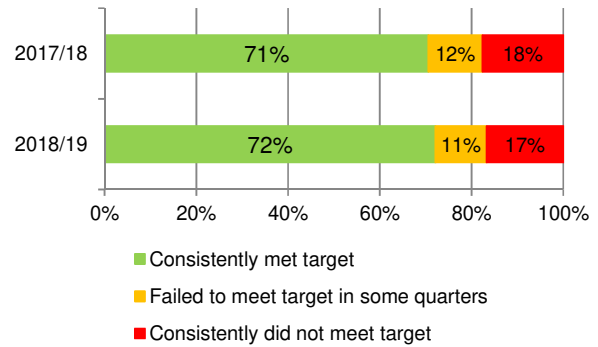
155. The Board receives a quarterly report which outlines performance against the key performance indicators. This report is the key mechanism the Board uses to ensure they are meeting the strategic objectives of the SCTS.



Performance against the Corporate Plan

- 156. In 2018/19 the SCTS created 18 Key Performance Indicators which were designed to measure success against the corporate plan. This was broadly consistent with the indicators in 2017/18, with a new indicator included regarding sustainability and carbon reduction.
- 157. The SCTS reports its performance in 2018/19 in the Annual Report and Accounts. The performance is reported as:
 - consistently met target across the year;
 - met the target across the majority of the year; or
 - consistently failed to meet target across the year.
- 158. Our analysis shows consistent performance across both years with 72% of targets being met in 2018/19 and only 17% of targets consistently failing to meet target across the year.

Exhibit 13: Performance against target in 2018/19



- 159. We have noted that 2 out of the three areas of underperformance were consistent with the prior year as shown in Exhibit 13.
- 160. We noted that one area of underperformance in 2017/18 was the maintenance of the estate and that in 2018/19 this had improved with £6.140 million (21% above target) of expenditure incurred on maintenance. However, there was a decrease in the performance of the income received from fees and fines which reported an under recovery against profiled income.

| 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. In addition the position has improved from red (number of cases within 26 weeks is below 67%) to amber with the number of cases disposed within 26 weeks being 68.3% | Yes |
| 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. | Yes |
| The profile of receipt of fees and fines income against forecast value | Full year fees income was 5% below the level forecast. | No |

Performance against business plan

- 161. The 2018/19 Business Plan sets out 28 desired outcomes, of which 23 were fully completed within the financial year, 5 were partially delivered. and deferred into 2019/20 as outlined below:

- support of the tribunals’ judiciary as the major programme of tribunal reform continues;
- the launch of a new recruitment and resourcing strategy;



- building on the work of evidence and procedure review to identify reforms to the summary criminal justice system;
 - investment in core digital infrastructure of courtroom technology updates and installation of Windows 10; and
 - development of a child and vulnerable witness centre in Glasgow.
162. SCTS has taken action to ensure that the outstanding actions from 2018/19 are re-profiled into the 2019/20 business plan actions.

Focused work on the Integrated Case Management System

Background to the ICMS project

163. In July 2014, Scottish Courts and Tribunals Service (SCTS) undertook a procurement exercise for an Integrated Court Management System (ICMS) to replace the existing Court Management System (CMS), which was over 15 years old and approaching the end of its useful life.
164. The successful bidder for developing and implementing ICMS was Kainos. The projected 10-year lifecycle cost of ICMS was set out in the business case as £4.4m. The contract with Kainos was signed in January 2015 and work commenced in March 2015.
165. ICMS has been managed as an Agile project which represented a significant change in approach to project delivery within the SCTS.
166. During April 2016, the project scope changed resulting in ICMS being hosted within a cloud environment. The Programme Board approved this change six months prior to the launch of simple procedures processes within ICMS.
167. As part of the SCTS's strategy on digital innovation, the first stage of a new ICMS was implemented in October 2016, with further features rolled out during 2017/18.
168. 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 original business case for ICMS estimated costs of £4.4m. It is expected that by September 2019, phase one and two of Civil Online and some of the functionality to introduce case management within the Court of Session will be in place.

169. To achieve value for money, it is vital that the system is effective, has been implemented correctly and is subject to regular review. Since the awarding of the contract, a number of significant changes have been made to the core platform and Civil Online including hosting the system in the Cloud.
170. 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.

Scope of our review of ICMS management

171. Our review considered the adequacy of ongoing project management and implementation of the new case management system and the extent to which SCTS is able to demonstrate that it is achieving value for money. In order to assess the effectiveness of project management controls we sought assurance over the following objectives:
- Benefits and expected functionality have been identified and processes are in place to ensure that they are monitored and being realised.
 - There are robust processes for changes to project budget, scope and milestones.
 - Risk and issues identification has taken place for the project, these are documented and managed on an ongoing basis, and have been escalated as required; and
 - There are management arrangements in place to ensure adherence to project timescales, quality standards, and costs.

Benefits and expected functionality have been identified and processes are in place to ensure that they are monitored and being realised.

172. The original business case written in 2014 outlined the requirement to implement an Integrated Case Management System which would satisfy the criteria of being a generic data platform and a scalable case management application at a projected cost of £4.4m. The initial benefits were reduced system costs and time, and improved user experience and confidence. However, these benefits were not quantified at the outset. As a result, to evaluate whether they had been achieved, a subjective assessment would have to be made.
173. The business case was revised twice, once in 2016 when the decision was made to move ICMS from an



on premise solution to a cloud-based solution, and again in 2018 when there was a decision to support the continuous development of ICMS for Civil online until September 2019. The cost of the proposal increased to £12.7m, however, the benefits outlined within the 2018 business case remained broadly similar to those in the 2014 business case.

174. Nevertheless, the ICMS project's benefits were deemed to be "more than sufficient to justify the initial decision to proceed with the replacement of this business critical system. Those same benefits continue to apply and, given the latest understanding of the full scope of the ICMS system, officials remain of the view that the revised cost position remains a proportionate price to pay for the benefits that flow from the digitisation of civil business".
175. To determine whether the ICMS project has achieved value for money, it is vital to assess if the project has delivered all the desired and expected benefits. The ICMS project team have created a Benefits Realisation Plan for Civil Online benefits; however, these benefits have not yet been tracked due to a lack of data. This represents a risk that the benefits outlined within the original and subsequent business cases will not be adequately tracked or achieved when the project closes on 7 October 2019.

Action plan point 11

176. The benefits of scalability and business continuity also have not been tracked within the Benefits Realisation Plan for Civil Online because they represent benefits that should have been achieved as part of the ICMS platform design and implementation. No business continuity or disaster recovery exercise was performed in the last 12 months, and SCTS will not know whether the ICMS platform is scalable until the Office of the Public Guardian is integrated onto the ICMS platform. There is again a risk that the expected benefits of scalability and business continuity have not been realised within the initial project until after it has been closed in October 2019.

Action plan point 12 and 13

There are robust processes for changes to project budget, scope and milestones.

177. Since the lessons learned exercise, the ICMS project team have introduced a change management tracker which is used to track changes and additions to the project and contract with Kainos. The changes have ranged from significant changes such as the change from on premise to a cloud-based

solution to smaller changes or administrative changes such as updates to Software Licences, Rates and Expenses. For each change, a Change Request Form must be completed along with the Impact Assessment Form, the details of the change, including the actual change of rates, and the Change Authorisation Note. The introduction of a change tracker control has reduced the risk of the project budget, scope and milestones exceeding the requirements in business case.

Risk and issues identification has taken place for the project, these are documented and managed on an ongoing basis, and have been escalated as required.

178. A RAID (Risks, Assumptions, Issues and Dependencies) register is used to document and manage risks and issues in the ICMS project. The RAID register is subject to regular reviews to ensure that it reflects the current position for risks, assumptions, issues and dependencies, as. Risks and issues are closed off when there is evidence of mitigating controls being addressed. Risks and Issues are reviewed by the Project Board on a monthly basis and by the Audit and Risk Committee on a quarterly basis.
179. There is a risk, however, that the risks identified within the current ICMS RAID register are not tracked and monitored once the project is closed on 7 October 2019. The risks and issues, particularly relating to the ICMS platform, will be pervasive across all future projects using the platform. Therefore, it is imperative that there is effective governance arrangements in place on future projects to ensure that these risks and issues are not forgotten.

There are management arrangements in place to ensure adherence to project timescales, quality standards, and costs.

180. To evaluate the project's costs, there is a Project Cost Report which is produced by the ICMS Project Team and a summary of which is sent to the Board on a monthly basis. The 2018 Business Case details the Net Present Cost at £12.691m. The latest ICMS Project spend and forecast which was issued on 4 July 2019 for a Project Board Meeting on 11 July 2019 outlines that the Project Life Spend to Sept 2019 is £12.652m. This represents an overspend of £8.25m against the original business case, but an underspend against the revised 2018 business case of £39k.



8. Appendices





Appendix 1: Respective responsibilities of SCTS and the Auditor

Responsibility for the preparation of the annual report and accounts

It is the responsibility of SCTS and the Chief Executive, as Accountable Officer, to prepare financial statements in accordance with 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 Government Financial Reporting Manual (the 2018/19 FReM) 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 SCTS will continue to operate; and
- Ensure the regularity of expenditure and income.

The Accountable Officer is 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 SCTS' affairs as at 31 March 2019 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 2018/19 FReM ;
- 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 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, 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 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 of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

Independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

Non-audit services

Scott-Moncrieff provides advisory services to SCTS in relation to employment taxes. All advisory services are provided by independent partners and staff who had no involvement in the audit of the annual report and accounts. The total value of the advisory services provided in 2018/19 is approximately £1,000 (excluding VAT).

Confirmation of independence

We confirm that we have complied with the FRC's Revised Ethical Standard (June 2016).

In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff and SCTS, its Board members and 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.

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. Our rating structure has been revised to ensure consistency with the structure/terminology used by internal audit.

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. |



Current year action plan

| Action plan point | Issue & recommendation | Management comments |
|---|---|--|
| <p>1. Ledger access rights and restrictions</p> <p>Rating</p> <p>Grade 3</p> <p>Paragraph Ref</p> <p>19</p> | <p>Issue As part of our interim review we noted that following migration there was a lack of clarity over the access rights to the ledger and the restrictions on a user by user basis.</p> <p>Risk There is a risk that the user access rights and restrictions are not appropriate resulting in fraudulent activity.</p> <p>Recommendation We recommend SCTS takes action to identify the level of access for each member of the finance team and considers the appropriateness of the level of access on a user by user basis</p> | <p>Responsible officer: Director of Finance & Procurement</p> <p>Implementation date: 30 Nov 2019</p> <p>Accepted - SCTS FPU systems team will work with Scottish Government FSD colleagues to review user access rights on the ledger system and will agree a process for regular confirmation of ongoing access to reflect staff changes and temporary cover for holidays/sickness</p> |

| Action plan point | Issue & recommendation | Management comments |
|--|---|--|
| <p>2. Use of a management expert</p> <p>Rating</p> <p>Grade 3</p> <p>Paragraph Ref</p> <p>28</p> | <p>Issue In 2018/19 the SCTS revalued their land and buildings. There were a number of significant movements in the value of the assets which were in relation to changes in the assumptions used by the valuer. We found that the assumptions have not been subject to scrutiny or challenge prior to inputting the figures into the annual accounts.</p> <p>Risk There is a risk that the assumptions used by the valuer were incorrect leading to a material misstatement of the value of land and buildings.</p> <p>Recommendation We recommend that all figures provided by a management expert are subject to rigorous review by the finance team.</p> | <p>Responsible officer: Director of Finance & Procurement</p> <p>Implementation date: 31st Dec 2019</p> <p>Accepted. We have agreed an improved process with Estates colleagues which will ensure more time for in-depth scrutiny.</p> |



| Action plan point | Issue & recommendation | Management comments |
|---|--|--|
| 3. Migration of accounts to an independent ledger | <p>Issue There were significant delays and issues identified with the exercise to transfer the ledger data to a new independent ledger. We have identified issues with regard to the manual nature of the process, the capacity within the finance team and the project planning and management. There were a number of balances relating to accounts receivable and banks which were held on both the new ledger and the old ledger in shadow accounts.</p> <p>Risk There is a risk the issues identified as part of this transition are not fully understood and similar mistakes are made on projects going forward.</p> <p>There is also a risk that balances held on the old ledger are not cleared and are held indefinitely.</p> <p>Recommendation We recommend the SCTS conducts a post implementation review to identify lesson learned and improvements going forwards. We would also encourage SCTS to take action to clear all shadow accounts as soon as possible.</p> | <p>Responsible officer: Director of Finance & Procurement</p> <p>Implementation date: 31 Mar 2020</p> <p>Accepted.</p> <p>The Head of Financial Business Support will undertake a review of migration project & process to identify lessons learned, this will be completed by 31 Dec 2019</p> <p>The Head of Financial Accounting will re-engage with Scottish Government FSD to clear shadow accounts. This will require significant manual entry processing on the AR element as each invoice will have to be manually cleared. We will seek to complete this by 31 Mar 2020, but will rely on the availability of Scottish Government FSD colleagues to achieve this</p> |
| Rating | | |
| Grade 4 | | |
| Paragraph Ref | | |
| 37 | | |

| Action plan point | Issue & recommendation | Management comments |
|---------------------------|--|---|
| 4. Preparedness for audit | <p>Issue There were a number of significant issues with regards to the completeness as quality of the working papers provided to support the financial statements (e.g. lack of a bank reconciliation, expenditure listing did not agree to the financial statements).</p> <p>Risk There is a risk that the deadlines for completion are not met due to delays in audit fieldwork.</p> <p>Recommendation We would recommend that all audit working papers are ready for the start of the agreed audit fieldwork date. If this is not possible early engagement with the audit team regarding moving dates should be considered.</p> | <p>Responsible officer: CFO</p> <p>Implementation date: 31 Mar 2020</p> <p>Accepted - The lack of preparedness on this occasion is atypical to our usual approach and was directly attributable to ongoing issues with SG FSD, Discoverer report failures (fixed by SG FSD on 28th June) and SEAS system adjustments (fixed 8th July)</p> <p>We believe that the Discoverer issues are now resolved which will mitigate this risk to a large degree.</p> <p>We will ensure that our Project Plan for year-end and Annual Account production is expanded (including detail on production of working papers) and more robust. We will share the Plan with the auditor to ensure a joined up audit process</p> |
| Rating | | |
| Grade 3 | | |
| Paragraph Ref | | |



| Action plan point | Issue & recommendation | Management comments |
|---------------------------|---|--|
| 5. Reporting to the Board | <p>Issue In 2018/19 SCTS overspent against their AME budget. This was not reported to the Board until June 2019. While we acknowledge the exact figures were not available throughout the financial year the risks associated with the areas of overspend (valuations and dilapidations) could have been shared with the Board at an earlier stage.</p> <p>Risk There is a risk the Board fail to make appropriate strategic decisions due to a lack of information.</p> <p>Recommendation We recommend potential risks are included as a standard element of finance reports going forward.</p> | <p>Responsible officer: CFO</p> <p>Implementation date: Accepted and Completed</p> <p>We have instigated a quarterly AME review process to ensure there is limited risk of recurrence.</p> |
| Rating | | |
| Grade 3 | | |
| Paragraph Ref | | |
| 106 | | |

| Action plan point | Issue & recommendation | Management comments |
|---|---|---|
| 6. Evidence of liaison with Scottish Government | <p>Issue SCTS has noted that they negotiated with the Scottish Government at an early stage with regards to a significant overspend on the AME budget (£5.377 million). However, there is no evidence to support the engagement with the Scottish Government.</p> <p>Risk There is a risk that there is a miscommunication and the SCTS do not receive the budget cover they require.</p> <p>Recommendation We would recommend all important correspondence with the Scottish Government is recorded as evidence of agreed terms and proactive financial management.</p> | <p>Responsible officer: Director of Finance & Procurement</p> <p>Implementation date: Accepted and Completed.</p> <p>The AME budget was requested in Nov 2018, when we used best estimates of the likely requirement. At that time we had no indication of how much AME budget would be required for the revised treatment of dilapidations, pension revaluation & land and building revaluation exercise. We maintained dialogue with Scottish Government Finance team throughout and once those figures emerged in April, we confirmed our full AME requirement on the knowledge that they had sufficient un-used AME budget to cover it.</p> |
| Rating | | |
| Grade 2 | | |
| Paragraph Ref | | |
| 108 | | |



| Action plan point | Issue & recommendation | Management comments |
|--------------------|---|---|
| 7. Cash management | <p>Issue From our audit work we identified that cash balances had been increasing since 2014/15. While we acknowledge this is partially due to the Fees and Fines account, which was introduced in 2016/17, there has been a significant increase between 2017/18 and 2018/19. This is indicative that funds have been drawn down in advance of need due to poor cash management.</p> <p>Risk There is a risk SCTS is deemed to be in breach of the SPFM guidance on grant funding.</p> <p>Recommendation We would recommend SCTS reviews it's cash management controls to ensure that funds are only drawn down as they are needed going forward.</p> | <p>Responsible officer: Director of Finance & Procurement</p> <p>Implementation date: 31 October 2019</p> <p>Accepted - New processes & procedures have already been implemented for 2019/20. A key part of this is the establishment of a Cash Management Group which will formalise Monthly Cash Management Reports to the Director of Finance & Procurement & CFO.</p> |
| Rating | | |
| Grade 4 | | |
| Paragraph Ref | | |
| 112 | | |

| Action plan point | Issue & recommendation | Management comments |
|-------------------------|--|---|
| 8. Bank reconciliations | <p>Issue SCTS operate 7 main bank accounts and over the course of the year only one of the accounts was regularly reconciled. At the year-end an adjustment of £9.031 million was required to the Government Banking Service ledger account due to a number of reconciling items not being recorded. In addition there were cumulative reconciling items of £0.626 million across all 7 accounts. We have identified that there is potentially £0.207 million in reconciling items which have been posted incorrectly in 2018/19.</p> <p>Risk There is a risk that the bank balances on the ledger are materially misstated in future accounting periods and this leads to incorrect decisions on cash management.</p> <p>Recommendation We recommend that bank reconciliations are conducted on a monthly basis with immediate effect. We would also recommend training is provided to the finance team to ensure reconciliations are carried out correctly.</p> | <p>Responsible officer: Director of Finance & Procurement</p> <p>Implementation date: 31 October 2019</p> <p>Accepted - We have completed a significant exercise to reconcile the bank accounts up to March 2019. Bank reconciliations up to end of quarter 1 of 2019/20 are well advanced to strengthen our control. We will re-examine our team structure to ensure that the right skills are in place and have identified a 12 step improvement plan to streamline the transactions in our main bank account to ensure future compliance.</p> <p>We will also implement a monthly Reconciliations Status Report to the Director of Finance & Procurement & CFO</p> |
| Rating | | |
| Grade 4 | | |
| Paragraph Ref | | |
| 119 | | |



| Action plan point | Issue & recommendation | Management comments |
|----------------------|---|--|
| 9 Financial capacity | <p>Issue The finance team has restructured in 2018/19 and there has been an overall increase in junior staff numbers, however, there was a high level of turnover and a loss of skills and knowledge and a lack of fully qualified staff. We are aware of the complexity and manual nature of the processes and this has put a strain of the finance team resulting in control weaknesses.</p> <p>Risk There is a risk that the finance team does not have the capacity to deliver the required level of service.</p> <p>Recommendation We recommend the finance team consider the issues identified and create a plan to ensure a well skilled and robust finance team going forward.</p> | <p>Responsible officer: CFO</p> <p>Implementation date: 31 March 2020</p> <p>Accepted. We will undertake a review of current and anticipated structures and skills set and develop succession plans to ensure continuity of service.</p> <p>As part of this process we will explore support from Internal Audit to review our structures and finance process mapping to identify opportunities to reduce the volumes of manual tasks through automation, systems interfaces or the use of new technology.</p> <p>We have already commissioned Oracle systems training for a large number of the team and are exploring other training needs.</p> |
| Rating | | |
| Grade 3 | | |
| Paragraph Ref | | |
| 124 | | |

| Action plan point | Issue & recommendation | Management comments |
|-------------------------------------|---|---|
| 10. Control account reconciliations | <p>Issue We identified in year that reconciliation between the ledger and the payroll system, accounts receivable sub-ledger and accounts payable sub-ledger had not been carried out. The audit team conducted reconciliations at the year-end with no issues arising, however, this is the responsibility of the finance team.</p> <p>Risk The reconciliations are a key element of good financial control and if neglected can lead to an increased risk of fraud and error.</p> <p>Recommendation It is the responsibility of SCTS to ensure the accuracy and completeness of the financial information and we would recommend control account reconciliations are prepared on a regular basis and that the finance team is appropriately trained in performing reconciliations.</p> | <p>Responsible officer: Director of Finance & Procurement</p> <p>Implementation date: 31 March 2020</p> <p>Accepted.</p> <p>On Payroll reconciliation, a revised and improved process has already been agreed between HR and FPU</p> <p>On accounts payable and accounts receivable reconciliations, this has been impacted by staff turnover and despite significant training being delivered to the team; the importance of the reconciliation tasks has not always been fully recognised. Further staff training will be delivered and closer monitoring of these tasks will be tracked in a monthly update report on the status of reconciliations to Director of Finance & Procurement & CFO</p> |
| Rating | | |
| Grade 3 | | |
| Paragraph Ref | | |
| 130 | | |



| Action plan point | Issue & recommendation | Management comments |
|-------------------------------|--|--|
| 11. Benefits realisation plan | <p>Issue The ICMS project team has created a Benefits Realisation Plan for Civil Online benefits, however, these benefits have not been tracked due to a lack of data</p> <p>Risk There is a risk that the project does not deliver the benefits project and therefore does not demonstrate value for money.</p> <p>Recommendation We recommend that Scottish Courts and Tribunals Service should track the ICMS project's benefits beyond the closure of the project to determine if the project has delivered the benefits stated within the Business Case. The benefits outlined within the Benefits Realisation Plan for Civil Online should be reported on initially within a project closure document, and these benefits should be traced back to the Business Case. Further reporting should continue to the Audit and Risk Committee until all expected benefits have been realised.</p> | <p>Responsible officer: ICMS Project Manager</p> <p>Implementation date: 30 Apr 2020</p> <p>Accepted - A benefits realisation plan has been approved by the Project Board. Benefits will be traced back to the business case as well as focusing on the strategic benefits and value to the business. Further reporting will continue to the Audit and Risk Committee.</p> |
| Rating | | |
| Grade 4 | | |
| Paragraph Ref | | |
| 178 | | |

| Action plan point | Issue & recommendation | Management comments |
|-------------------------|--|--|
| 12. Scalability of ICMS | <p>Issue From our audit work we established the ICMS platform's scalability is only known when further organisations are integrated onto the platform after the project has closed in October 2019.</p> <p>Risk This could result in the costs associated with improving the scalability of the platform not being included for within the initial ICMS project costs</p> <p>Recommendation We recommend that the benefits of the ICMS' scalability should be initially reported on within the project closure document, and continued reporting should be in place until the expected benefits are fully realised.</p> | <p>Responsible officer: ICMS Project Manager</p> <p>Implementation date: 30 April 2020</p> <p>Accepted – ICMS is designed as a generic case management platform and future phases of development will incorporate Office of the Public Guardian and Tribunals. Pre-discovery for OPG took place in April with full discovery scheduled to commence in September 2019. In parallel we are considering infrastructure requirements including moving to a new cloud provider. This will be reported in the project closure reports and form part of the benefits realisation.</p> |
| Rating | | |
| Grade 2 | | |
| Paragraph Ref | | |
| 179 | | |



| Action plan point | Issue & recommendation | Management comments |
|-------------------------|--|---|
| 13. Business continuity | <p>Issue No business continuity or disaster recover exercise was performed within the last 12 months.</p> | <p>Responsible officer: ICMS Project Manager</p> |
| Rating | <p>Risk There is a risk that expected benefits of the system with regards to business continuity are not realised.</p> | <p>Implementation date: 31 Mar 2020</p> |
| Grade 2 | <p>Recommendation We recommend that there should be a Business Continuity exercise performed for the ICMS platform on an annual basis that is documented, and reported to the Audit and Risk Committee.</p> | <p>Accepted - a Business Continuity exercise will be performed and reported to the Audit & Risk Committee</p> |
| Paragraph Ref | | |
| 179 | | |



Follow up of prior year recommendations

Of the eleven recommendations raised within our 2016/17 and 2017/18 interim audit reports and 2016/17 and 2017/18 annual audit reports, we note that eight have been closed and three are ongoing. Details are given below.

1. Capitalisation of staff costs

| Initial rating | Issue & recommendation | Management comments |
|-----------------|--|--|
| Grade 2 | <p>Observation</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>Recommendation</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>Responsible officer: Director of Finance & Procurement</p> <p>Implementation date: December 2018</p> |
| Current status | Audit Update | Management response |
| Complete | We confirmed through our audit testing of additions in year that staff costs have been capitalised appropriately and with formal approval from the Business Partners. | Not applicable |



2. Dilapidations provision

| Initial rating | Issue & recommendation | Management comments |
|----------------|---|---|
| Grade 3 | <p>Observation</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>Recommendation</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>Responsible officer: Director of Finance & Procurement</p> <p>Implementation date: December 2018</p> |

| Current status | Audit Update | Management response |
|-----------------|--|---------------------|
| Complete | Our audit testing in 2018/19 confirmed that SCTS had reviewed the dilapidations basis in year and had made changes to the accounting policy in line with our audit recommendation. | Not applicable |

3. Fraud policy

| Initial rating | Issue & recommendation | Management comments |
|----------------|---|---|
| Grade 3 | <p>Observation</p> <p>SCTS have a published fraud policy, however we have noted that the policy has not been reviewed since March 2015.</p> <p>Recommendation</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 & Risk Committee for approval. Consideration will be given to staff awareness and communication of the revised policy.</p> <p>Responsible officer: Head of Financial Governance</p> <p>Implementation date: December 2018</p> |

| Current status | Audit Update | Management response |
|-----------------|--|---------------------|
| Complete | Our audit testing in 2018/19 confirmed that SCTS had published a revised fraud policy in line with the audit recommendation. | Not applicable |



4. Internal audit plan

| Initial rating | Issue & recommendation | Management comments |
|----------------|--|--|
| Grade 3 | <p>Observation</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>Recommendation</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 & 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 & Risk Committee as a separate paper in April 2018. No further action planned.</p> <p>Responsible officer: Head of Financial Governance Implementation date: No further action required.</p> |

| Current status | Audit Update | Management response |
|-----------------|---|---------------------|
| Complete | Our audit testing in 2018/19 confirmed that Internal Audit formally presented both the 2018/19 and 2019/20 plans to the Audit and Risk Committee in line with our recommendation. | Not applicable |

5. Asset verification

| Initial rating | Issue & recommendation | Management comments |
|----------------|--|---|
| Grade 3 | <p>Observation</p> <p>SCTS are unable to undertake regular asset verification exercises as they do not have the necessary arrangements in place. 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>Recommendation</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>Responsible officer: Director of Finance & Procurement Implementation date: June 2019</p> |

| Current status | Audit update | Management response |
|-----------------|--|---------------------|
| Complete | We are satisfied from our audit testing that appropriate asset verification took place in 2018/19. | Not applicable |



6. Developing savings options

| Initial rating | Issue & recommendation | Management comments |
|----------------|--|---|
| Grade 3 | <p>Observation</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>Recommendation</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. 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>Responsible officer: Chief Finance Officer Implementation date: March 2019</p> |
| Current status | Audit update | Management response |
| Ongoing | <p>As reported in the financial sustainability section of the report we found that detailed savings plans were only developed for the short term. We acknowledge that actions are underway through the Cost Reduction Programme and pay Monitoring Group to focus on the longer term. We would recommend that SCTS use the Scottish Government Spending Review as an opportunity to develop longer term savings options.</p> | <p>Completed - We regard this as an ongoing piece of work which will need to be addressed year on year. The SCTS engages fully with Scottish Government in spending review and longer term financial planning exercises and submitted a four year view in July 19 setting out our latest view on savings options</p> |



7. ICMS business case

| Initial rating | Issue & recommendation | Management comments |
|----------------|---|--|
| Grade 4 | <p>Observation</p> <p>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.</p> <p>Recommendation</p> <p>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.</p> | <p>As a live document the refreshed businesses case reflected the increased scope and whole life costs of ICMS.</p> <p>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.</p> <p>Responsible officer: Kay McCorquodale</p> <p>Implementation date: March 2019</p> |
| Current status | Audit update | Management response |
| Ongoing | No further business cases have been prepared since this audit recommendation. There has been no further detail of the alternatives presented to the Board. | The existing business case will be closed in October 2019, when the original contract ends, in preparation for a new procurement exercise. |

8. ICMS contract management

| Initial rating | Issue & recommendation | Management comments |
|-----------------|---|---|
| Grade 3 | <p>Observation</p> <p>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'.</p> <p>Recommendation</p> <p>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.</p> | <p>Negotiations are well advanced and expected to be completed by end August.</p> <p>Contingency, risk and impact assessments have informed our negotiations.</p> <p>Responsible officer: Kay McCorquodale</p> <p>Implementation date: September 2018</p> |
| Current status | Audit update | Management response |
| Complete | Contractual change notices were agreed with Kainos in 2018/19. | Not applicable |



9. ICMS action tracking

| Initial rating | Issue & recommendation | Management comments |
|------------------------|---|---|
| <p>Grade 3</p> | <p>Observation 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>Recommendation 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>Responsible officer: ICMS Project Manager</p> <p>Implementation date: Complete</p> |
| Current status | Audit update | Management response |
| <p>Complete</p> | <p>All actions were tracked and presented to the Board in 2018/19</p> | <p>Not applicable</p> |



10. ICMS

| Initial rating | Issue & recommendation | Management comments |
|----------------|--|--|
| Grade 4 | <p>Observation</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>Recommendation</p> <p>We endorse SCTS' 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>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>Responsible officer: Chief Development and Innovation Officer</p> <p>Implementation date: March 2019</p> |
| Current status | Audit update | Management response |
| Complete | | |



11. Payroll controls

| Initial rating | Issue & recommendation | Management comments |
|-----------------------|--|--|
| <p>Grade 3</p> | <p>Observation</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. There is a risk that inaccurate or inappropriate amendments are made to payroll data resulting in erroneous or fraudulent payments being made.</p> <p>Recommendation</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> | <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>Responsible officer: HR Director</p> <p>Implementation date: January 2020</p> |
| Current status | Audit update | Management response |
| <p>Ongoing</p> | <p>We did not identify any issues with segregation of duties as part of our 2018/19 payroll testing, however, we would recommend this is an area SCTS explores as part of the tender process in 2019.</p> | <p>This will be addressed as part of the tendering of the new HR system</p> |



Appendix 3:

We identified the following adjustments to the financial statements during our audit. We have discussed these with management and have agreed that they will be reflected in the financial statements.

| Adjusted difference | SoCNE | | Balance Sheet | |
|--|----------|----------|---------------|----------|
| | DR £m | CR £m | DR £m | CR £m |
| Cash and cash equivalents | | | 9.031 | |
| Parliamentary Funding account | | | | 8.009 |
| Receivables and other current assets | | | 0.331 | |
| Payables and other current liabilities | | | 0.130 | |
| Staff costs | 0.010 | | | |
| Other admin costs | | 0.139 | | |
| Operational costs | | 0.020 | | |
| Operating income | | 0.002 | | |
| Prior year general fund | | | | 1.332 |
| | | | | |
| Net impact on income / expenditure | 0.151 | | | |



In addition to the above we identified the following potential adjustments to the financial statements during our audit. We have discussed these with management and have agreed that they will not be reflected in the financial statements on the basis of immaterial impact.

| Unadjusted difference | SoCNE | | Balance Sheet | |
|---|----------|----------|---------------|----------|
| | DR £m | CR £m | DR £m | CR £m |
| Prepayments | | | 0.290 | |
| Accrued income | | | | 0290 |
| <i>Being the incorrect classification of debtors within the notes to the accounts</i> | | | | |
| Cash and Cash Equivalents | | | 0.207 | |
| Non- grant income | | 0.207 | | |
| <i>Being potential understatement of cash and cash equivalents due to timing differences on the bank reconciliation</i> | | | | |
| Payables and other current liabilities | | | 0.363 | |
| Other Administration expenditure | | 0.363 | | |
| <i>Being the incorrect recording of expenditure and current liabilities</i> | | | | |
| Net impact on income / expenditure | 0.503 | | | |

