



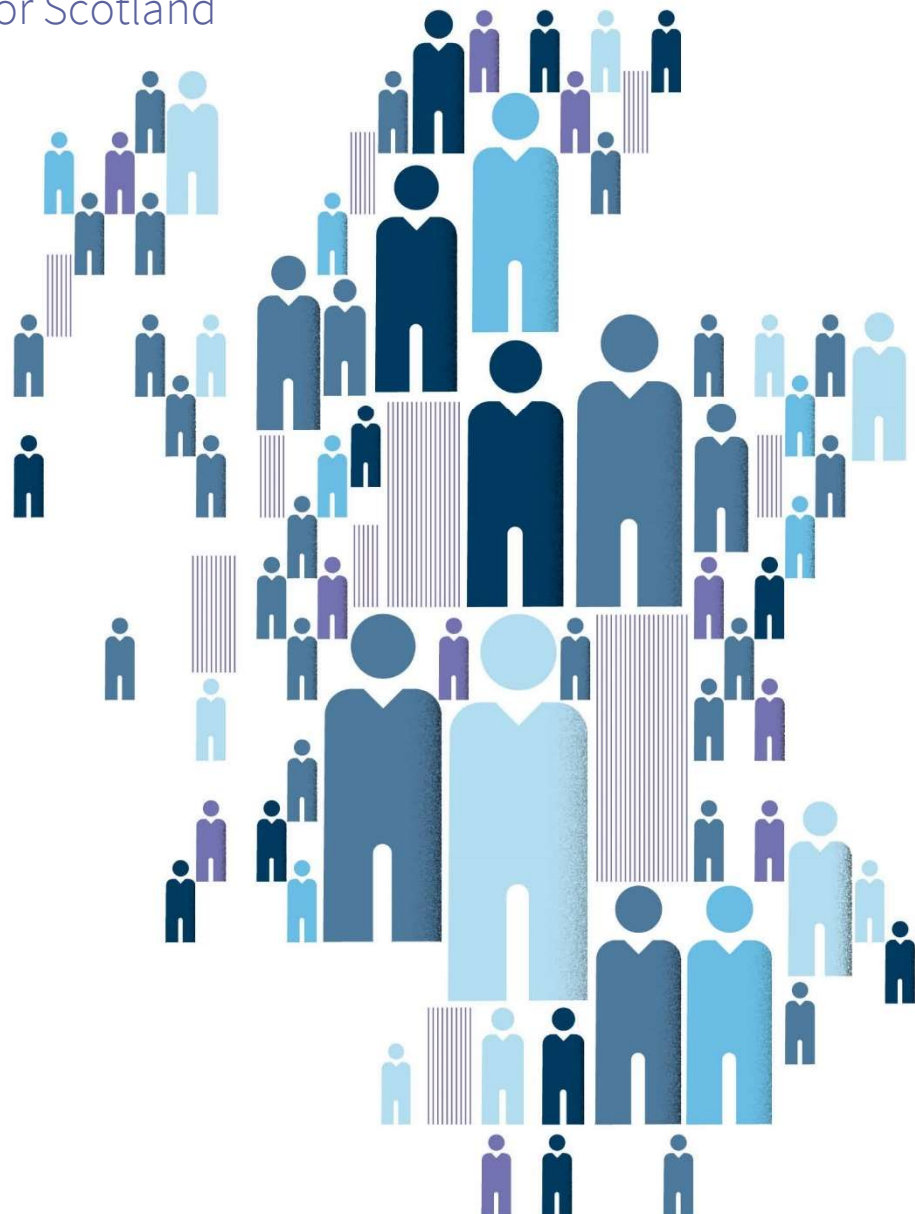
Scott-Moncrieff  
business advisers and accountants

With Campbell Dallas  
a Coop company

# Scottish Courts and Tribunals Service

2019/20 Annual Audit Report to the  
Accountable Officer and the  
Auditor General for Scotland

August 2020





# Table of contents

---

1. Key messages	<b>1</b>
2. Introduction	<b>3</b>
3. Annual report and accounts	<b>6</b>
4. Financial sustainability	<b>18</b>
5. Financial management	<b>21</b>
6. Governance and transparency	<b>26</b>
7. Value for money	<b>29</b>
8. Appendices	<b>33</b>



# 1. Key messages

---



## Annual accounts audit

The SCTS met the overall budgetary requirements for the Departmental Expenditure Limit (DEL) in 2019/20 reporting an underspend of £5.107million. There was a significant overspend of £5.039million on the Annually Managed Expenditure budget (AME). It had been agreed with the Scottish Government in advance that this will be met by the overall AME budget.

The annual report and accounts were approved by SCTS on 17 August 2020. We reported within our independent auditor's report an unqualified opinion on the annual accounts, regularity and on other prescribed matters. We have drawn attention via an Emphasis of Matter in our independent auditor's report to Note 2 Accounting Policies, 2.14 'Accounting estimates and assumptions' of the financial statements. This describes the effects of a material uncertainty, cause by COVID-19, on the property valuation report. Our opinion is not modified in respect of this matter.

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

## Wider scope audit

### Financial sustainability

The 2020/21 budget was approved in principle by the Board in March 2020 but has remained under review given the on-going changes to the operating environment. The Accountable Officer has made a funding request submission to the Scottish Government to help mitigate the impact of a loss of income on financial plans.

SCTS continued to progress the development of the long-term financial strategy and work is ongoing to reflect the impact of COVID-19 in short and medium-term plans.



### Financial management

The SCTS met the overall budgetary requirements for the Departmental Expenditure Limit (DEL) in 2019/20, delivering underspends against both cash and non-cash budgets. The accounts show an overspend of £5.039 million against the Annually Managed Expenditure budget (AME). It was agreed in advance with the Scottish Government that this will be met by the overall AME budget.

We noted significant improvements with regards to cash management in 2019/20 which has resulted in a significant decrease in the level of cash held at the year-end.



### Governance and transparency

Governance arrangements at SCTS are deemed to be appropriate and have continued to operate effectively throughout the period. The COVID-19 pandemic has presented unprecedented challenges to the operation and governance of SCTS. We are satisfied that appropriate action has been taken to mitigate the risk and impact of these.

There is scope to improve the transparency of decision making by publishing Board meeting papers.



### Value for money

An established and appropriate performance management framework is in place at SCTS. Performance is consistent with the prior year and the majority of outcomes outlined in the 2019/20 business plan were achieved.

We note that SCTS continues to operate with significant levels of backlog maintenance which is essential to the continued operation of the large court estate. Current restrictions on public financing present an ongoing challenge to investment in this area. required.



## Conclusion

This report concludes our audit for 2019/20. 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 2019/20.**

**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 2019/20 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, and provision of a specified audit opinion on, the 2019/20 annual report and accounts and related matters;
  - consideration and reporting of SCTS' arrangements on the four audit dimensions: 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, including the contribution to performance audits (including overview reports, performance audit reports, and impact reports).

### 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) Ethical Standards. 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 any member of your audit team.

### **Openness and transparency**

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](http://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 2019/20 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 2020 were approved by Scottish Courts and Tribunals Service on 17 August 2020. We reported unqualified audit opinions within our independent auditor's report and we did not identify any significant adjustments to the unaudited annual report and accounts.

We have drawn attention via an Emphasis of Matter in our independent auditor's report to Note 2 Accounting Policies, 2.14 'Accounting estimates and assumptions' of the financial statements. This describes the effects of a material uncertainty, caused by COVID-19 on the property valuation report. Our opinion is not modified in respect of this matter.

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

## Overall conclusion

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

12. The annual report and accounts for the year ended 31 March 2020 were considered by the Audit and Risk Committee on 3 August 2020 and approved by the Board on 17 August 2020. We reported within our independent auditor's report:

- An unqualified opinion on the financial statements;
- An unqualified opinion on regularity; and
- An unqualified opinion on other prescribed matters.

13. We have drawn attention via an Emphasis of Matter in our independent auditor's report to Note 2 Accounting policies, 2.14 'Accounting estimates and assumptions' of the financial statements. This describes the effects of a material uncertainty, caused by COVID-19, on the property valuation report. Our opinion is not modified in respect of this matter.

14. Our audit opinion is based on the Board approving the financial statements and signing the letter of representation. Within the letter of representation, the Board was asked to confirm that there are no subsequent events that require amendment to the financial statements.

### Appropriate administrative processes were in place

15. We received the unaudited annual report and accounts and supporting papers in line with our agreed audit timetable and to a good standard. 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 2020 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 2019/20 External Audit Plan*

18. We have not identified any indication of management override in the year leading to material misstatement or significant concern. We have reviewed SCTS' accounting records and obtained evidence to ensure that transactions outside the 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. In 2018/19 we reported a lack of clarity over the finance team's access rights and restrictions to the new ledger. We note that action has been taken to address this and SCTS have implemented a segregation of duties policy, a list of roles and responsibilities has been maintained and user access rights are reviewed on a regular basis.
20. Our audit has identified that a number of users have access to both post and authorise manual journals. This is not in line with SCTS' financial regulations which state that journals should be authorised by a second individual. We have raised a management action point to ensure appropriate controls, such as exception reporting, are in place to detect where a journal has been posted and authorised by the same individual. Our testing did not identify any issues of fraud or error in journal processing.


**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 2019/20 External Audit Plan*




- 
21. At the planning stage of our audit, we concluded that the revenue recognition risk was present in all revenue streams except for SCTS' revenue resource allocation from Scottish Government.
  22. Based on audit work performed, we have gained reasonable and appropriate assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements. To inform our conclusion, we evaluated SCTS' key revenue streams and reviewed the controls in place over revenue accounting. We carried out testing to confirm that the revenue recognition policy is appropriate and that it was applied consistently throughout the year.

### 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 2019/20 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 a broad range of testing, including to confirm that SCTS' policy for recognising expenditure is appropriate and has been applied consistently throughout the year.


### 4. Asset additions and capitalisation

SCTS has an extensive estate covering a range of buildings across Scotland. The value of land and buildings recorded in the 2018/19 accounts was £473.073 million, following a revaluation exercise as at 31 March 2019. SCTS has noted challenges with their estates which includes a significant proportion of pre-1960's buildings. The estates strategy outlines an ambitious capital programme aimed at improving buildings and addressing the maintenance and repairs backlog.

The most significant capital project is the Inverness Justice Centre, with a budget in excess of £30 million. This is due to be operational from 30 March 2020 and capitalised in 2019/20. Further spend on the Integrated Case Management System (ICMS) is expected to be capitalised in 2019/20 now that the next stage of development is complete. As reported in the 2018/19 financial statements, assets under development had a value of £2.699 million as at 31 March 2019 and SCTS had committed to spending a further £1.012 million on ICMS. Additional capital commitment of £3.993 million were disclosed in the 2018/19 financial statements, relating to the construction of a two-court complex at Kirkcaldy Sheriff Court (£2.700 million) and other projects.

Land, buildings and internally generated software are all valued at depreciated replacement cost, as per SCTS' accounting policies. Given the expected scale of additions in 2019/20, any misstatement in asset value could potentially result in a material misstatement in the financial statements.

*Excerpt from the 2019/20 External Audit Plan*

- 
24. SCTS recognised capital additions of £20.448 million of tangible assets and £2.574 million of intangible assets. In addition, SCTS transferred £37.004 million from assets under construction to operational tangible assets and £3.624 million from assets under



development to operational intangible assets, mainly in relation to the completion of the Inverness Justice Centre and the Integrated Case Management System.

25. We have reviewed these capital transactions to ensure that they have been accounted for in line with the FReM and SCTS' accounting policies. We have gained assurance over the completeness and accuracy of capital additions and transfers recognised in 2019/20.
26. For assets held at fair value, we have gained assurance that their carrying value in the financial statements is in line with the valuer's report and is materially correct. Work has been completed to ensure this is accurately reflected in the asset register and we were provided sufficient evidence to confirm that management had conducted an in depth review of valuer's report prior to adopting asset valuations in the draft annual accounts.
27. We have drawn attention in our independent auditor's report, via an Emphasis of Matter, to Note 2 Accounting Policies, 2.14 'Accounting estimates and assumptions' of the financial statements, which describes the effects of a material uncertainty caused by COVID-19 on the property values included within the property valuation report and this is considered further from paragraph 34.

## 5. Bank and control account reconciliations

In 2018/19, we reported that not all reconciliations had been completed between the feeder systems and the general ledger. This included payroll, accounts payable and accounts receivable. 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 that which were identified and audited.

In addition, from period three onwards SCTS were not conducting regular monthly bank reconciliations or fully monitoring the cash position across the accounts. This 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). The total difference at year-end was £9.031 million and the finance team identified and posted an adjustment of £8.800 million to the financial statements during the audit process.

Reconciliations are a key element of good financial control and if neglected can lead to an increased risk of fraud or error. It is the responsibility of SCTS to ensure the accuracy and completeness of the financial information and as highlighted in our 2018/19 Annual Audit Report, we consider it essential that comprehensive bank and control account reconciliations are prepared on a regular basis by trained members of the finance team.

*Excerpt from the 2019/20 External Audit Plan*

28. We confirmed that bank and control account reconciliations have been completed appropriately during 2019/20, undertaken in a timely manner and that reconciling items have been investigated and resolved. We confirmed that key year-end bank and control account reconciliations are arithmetically correct, agree to supporting documentation and have been subject to a timely second review by a senior member of staff. No indication of fraud, error or material misstatement were identified.
29. Standardised templates have been created for all reconciliations and guidance has been prepared to support staff. A reconciliation tracker has been maintained throughout 2019/20, recording the completion and approval of reconciliations, and the value of outstanding variances to be investigated. This is monitored by senior management on a monthly basis to ensure all reconciliations have been completed in a timely manner. We are satisfied that appropriate controls are in place to ensure the continued completion of bank and control account reconciliations.



30. SCTS collects fines on an agency basis and, under the Scotland Act 1998 (Designation of Receipts) Order, retains an element of some fines and pays the remainder over to the Scottish Consolidated Fund in arrears. A payable (Corporate Balance with the Scottish Government) is recognised for any fine income received but not yet paid to the Scottish Consolidated Fund. As a result of improved bank and control account reconciliations, management have identified a payable balance within this control account of £173k but are unable at present to identify the payee(s). We have raised a management action point to ensure this balance is investigated and resolved.

### Action Plan Point 2

## Update to our initial risk assessment

31. Planning is a continuous process and our audit plans are updated during the course of our audit to take account of developments as they arise. We have specifically updated our risk assessment and audit plan in light of COVID-19. We recognised this as a key audit risk<sup>1</sup>

### COVID-19

The COVID-19 pandemic is presenting unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. Core areas of service delivery have been suspended or substantially reduced, systems and processes have been amended to support remote working, arrangements for governance, decision making and performance management have been adapted, and many organisations are forecasting large operating deficits due to loss of income and/ or additional cost pressures. It is uncertain how long these challenges will persist.

The implications of these risks and uncertainties are under consideration by the Board, the sector and the Scottish Government. We continue to monitor government and relevant announcements as they pertain to the audit and have adapted our audit approach as required.

32. In response to this risk we identified a number of potential areas where there was the risk of material misstatement to the financial statements and/or our audit opinion. These areas included:

- Property valuations
- Content of the annual report and accounts
- Access to audit evidence
- Timescales/administrative processes.

### Property valuations

33. During the pandemic, the Royal Institution of Chartered Surveyors (RICS) published guidance which outlines the challenges with regard to the valuation of

assets during this period, including the potential for valuations to be “qualified” with a “material valuation uncertainty”.

34. In accordance with its accounting policies, SCTS obtained an external valuation of land and buildings assets capitalised in 2019/20 and indices for all assets not subject to a full valuation. The valuations are carried out in accordance with the RICS Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Scottish Government.

35. In the current year the valuation report received from the external valuers (Avison Young) stated the following:

<sup>1</sup> A key audit risk is one which may result in a material misstatement to the financial statements or significantly impact on our audit judgements and conclusions on the

four wider scope dimensions; financial sustainability, financial management, governance and transparency and value for money.



## Material Valuation Uncertainty

“ The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on the 11th March 2020, has impacted global financial markets and travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuation advice is therefore reported on the basis of ‘material valuation uncertainty’ as per VPS 3 and VPGA 10 of the RICS Valuation – Global Standards effective from 31 January 2020. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of your assets under frequent review.

For the avoidance of doubt, the inclusion of the ‘material valuation uncertainty’ declaration above does not mean that the valuation cannot be relied upon. Rather, the phrase is used in order to be clear and transparent with all parties, in a professional manner that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case. The material uncertainty clause is a disclosure, not a disclaimer.

### Avison Young Annual Indexation & Valuation advice as at 31 March 2020, Prepared for Scottish Courts and Tribunals Service

36. SCTS is required to revalue properties with sufficient regularity to ensure that the carrying amount does not differ materially from the current value at 31 March. A material uncertainty in a valuer’s report does not mean that the valuation cannot be relied upon or that there is a misstatement. However, it indicates that less certainty can be attached to the valuation than would otherwise be the case.
37. IAS 1 ‘Presentation of Finance Statements’, requires entities to disclose information about assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets

and liabilities in the next financial year. The standard notes that the nature and extent of the information provided may vary according to the nature of the circumstances but includes as an example of the type of disclosures to be made, the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity.

38. SCTS has disclosed the uncertainty and the impact on the amounts recognised in the financial statements within the Accounting Policies (Accounting Estimates and Judgements). We encouraged SCTS to quantify the uncertainty by way of sensitivity analysis disclosure, but this information was not available and so is not included in the financial statements. SCTS plan to review valuations in 2020/21 to minimise the impact of the uncertainty, following the advice of the external valuer.
39. We considered whether the material uncertainty over the property valuations is of such importance that it is fundamental to users’ understanding of the financial statements. Based on our considerations we have concluded that an emphasis of matter paragraph is required in our independent auditor’s report, which draws attention to the disclosures made in the annual accounts. Our audit opinion is not modified in respect of this matter.

## Content of the annual report and accounts

40. In May 2020, HM Treasury issued an addendum to the Government Financial Reporting Manual (FRM) which covered the following:
- The addendum permits, but does not require, bodies to omit or reduce the performance analysis section from the Performance Report. Where relevant performance information has already been published elsewhere, bodies are encouraged to refer to the relevant publication.
  - Where unaudited information otherwise required to be included in the Accountability Report is already published elsewhere, bodies are permitted to refer to the relevant publication rather than including the information in their Accountability Report.
41. SCTS took the decision to include the performance analysis section of the Performance Report and make the full disclosures in the Accountability Report.

## Access to audit evidence

42. Our audit this year has been carried out remotely. As a consequence, we identified a risk that access to and



provision of sufficient, appropriate audit evidence in support of our audit opinion may be impacted by the inherently challenging nature of carrying out our audit remotely.

43. We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.
44. We continued to work with management to ensure all audit work was complete at the point of accounts signing.

### Timescales/Administrative processes

45. In Scotland, the administrative deadline for the submission of audited accounts of central government bodies to Audit Scotland remains at 30 October 2020. The legislative deadline for laying accounts in the Scottish Parliament also remains at 31 December 2020.
46. SCTS has decided to continue with its original timetable. Audit and Risk Committee considered the annual report and accounts on 3 August 2020. The Board approved the annual report and accounts on 17 August 2020.
47. We worked closely with management throughout the audit to put us in the best position to ensure this timetable is adhered to and did so successfully.

### Our application of materiality

48. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We review our assessment of materiality throughout the audit.
49. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.
50. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.

51. Our initial assessment of materiality for the financial statements was £2.500 million. On receipt of the 2019/20 draft accounts, we reassessed materiality and kept it at £2.500 million. We consider that our updated assessment has remained appropriate throughout our audit.

### Materiality £million

<b>Overall materiality:</b> Our initial assessment is based on approximately 1.7% of SCTS' expenditure in 2018/19. Achieving a breakeven position through the application of parliamentary funding is a key target for SCTS and one of the principle considerations for the users of the accounts when assessing financial performance	2.500
<b>Performance materiality:</b> using our professional judgement we have calculated performance materiality at approximately 50% of overall materiality.	1.250

52. 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 £0.125 million, as well as other misstatements below that threshold which, in our view, warranted reporting on qualitative grounds.

### Audit differences

53. We identified no material adjustments to the unaudited accounts. We identified some disclosure and presentational adjustments during our audit which have been reflected in the final set of accounts.
54. We identified one unadjusted difference which is not considered material to the annual accounts. This has been outlined in Appendix 3. This has been reported to management and is 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.

### An overview of the scope of our audit

55. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit and Risk Committee in January 2020. 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.



56. 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.
57. 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

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

### Other information in the annual report and accounts

59. "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

60. 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.
61. 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

62. 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

63. 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.

64. 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 2019/20 report provided an opinion of reasonable assurance. However, limited assurance was provided in relation to their audits of Learning and Development and Cash Management in Courts. 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.
65. 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

66. 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

67. 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

68. 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.
69. 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.
70. 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

71. IFRS 16 Leases will now be effective from 1 April 2021 (deferred from 1 April 2020 in response to the COVID-19 pandemic). 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.

72. 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.
73. 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 2020/21 audit.
74. During our 2019/20 audit some discrepancies were identified between the information used to calculate commitments under operating leases (as provided by Avison Young) and the information within the original lease agreements. As a result, total commitments under operating leases was adjusted by £1.103million over the course of the audit. We are satisfied that commitments under operating leases as disclosed in the annual accounts are free from material misstatement, however we have raised a management action point to undertake a review of information held on lease agreements.

### Action Plan Point 3

## Qualitative aspects of accounting practices and financial reporting

75. 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.
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.</p> <p>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.</p> <p>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 have included an emphasis of matter in our independent auditor's report drawing attention to the material uncertainty disclosure on property valuations.</p>
The appropriateness of the going concern assumption	We have reviewed the detailed financial forecasts for 2020/21. 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.



Qualitative aspect considered	Audit conclusion
Disagreement over any accounting treatment or annual accounts disclosure.	While disclosure and presentational adjustments were made during the audit, there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit; although COVID-19 has presented challenges we have worked collaboratively around these.



# 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.**



The 2020/21 budget was approved in principle by the Board in March 2020 but has remained under review given the on-going changes to the operating environment. SCTS forecasts a shortfall in fees and fines income of between £11.800 million and £18.200 million as a result of court closures between March and June 2020. The Accountable Officer has made a funding request submission to the Scottish Government to help mitigate the impact of this on financial plans.

SCTS continued to progress the development of the long-term financial strategy and work is on going to reflect the impact of COVID-19 in short and medium-term plans.



## Financial sustainability

### Short term financial planning

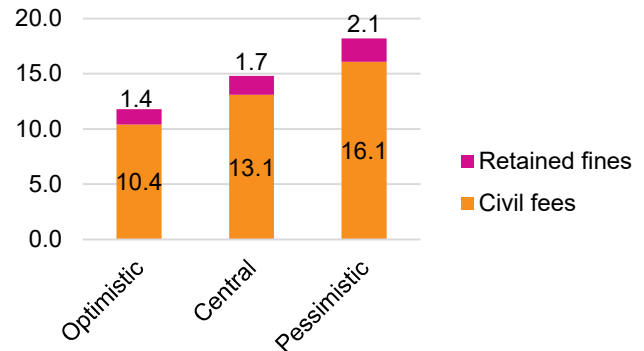
76. SCTS presented the 2020/21 Business Plan and 2020/23 Corporate Plan to the Board in March 2020.
77. The Scottish Government's budget for SCTS has been set at £122.600 million for 2020/21 (inclusive of non-cash charges). This is an increase of £5.993 million compared to the 2019/20 budget (£116.607 million). This uplift reflects the baselining of the budget with regards to judicial pensions, tribunals business and support for delivering on-going Justice Strategy priorities which were previously funded through in-year transfers.
78. The 2020/21 Business Plan outlines projected revenue expenditure of £145.671 million. This will be funded by Scottish Government grant funding (£88.815 million) and fees, fines and other operating income (£45.829 million). It is assumed that the remaining balance of £11.026 million will be supported by in year funding allocation from the Scottish Government.
79. The budget includes a number of key assumptions such as:
- Pay budget will be underspent by 5% due to vacancies arising in-year
  - Judicial employer's pension contributions in excess of funding (£4million) will be met by the Scottish Consolidated Fund
  - In-year funding transfers of £13.112 million across revenue and capital which, as not yet approved, contain a degree of volatility
80. The Board approved the budget in principle in March 2020 but agreed that it may require considerable review and amendment to reflect the impact of COVID-19 on the capacity of SCTS to deliver business as usual.

### Impact of COVID-19

81. The 2020/21 budget assumes income £45.829 million from fees, retained fines and other operating income. On 23 March 2020, SCTS closed the majority of court building and ceased all but essential business. This has had a significant impact on fee income while most associated fixed costs have remained constant.
82. Projections from the first two months of 2020/21 indicate a reduction of between 30% to 47% of civil fee income and between 31% to 47% decline in retained fines. Total loss of income is expected to be between £11.800 million and £18.200 million.

This is based on the modelling of three scenarios (optimistic, central and pessimistic).

### Exhibit 3: Potential loss of income (£'m)



83. The Accountable Officer has made a funding request submission to the Scottish Government to help mitigate the impact of reduced income in 2020/21 and is awaiting a response. At the end of May 2020, SCTS reported a forecast overspend of £23.7m (excluding anticipated in year funding) and work is on-going to quantify the impact of COVID-19 on short- and medium-term financial plans.

### Capital budgets

84. The 2020/21 Business Plan outlines budgeted capital expenditure of £10.270 million. This includes £2.086 million of anticipated in year funding in respect of a new case management system for the Social Security chamber.
85. The majority of capital spend will be spent on developing and strengthening the digital infrastructure (£6.971 million). The remainder will be invested in SCTS estate and addressing the maintenance backlog (£3.300 million).

### Long term financial strategy

86. The five-year financial strategy was submitted to the Executive Team and ARC in early 2019, covering the period 2019-2024. This outlined an increasing financial gap over the five years to 2024 and considered high level savings plans in response.
87. COVID-19 is expected to have a significant impact on the medium-term operation of SCTS which is difficult to quantify at this stage. With court activity halted for three months, there are significant backlogs across all aspects of SCTS' operations. It is estimated that by March 2021 there will be a backlog of 1,200 high court trials, 2,000 sheriff and jury trials and 6,000 summary trials.



88. SCTS ability to address this backlog will impact their projected level of income and financial position over the medium term. Work is on-going to update

medium and long-term financial strategies in response to these operational challenges.



# 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 2019/20, delivering underspends against both their cash and non-cash budget.

There was a significant overspend of £5.039 million 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 noted significant improvements with regards to cash management in 2019/20 which has resulted in a significant decrease in the level of cash held at the year-end.



## Financial performance

89. All central government bodies have to work within the resource limits and cash requirements of the Scottish Government.
90. SCTS achieved a saving against its Departmental Expenditure Limit (DEL) of £5.107million which represents an overall underspend of 3.69%. The overspend against capital DEL has been mostly offset by a revenue contribution of £2.273million from a key stakeholder applied to a capital project.
91. The DEL outturn has increased by £7.488million compared to 2018/19. This is driven by inflationary increases to expenditure, the further expansions of Tribunal operations and investment in the Inverness Justice Centre.

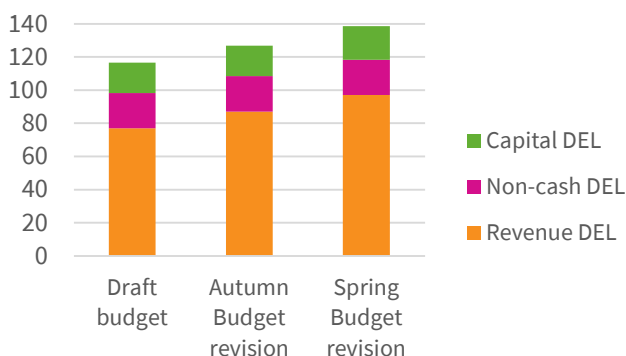
### Exhibit 4: 2019/20 Performance against SBR budget

	Budget £m	Actual outturn £m	Variance £m
Capital DEL	20.287	23.022	(2.735)
Revenue DEL	118.263	110.325	7.938
Auditors Remuneration	0	0.096	(0.096)
Capital Annually Managed Expenditure (AME)	2.504	6.916	(4.412)
Revenue AME	0.118	0.745	(0.627)
<b>Total</b>	<b>141.172</b>	<b>141.104</b>	<b>0.068</b>

### Revenue monitoring

92. The 2019/20 business plan established a revenue expenditure budget of £138.202 million. This was funded by Scottish Government grants of £77.010 million and fees, fines and other income of £44.547 million. The remaining £16.645 million was planned to be met through in year funding from the Scottish Government.
93. The in-year funding movements totalled £24.500 million of which £2.600 million related to additional non-cash AME allocation.
94. The most significant elements of in year funding movements relate to the following;
- Additional funding to fund the increase in Judiciary employer pension contributions (£4.000 million);
  - Reprioritisation of resources to meet additional costs (£3.900 million);
  - Transfer from Communities and Local Government to cover costs incurred by SCTS for the operation of the First-tier Tribunal Housing and Property Chamber (£3.000 million); and
  - Additional funding to fund the increase in SCTS employer pension contributions (£2.100 million).

### Exhibit 5: In year budget variations



95. The in-year funding therefore exceeded budgeted levels and SCTS delivered underspends against both the cash and non-cash elements of DEL.
96. In response to COVID-19, national lockdown was announced on 23 March 2020 and only essential business was able to continue. This impacted the collection of fee income, particularly within Sheriff Courts (estimated loss of £0.400million). However,





this was offset by over-recovery of budgeted receipts in other areas.

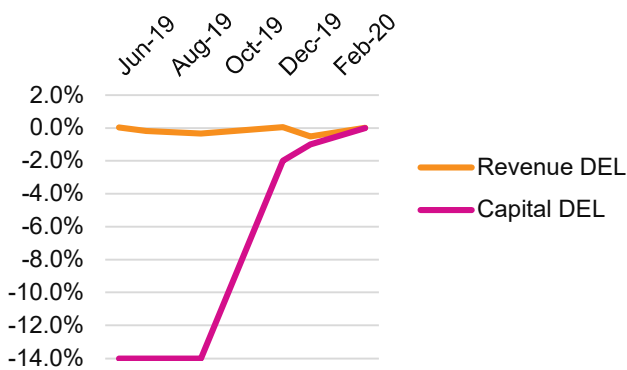
### Capital monitoring

- 97. There was a significant increase in the capital DEL allocation in year with £2 million (10.9% of original budget) of additional funding allocated at the Spring Budget Revision. The majority of the increase related to an increase from the Justice Digital Transformation Fund.
- 98. SCTS incurred capital spend of £23.022million against allocated budget of £20.287million and a revenue contribution of £2.273million from a key stakeholder in a capital project.
- 99. The majority of capital spend was on property, plant and equipment (£21.090million) with the most significant element being the construction costs of the Inverness Justice Centre. The remaining £1.932million was invested in intangible assets, including the Integrated Case Management System.

### Budget monitoring

- 100. We reviewed the budget monitoring arrangements in 2019/20. The SCTS Board receive financial monitoring reports at each meeting which include a year-end forecast.

**Exhibit 6: Forecast figures compared to year end actual balance**



- 101. Revenue DEL forecast figures were consistently within 1% of the year end actuals. Capital DEL forecast figures were within 14% of the year end actuals. We noted that the most significant movement was between forecast capital expenditure of £19.874million in September which moved to £22.612million in December. This movement is aligned to the receipt of a revenue contribution of £2.273million from a key stakeholder towards the construction of the Inverness Justice Centre.

- 102. The AME budget was significantly overspent in 2019/20 (£5.039million). AME is generally more unpredictable than DEL expenditure and the budget was set very early in November 2019. The overspend primarily relates to the impairment of the Inverness Justice Centre (downward revaluation of £6.285million).
- 103. In response to an audit recommendation raised in 2018/19, financial monitoring reports include detail on the position against the AME budget. The risk that there would be insufficient AME budget to meet any impairments on building additions was first flagged to the Board in January 2020 once it had become likely that these assets would be subject to valuation as at 31 March 2020.
- 104. As reported to the Board in March 2020, there was early engagement with Scottish Government to highlight the potential overspend and obtain assurance that this could be met within the overall Justice AME budget. The Scottish Government provided written confirmation of this position in June 2020 once the year-end position has been finalised.

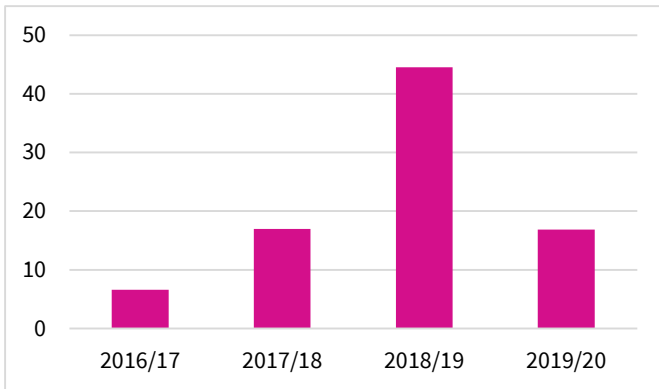
### Cash management

- 105. 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.
- 106. In 2018/19 SCTS took on responsibilities to manage its own treasury position and to make all its own payments directly for the first time, requesting drawdowns from the Scottish Government to meet their needs.
- 107. As reported in our 2018/19 audit report, the year end 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 requirements. We reported in 2018/19 that the significant rise in cash held was indicative that SCTS may have been drawing down grant funds in advance of need.
- 108. In response to the recommendations raised, a Cash Management Group was established. As per their terms of reference, the group meets monthly to review the reconciliations of key bank accounts, gain assurance over the management of bank accounts and agree the Scottish Government drawdown requirements.
- 109. We deem there to be appropriate processes in place to ensure funding is not requested in advance of needed. In 2019/20, SCTS drew down £104.574



million, a decrease of £25.391 million compared to prior year (2018/19: £129.965 million). The year-end cash balance held by SCTS had decreased to £16.859 million from £44.554 million in 2018/19. This is more consistent with the level of cash held in prior years.

#### Exhibit 7: Cash balances held at 31 March over 4 years



110. As noted at paragraph 29, the regular completion of bank account reconciliations has ensured that accurate information is available to support effective decision making regarding cash management.

### Financial capacity

111. 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.
112. 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).
113. In 2018/19 we reported concerns regarding the financial capacity in the team and the number of atypical control weaknesses arising as a result.
114. In response SCTS has completed a review of their financial capacity, skills within the team and their structure, as part of a longer-term project to ensure a well skilled and robust finance team.

115. Work is on-going to develop a succession plan. An initial assessment of skill and requirements highlighted a number of areas where further support is needed within the team. This includes for example the implementation of IFRS 16 and the work required to address the audit actions in this report. The level of training has increased and number of roles have been re-profiled based on the key processes and tasks involved.
116. A potential team structure has been designed, including the creation of a new Technical Accounting team. This team will require additional qualified staff and a business case has been prepared to assess affordability.
117. Whilst improvements have been noted in the financial capability of the team, further work is required to ensure this is sustainable and robust. Interim, technically qualified staff have been recruited to bridge skill gaps and the finance team is currently reporting five vacancies within the transaction team.

#### Prior year action plan point 9

### Systems of internal control

118. We have evaluated SCTS' 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.
119. We identified a number of control weaknesses in 2018/19, including a key weakness regarding bank and control account reconciliations, which we considered to be significant deficiencies in the control environment. As reported in Appendix 2, appropriate action has been taken to address these weaknesses and we have noted significant improvements in the control environment.
120. In late March 2020 SCTS moved to remote working where possible in response to COVID-19. Management recognised the increased risk of fraud or control weaknesses as a result and has increased the monitoring of compliance as a result. No significant control weaknesses have been identified in relation to the new working arrangements.

### Prevention and detection of fraud and irregularity

121. 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.

122. 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

123. 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.
124. 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.
125. We reviewed SCTS's participation in the NFI scheme in February 2020, including an assessment of progress in addressing identified matches. We are satisfied that SCTS has taken a reasonable and proportionate approach to investigating matches and can confirm that the exercise was completed in line with the September 2019 deadline.
126. To date, results of the NFI investigation have not identified any frauds, errors or other such observations and based on our review, we have concluded that NFI arrangements are satisfactory.

### Risk of fraud and corruption in the procurement function

127. Audit Scotland highlighted fraud and corruption in respects of the procurement function as a matter of particular focus in the public sector. We have completed a high-level review of SCTS' procurement policies and processes and did not identify any reportable issues at this stage. We will complete further work during our 2020/21 audit to ensure that controls are appropriately followed and enforced.

### Standards of conduct

128. 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

129. 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.
130. 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 and have continued to operate effectively throughout the period. The COVID-19 pandemic has presented unprecedented challenges to the operation and governance of SCTS. We are satisfied that appropriate action has been taken to mitigate the risk and impact of these.

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



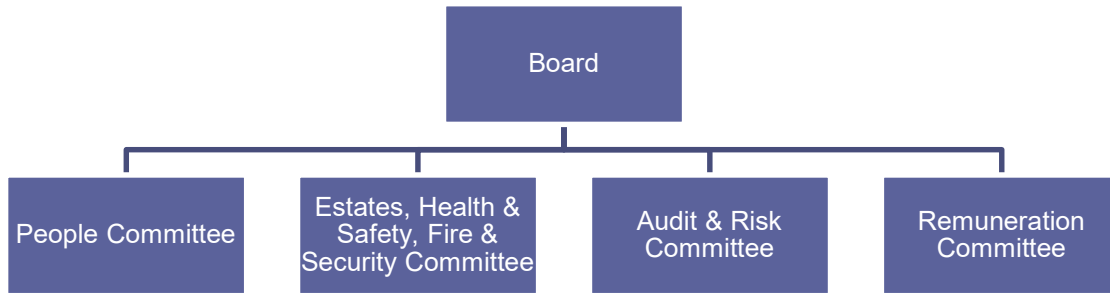
## Governance and transparency

- 131. The SCTS Board is responsible for establishing the overall strategic direction and fulfilling the legislative powers of the organisation.
- 132. 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.

- 133. We have previously highlighted that the Board may benefit from attendance from the wider Executive Team.

### Exhibit 8: Governance structures at SCTS



### Impact of COVID-19

- 134. The COVID-19 pandemic has presented unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. Core areas of service delivery have been suspended or substantially reduced, systems and processes have been amended to support remote working, and arrangements for governance and decision making have been adapted.
- 135. SCTS considered their initial response to the pandemic in early February 2020 when the risk to the UK was still deemed to be low. The Business Continuity Management Strategy (BCM) was reviewed and updated as a result.
- 136. When it became apparent that the pandemic would impact the UK, SCTS established a Strategic Incident Management Team (SIM) to manage the organisations overall response in line with the BCM. SCTS convened a multi-agency workshop with other key partners in the justice system to consider contingency options and agree a set of shared strategic priorities in response to the incident;
  - Maintain public trust and confidence in the justice system throughout the current outbreak, prioritising action to preserve safety and order;
  - Support the public health response – protecting the life and safety of all justice system users and staff;
  - Maintain the operations of those elements of the justice system regarded as essential; and
  - Maintain core operations so far as possible – to facilitate the most effective recovery.

- 137. As the situation escalated, it became clear that the pandemic would have a significant impact on SCTS ability to operate business as usual. With the approval of the Lord President and with support from the Scottish Government, SCTS announced on 19 March a number of measures that would be implemented to help manage the impact on service delivery.
- 138. With national lockdown announced on 23 March, only essential business continued during the lockdown period. An extensive programme of risk assessment and associated work was completed ahead of the re-opening of courts on 1 June in line with Scottish Government guidance. All Headquarter departments moved to working remotely throughout the period and continue to do so.



## Exhibit 9: COVID-19 timeline of key events for SCTS

<b>27 Feb</b>	●	First meeting of Strategic Incident Management (SIM) Team in anticipation of the impact of COVID-19
<b>19 Mar</b>	●	SCTS announce a number of measures to be implemented in response to pandemic
<b>23 Mar</b>	●	National lockdown announced
<b>24 Mar</b>	●	All non-essential business postponed. All staff working remotely where possible
<b>6 Apr</b>	●	Coronavirus (Scotland) Act – emergency provisions to facilitate court operation
<b>21 Apr</b>	●	First virtual Supreme Court hearing held
<b>21 May</b>	●	Scottish Government identify courts as the first major public service to reopen
<b>1 Jun</b>	●	Courts reopen in line with Scottish Government guidance

Source: Board Report: COVID-19 – SCTS response, contingency and recovery planning (June 2020)

139. Meetings of the Board and Audit & Risk Committee have been maintained throughout the period using virtual means. The decision was taken to postpone one meeting of the People Committee and Estates Committee given the timing of the meetings, but steps are being taking to ensure these recommence as scheduled.
140. The Board remained informed and involved throughout, receiving papers on SCTS' response, recovery plan and contingency arrangements at both the March 2020 and June 2020 meetings. All standing agenda items were considered as normal and governance arrangements have continued with minimal impact.
141. SCTS recognise that the key risk arising from the pandemic is the challenge of tackling the significant case backlog from the lockdown period at a time where capacity continues to be limited. The Board also notes the opportunities that have arisen from implementing new ways of working and the possibility of longer-term reform.
142. The Board approved the 2020/21 Business Plan (and supporting budget) in principle at the March 2020 meeting. It was agreed that an updated position

would be presented in August 2020, reflecting the impact, risks and opportunities arising as a result of COVID-19.

## Openness & Transparency

143. 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.
144. We have reported in both 2016/17, 2017/18 and 2018/19 that SCTS publish Board and Committee 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.
145. 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

146. Audit Scotland continues to highlight EU withdrawal as a significant risk facing public bodies across Scotland. Three streams of potential impact were identified:
- Workforce;
  - Funding; and
  - Regulation.
147. SCTS has continued to assess the impact of EU withdrawal on each of the above areas and has maintained an assessment of the potential risks arising. Mitigating actions have been identified for each potential risk and management is satisfied that appropriate action has been taken.
148. SCTS has continued to work with the Scottish Government and UK Government to ensure robust planning and preparation arrangements were in place for EU withdrawal and beyond. SCTS remained assured that there would be no significant impact on the courts and tribunals system or SCTS workloads but is continuing to closely monitor the position.



# 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 2019/20 business plan were achieved.

We note that SCTS continues to operate with significant levels of backlog maintenance which is essential to the continued operation of the large court estate. Current restrictions on public financing present an ongoing challenge to investment in this area and will be an area of focus in our 2020/21 audit.



## Performance management framework

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

### Exhibit 10: Strategic priorities at SCTS



150. 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.
151. 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.

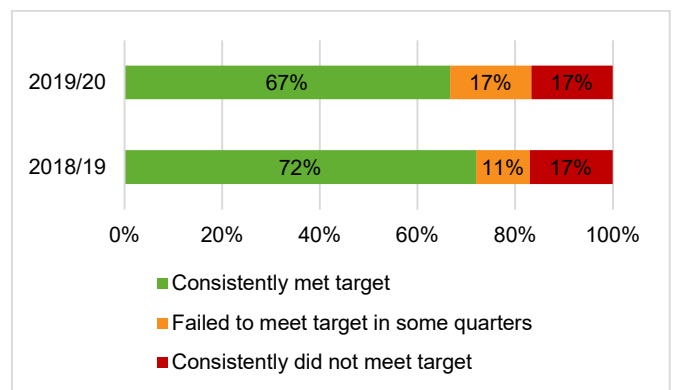
### Performance against Corporate Plan

152. In 2019/20 the SCTS created 18 Key Performance Indicators which were designed to measure success against the corporate plan. Indicators and targets are consistent with those set for 2018/19.
153. The SCTS reports its performance in 2019/20 in the Annual Report and Accounts and publishes an annual scorecard on their website<sup>2</sup>. 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.

154. As shown in Exhibit 11, 67% of targets were consistently met throughout 2019/20, a small decrease compared to performance in 2018/19. Only 17% of indicators failed to meet targets across the year which is consistent with the prior year position.

### Exhibit 11: Performance against target in 2019/20



Source: SCTS Board Scorecard 2019/20

155. We have noted that two out of the three areas of underperformance were consistent with the prior year as outlined below.
156. The third area of underperformance in 2019/20 relates to the maintenance of the estate. SCTS reported strong performance against this target in 2018/19 resulting from accelerated spend on key priorities. However, performance in 2019/20 is more consistent with the position reported for 2017/18. With current restrictions on public funding presenting an ongoing challenge to investment, this will be an area of focus in our 2020/21 audit.
157. Fines and fee income was consistently below target in 2018/19. However, we noted an improved position in 2019/20 as target income was consistently achieved throughout the year.

<sup>2</sup> <https://www.scotcourts.gov.uk/docs/default-source/default-document-library/scts-board-scorecard---2019-20.pdf?sfvrsn=2>





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, measuring the time period from police caution and charge through to disposal of the care. In 2019/20, 68.75% of summary criminal cases were disposed within 26 weeks (assessed as amber). Waiting periods in relation to the court stages of these cases have been maintained within the range considered optimal throughout the year.	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%) for quarters 1-3 of the year, reflecting a stable but relatively high level of trial churn. The movement of this indicator from amber to red (more than 35%) in quarter 4 reflects the additional impact of “lockdown” in late March, bringing almost all trials to a halt for the final week in March. Significant improvements will require longer-term reform such as that proposed through the work of the Evidence and Procedure Review – and now being developed under the auspices of the SCTS-led Criminal Justice Reform Programme.	Yes
Level of spend on maintaining the estate is in line with the required amount	Total backlog maintenance expenditure in 2019/20 was £4.64m which is 9% below the target spend of £5.07m (assessed as red). This reflects ongoing funding restraints and the fact that significant expenditure was accelerated into 2018/19 to tackle key maintenance priorities, including Dumbarton and Peterhead. In 2018/19, the backlog was reduced by some £1.07m above the £5.07m target	No

### Performance against business plan

158. The 2019/20 Business Plan sets out 28 desired outcomes, of which 24 were fully completed within the financial year, with the remaining 4 deemed partially delivered and deferred into 2020/21 as outlined below:

- support of the tribunals’ judiciary through the ongoing programme of tribunals’ reform;
- develop specialist suites in Glasgow, Edinburgh, Aberdeen and Inverness to enable pre-recording of evidence;
- review operating model for the delivery of criminal business to ensure that the structure and processes best meet the range and volumes of business faced;
- invest in digital resilience as systems and services are developed.

159. SCTS has taken action to ensure that the outstanding actions from 2019/20 are re-profiled into the draft 2020/21 business plan actions.

### Integrated Case Management System

160. 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.

161. ICMS is now live in all 39 Sheriff Courts, the All Scotland Personal Injury Court and the Sheriff Appeal Court. The system provides a secure case management platform, and with the release of Civil Online in March 2018, allows parties to track the status of their simple procedure case online.

162. We completed an in depth review of the project management and implementation of the new system in 2017/18 and 2018/19, reporting a number of issues regarding SCTS’ ability to demonstrate that the system would achieve value for money.

163. In response to our recommendations, a Project Closure Report was presented to the Audit & Risk Committee in January 2020. This outlined the lessons learned from the project and an assessment of benefits realised against the initial Benefits Realisation Plan.

164. The report highlighted the following benefits as still to be realised;

- Reduced operating costs – due to be realised in 2020



- Reduced number of errors – due to be realised in 2020
  - Improved data reporting
  - Improved organisational reputation
165. Management will continue to monitor the realisation of these benefits and the future scalability of the product within the Digital Services Unit as this project moves into business as usual.
166. The ICMS project was assessed against the key principles and actions for ICT projects as per Audit Scotland’s “Principles for a digital future: Lessons learned from public sector ICT projects”.
167. Management assessed the following six areas as amber in 2019/20, which require further consideration and improvement;
- Clearly define the needs and benefits
  - Consider the procurement options early
  - Be an intelligent client
  - Build in quality assurance processes
  - Sustain engagement with users
  - Clarify and define lines of accountability
168. We will continue to consider the realisation of benefits from the ICMS project during our 2020/21 audit.



# 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 2019/20 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 2020 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 2019/20 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;
- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate or the Board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue;
- 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 are also required to report, if in our opinion:

- 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

SCTS has purchased non-audit services from Scott-Moncrieff in 2019/20 with an expected fee of £18,500. We have been engaged by SCTS to support the preparation and development of the financial model and business case for specific elements of the estates strategy (not a financial model for SCTS overall). Responsibility for the development and approval of any financial model and business case rests entirely with management and the final business case will be much wider in scope than the work we carry out. The work was undertaken by a separate team from the audit team and the audit team had no involvement in this work.

### Confirmation of independence

We confirm that we have complied with the FRC's Ethical Standard

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



## Current year action plan

Action plan point	Issue & recommendation	Management comments
<p>1. Manual journals – segregation of duties</p> <p>Rating</p> <p>Grade 2</p> <p>Paragraph Ref</p> <p>21</p>	<p><b>Issue</b> A number of users have access to both post and authorise manual journals. SCTS' financial regulations state that journals should be authorised by a second individual.</p> <p><b>Risk</b> There is an increased risk of fraudulent or erroneous journals being posted if they are not subject to appropriate review and authorisation.</p> <p><b>Recommendation</b> Management should ensure appropriate controls are in place to detect where a journal has been posted and authorised by the same individual, such as exception reporting.</p>	<p>Since taking on responsibilities for its own ledger SCTS has introduced greater levels of segregation than was previously the case,</p> <p>Because of a lack of connectivity between SEAS and SCTS systems e.g. COPII &amp; ICMS, there is a requirement for a high number of manual journals. Also, because of restricted numbers of qualified staff in the transaction team, there has been an over-reliance on a few key individuals to process manual journals.</p> <p>We will identify the types of manual journal, review the processes and ensure adequate segregation of duties including exception reporting where necessary.</p> <p><b>Responsible officer:</b> Director of Finance &amp; Procurement</p> <p><b>Implementation date:</b> 31<sup>st</sup> December 2020</p>
<p>2. Corporate balance with the Scottish Government</p> <p>Rating</p> <p>Grade 2</p> <p>Paragraph Ref</p> <p>31</p>	<p><b>Issue</b> Within the corporate balance with the Scottish Government payable, there is a balance of £173k where the party to which this should be remitted is unknown.</p> <p><b>Risk</b> SCTS is unable to correctly remit this income in a timely manner and the Scottish Government payable will remain overstated until appropriate action is taken. Whilst this balance is not material, there is a risk that it may increase year on year.</p> <p><b>Recommendation</b> Management should investigate this balance in a timely manner and identified that party to which this is payable.</p>	<p>This balance relates to confiscation interest and third party funds held by SCTS.</p> <p>Current configuration of COPII does not generate adequate reports to identify the allocation of these funds.</p> <p>Work is required by MIAT, DSU and FPU to identify and resolve these system deficiencies.</p> <p>Scarcity of knowledgeable and informed FPU staff will defer completion of this action before the year end.</p> <p><b>Responsible officer:</b> Director of Finance &amp; Procurement</p> <p><b>Implementation date:</b> 31<sup>st</sup> March 2021</p>



Action plan point	Issue & recommendation	Management comments
<p data-bbox="140 293 344 398">3. Commitment under operating leases</p> <p data-bbox="140 439 225 472">Rating</p> <p data-bbox="140 546 244 580"><b>Grade 3</b></p> <p data-bbox="140 654 320 687">Paragraph Ref</p> <p data-bbox="140 723 172 757">76</p>	<p data-bbox="475 264 536 291"><b>Issue</b></p> <p data-bbox="475 291 925 425">Discrepancies were identified between the information used to calculate commitments under operating leases (as provided by Avison Young) and the information within the original lease agreements.</p> <p data-bbox="475 456 528 483"><b>Risk</b></p> <p data-bbox="475 483 925 642">Commitments under operating leases were adjusted by £1.103million over the course of the audit. Whilst we are satisfied that the disclosure is not materially misstated, there is a risk of future error if information held on leases is not subject to regular review.</p> <p data-bbox="475 674 671 701"><b>Recommendation</b></p> <p data-bbox="475 701 912 790">Management should review all information held on leases during 2020/21 to ensure accuracy.</p>	<p data-bbox="986 264 1436 320">In preparation for IFRS16, FPU identified that a full review of the leases was required.</p> <p data-bbox="986 344 1425 425">FPU has been working with PSU to identify the actions required but this has been deferred due to COVID-19 priorities.</p> <p data-bbox="986 450 1433 557">During 2020-21 FPU and PSU will work jointly to undertake a full review of operating leases to ensure compliance with IFRS16</p> <p data-bbox="986 609 1257 638"><b>Responsible officer:</b> CFO</p> <p data-bbox="986 667 1393 696"><b>Implementation date:</b> 31<sup>st</sup> March 2021</p>





## Follow up of prior year recommendations

Of the 13 recommendations reported as outstanding in our 2018/19 annual audit report, 12 are deemed complete and one is still in progress.

Action plan point	Issue & recommendation	Management comments
<p>1. Ledger access rights and restrictions</p> <p>Rating</p> <p>Grade 3</p>	<p><b>Issue</b> 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><b>Risk</b> There is a risk that the user access rights and restrictions are not appropriate resulting in fraudulent activity.</p> <p><b>Recommendation</b> 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><b>Responsible officer:</b> Director of Finance &amp; Procurement</p> <p><b>Implementation date:</b> 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>
Current status	Audit update	Management response
<p>Complete</p>	<p>SCTS have completed a review of user access rights and now maintains a list of roles and responsibilities.</p> <p>There is a segregation of duties policy in place which documents SEAS and ledger user access for each role within the finance team. Regular reports are run to monitor user access and update for staff changes. However, we have noted a control weakness in 2019/20 (see current year action plan point 1) regarding the lack of enforced segregation of duties regarding manual journals.</p>	<p>N/A</p>



Action plan point	Issue & recommendation	Management comments
<p data-bbox="140 277 400 349">2. Use of a management expert</p> <p data-bbox="140 383 225 421">Rating</p> <p data-bbox="140 495 244 528">Grade 3</p>	<p data-bbox="475 255 536 275"><b>Issue</b></p> <p data-bbox="475 277 919 517">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 data-bbox="475 544 528 564"><b>Risk</b></p> <p data-bbox="475 566 919 674">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 data-bbox="475 707 671 728"><b>Recommendation</b></p> <p data-bbox="475 730 914 824">We recommend that all figures provided by a management expert are subject to rigorous review by the finance team.</p>	<p data-bbox="991 282 1426 338"><b>Responsible officer:</b> Director of Finance &amp; Procurement</p> <p data-bbox="991 394 1374 421"><b>Implementation date:</b> 31st Dec 2019</p> <p data-bbox="991 488 1422 573">Accepted. We have agreed an improved process with Estates colleagues which will ensure more time for in-depth scrutiny.</p>
Current status	Audit update	Management response
<p data-bbox="140 981 260 1014">Complete</p>	<p data-bbox="475 943 911 1104">Asset valuations were obtained in 2019/20 for additions to SCTS' estate. We reviewed correspondence between SCTS and the valuer and could see evidence of improved scrutiny and challenge of the information provided by the management expert.</p>	<p data-bbox="991 949 1031 976">N/A</p>



Action plan point	Issue & recommendation	Management comments
<p data-bbox="140 277 389 383">3. Migration of accounts to an independent ledger</p> <p data-bbox="140 421 225 454">Rating</p> <p data-bbox="140 528 244 562">Grade 4</p>	<p data-bbox="475 277 536 304"><b>Issue</b></p> <p data-bbox="475 306 919 600">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 data-bbox="475 624 528 651"><b>Risk</b></p> <p data-bbox="475 654 925 759">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 data-bbox="475 788 925 871">There is also a risk that balances held on the old ledger are not cleared and are held indefinitely.</p> <p data-bbox="475 900 671 927"><b>Recommendation</b></p> <p data-bbox="475 929 916 1108">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 data-bbox="991 277 1426 333"><b>Responsible officer:</b> Director of Finance &amp; Procurement</p> <p data-bbox="991 360 1358 389"><b>Implementation date:</b> 31 Mar 2020</p> <p data-bbox="991 423 1091 452">Accepted.</p> <p data-bbox="991 486 1433 604">The Head of Financial Business Support will undertake a review of migration project &amp; process to identify lessons learned, this will be completed by 31 Dec 2019</p> <p data-bbox="991 633 1433 904">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>
Current status	Audit update	Management response
<p data-bbox="140 1265 256 1299">Complete</p>	<p data-bbox="475 1232 925 1337">SCTS has prepared a draft lesson learned report, summarising the issues encountered and the recommendations for future projects.</p> <p data-bbox="475 1364 912 1523">SCTS has liaised with Scottish Government FSD to close down the shadow accounts. However, this task has been de-prioritised as a result of COVID-19. A data migration template has been agreed and this will be resolved once resource is available.</p> <p data-bbox="475 1550 925 1632">Given the low risk nature of this outstanding element, we deem this action to be substantively complete.</p>	<p data-bbox="991 1238 1398 1344">FPU has agreed with SG FSD a data migration template and when resources permit on both sides, this action will be resolved.</p> <p data-bbox="991 1386 1426 1469">Audit have agreed that the closure of shadow accounts is not deemed a material risk</p>



Action plan point	Issue & recommendation	Management comments
<p data-bbox="140 277 384 344">4. Preparedness for audit</p> <p data-bbox="140 383 225 416">Rating</p> <p data-bbox="140 495 244 524">Grade 3</p>	<p data-bbox="475 248 536 273"><b>Issue</b></p> <p data-bbox="475 277 919 434">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 data-bbox="475 463 528 488"><b>Risk</b></p> <p data-bbox="475 492 879 566">There is a risk that the deadlines for completion are not met due to delays in audit fieldwork.</p> <p data-bbox="475 600 671 624"><b>Recommendation</b></p> <p data-bbox="475 629 927 801">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 data-bbox="991 282 1257 309"><b>Responsible officer:</b> CFO</p> <p data-bbox="991 342 1358 369"><b>Implementation date:</b> 31 Mar 2020</p> <p data-bbox="991 405 1433 584">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 data-bbox="991 618 1433 703">We believe that the Discoverer issues are now resolved which will mitigate this risk to a large degree.</p> <p data-bbox="991 736 1437 913">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>
Current status	Audit update	Management response
<p data-bbox="140 1043 256 1072">Complete</p>	<p data-bbox="475 1005 919 1135">We did not identify any issues regarding the preparedness for audit. There was a clear project plan and timetable in place for year-end processes and the preparation of the annual accounts.</p> <p data-bbox="475 1167 919 1240">All key working papers were provided at the start of the audit in line with our agreed timetable.</p>	<p data-bbox="991 1012 1031 1039">N/A</p>



Action plan point	Issue & recommendation	Management comments
<p data-bbox="140 277 373 344">5. Reporting to the Board</p> <p data-bbox="140 387 225 421">Rating</p> <p data-bbox="140 495 244 524">Grade 3</p>	<p data-bbox="475 248 536 273"><b>Issue</b></p> <p data-bbox="475 275 927 488">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 data-bbox="475 515 528 539"><b>Risk</b></p> <p data-bbox="475 542 927 620">There is a risk the Board fail to make appropriate strategic decisions due to a lack of information.</p> <p data-bbox="475 654 671 678"><b>Recommendation</b></p> <p data-bbox="475 680 916 768">We recommend potential risks are included as a standard element of finance reports going forward.</p>	<p data-bbox="991 282 1257 311"><b>Responsible officer:</b> CFO</p> <p data-bbox="991 340 1374 400"><b>Implementation date:</b> Accepted and Completed</p> <p data-bbox="991 436 1420 521">We have instigated a quarterly AME review process to ensure there is limited risk of recurrence.</p>
Current status	Audit update	Management response
<p data-bbox="140 927 260 958">Complete</p>	<p data-bbox="475 889 927 969">Commentary on the AME position and the potential risks to this are reflected in finance reports to the Board.</p> <p data-bbox="475 996 920 1155">SCTS overspent against their AME budget in 2019/20 as a result of an impairment to the Inverness Justice Centre. The Board were first made aware of this risk in January 2020 once it had become apparent that the asset would likely be subject to valuation in year.</p>	<p data-bbox="991 898 1031 925">N/A</p>



Action plan point	Issue & recommendation	Management comments
<p data-bbox="140 277 400 383">6. Evidence of liaison with Scottish Government</p> <p data-bbox="140 421 225 456">Rating</p> <p data-bbox="140 533 245 568"><b>Grade 2</b></p>	<p data-bbox="475 255 539 277"><b>Issue</b></p> <p data-bbox="475 282 919 439">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 data-bbox="475 465 528 488"><b>Risk</b></p> <p data-bbox="475 492 887 573">There is a risk that there is a miscommunication and the SCTS do not receive the budget cover they require.</p> <p data-bbox="475 600 671 622"><b>Recommendation</b></p> <p data-bbox="475 627 874 775">We would recommend all important correspondence with the Scottish Government is recorded as evidence of agreed terms and proactive financial management.</p>	<p data-bbox="991 286 1430 344"><b>Responsible officer:</b> Director of Finance &amp; Procurement</p> <p data-bbox="991 349 1374 407"><b>Implementation date:</b> Accepted and Completed.</p> <p data-bbox="991 439 1437 824">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 &amp; 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>
Current status	Audit update	Management response
<p data-bbox="140 987 261 1023"><b>Complete</b></p>	<p data-bbox="475 949 932 1160">SCTS engaged with Scottish Government at an early stage to highlight the potential overspend against the AME budget. In June 2020, once the year-end outturn position had been confirmed, SCTS received written confirmation from Scottish Government that they had sufficient unallocated AME budget to cover the overspend.</p>	<p data-bbox="991 958 1034 981">N/A</p>



Action plan point	Issue & recommendation	Management comments
<p data-bbox="140 277 309 349">7. Cash management</p> <p data-bbox="140 383 225 418">Rating</p> <p data-bbox="140 495 244 524">Grade 4</p>	<p data-bbox="475 248 536 273"><b>Issue</b></p> <p data-bbox="475 277 927 517">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 data-bbox="475 542 528 566"><b>Risk</b></p> <p data-bbox="475 568 863 647">There is a risk SCTS is deemed to be in breach of the SPFM guidance on grant funding.</p> <p data-bbox="475 678 671 703"><b>Recommendation</b></p> <p data-bbox="475 707 927 826">We would recommend SCTS reviews its cash management controls to ensure that funds are only drawn down as they are needed going forward.</p>	<p data-bbox="991 284 1426 342"><b>Responsible officer:</b> Director of Finance &amp; Procurement</p> <p data-bbox="991 376 1401 405"><b>Implementation date:</b> 31 October 2019</p> <p data-bbox="991 441 1437 647">Accepted - New processes &amp; 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 &amp; Procurement &amp; CFO.</p>
Current status	Audit update	Management response
<p data-bbox="140 985 256 1014">Complete</p>	<p data-bbox="475 947 919 1081">The Cash Management Group has met monthly since August 2019 to monitor bank reconciliations, the management of bank accounts and agree Scottish Government drawdown requirements.</p> <p data-bbox="475 1108 924 1346">In 2019/20, SCTS drew down £104.574 million, a decrease of £25.391 million compared to prior year (2018/19: £129.965 million). The year end cash balance held by SCTS had decreased to £16.859 million from £44.554 million in 2018/19. We deem there to be appropriate processes in place to ensure funding is not requested in advance of needed.</p>	<p data-bbox="991 954 1031 978">N/A</p>



Action plan point	Issue & recommendation	Management comments
<p data-bbox="140 277 327 344">8. Bank reconciliations</p> <p data-bbox="140 383 225 416">Rating</p> <p data-bbox="140 495 244 524">Grade 4</p>	<p data-bbox="475 248 536 273"><b>Issue</b></p> <p data-bbox="475 275 927 595">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 data-bbox="475 620 528 645"><b>Risk</b></p> <p data-bbox="475 647 922 752">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 data-bbox="475 786 671 810"><b>Recommendation</b></p> <p data-bbox="475 813 903 992">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 data-bbox="991 282 1426 333"><b>Responsible officer:</b> Director of Finance &amp; Procurement</p> <p data-bbox="991 336 1401 365"><b>Implementation date:</b> 31 October 2019</p> <p data-bbox="991 403 1437 698">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 data-bbox="991 732 1409 819">We will also implement a monthly Reconciliations Status Report to the Director of Finance &amp; Procurement &amp; CFO</p>
Current status	Audit update	Management response
<p data-bbox="140 1151 256 1180">Complete</p>	<p data-bbox="475 1113 906 1323">Bank account reconciliations have been completed on a monthly basis throughout 2019/20. Testing confirmed that reconciliations are arithmetically correct, agree to supporting and subject to second review. Reconciling items have been investigated and resolved in a timely manner.</p>	<p data-bbox="991 1122 1031 1146">N/A</p>





Action plan point	Issue & recommendation	Management comments
<p data-bbox="129 264 411 327">9 Financial capacity</p> <p data-bbox="129 338 411 394">Rating</p> <p data-bbox="129 454 411 495"><b>Grade 3</b></p>	<p data-bbox="475 248 539 271"><b>Issue</b></p> <p data-bbox="475 275 922 539">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 data-bbox="475 566 528 589"><b>Risk</b></p> <p data-bbox="475 593 927 685">There is a risk that the finance team does not have the capacity to deliver the required level of service.</p> <p data-bbox="475 719 671 741"><b>Recommendation</b></p> <p data-bbox="475 745 906 875">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 data-bbox="991 282 1257 304"><b>Responsible officer:</b> CFO</p> <p data-bbox="991 338 1382 360"><b>Implementation date:</b> 31 March 2020</p> <p data-bbox="991 405 1441 521">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 data-bbox="991 555 1441 763">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 data-bbox="991 797 1417 913">We have already commissioned Oracle systems training for a large number of the team and are exploring other training needs.</p>
Current status	Audit update	Management response
<p data-bbox="129 1037 411 1126"><b>Complete</b></p>	<p data-bbox="475 1003 927 1137">SCTS has completed a review of their financial capacity, skills within the team and their structure. Work is on-going to develop a succession plan to ensure skill gaps are appropriately bridged.</p> <p data-bbox="475 1167 927 1375">A business case has been prepared for a team restructure and the recruitment of additional skilled staff. We are satisfied that appropriate action has been taken to date, however this has been delayed due to COVID-19. We deem this action to be complete but will continue to monitor the further steps taken in 2020/21.</p>	<p data-bbox="991 1010 1034 1032">N/A</p>



Action plan point	Issue & recommendation	Management comments
<p data-bbox="140 277 400 353">10. Control account reconciliations</p> <p data-bbox="140 383 225 421">Rating</p> <p data-bbox="140 495 244 528"><b>Grade 3</b></p>	<p data-bbox="475 248 536 273"><b>Issue</b></p> <p data-bbox="475 275 916 490">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 data-bbox="475 515 528 539"><b>Risk</b></p> <p data-bbox="475 544 912 636">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 data-bbox="475 667 671 694"><b>Recommendation</b></p> <p data-bbox="475 698 930 918">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 data-bbox="986 318 1428 369"><b>Responsible officer:</b> Director of Finance &amp; Procurement</p> <p data-bbox="986 403 1382 430"><b>Implementation date:</b> 31 March 2020</p> <p data-bbox="986 465 1091 495">Accepted.</p> <p data-bbox="986 528 1426 613">On Payroll reconciliation, a revised and improved process has already been agreed between HR and FPU</p> <p data-bbox="986 647 1426 972">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 &amp; Procurement &amp; CFO</p>
Current status	Audit update	Management response
<p data-bbox="140 1104 260 1133"><b>Complete</b></p>	<p data-bbox="475 1066 908 1279">Control account reconciliations have been completed on a monthly basis throughout 2019/20. Testing confirmed that reconciliations are arithmetically correct, agree to supporting and subject to second review. Reconciling items have been investigated and resolved in a timely manner.</p>	<p data-bbox="986 1072 1031 1099">N/A</p>



Action plan point	Issue & recommendation	Management comments
<p data-bbox="140 277 336 349">11. Benefits realisation plan</p> <p data-bbox="140 387 225 421">Rating</p> <p data-bbox="140 495 244 528">Grade 4</p>	<p data-bbox="475 248 536 275"><b>Issue</b></p> <p data-bbox="475 277 906 383">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 data-bbox="475 409 528 436"><b>Risk</b></p> <p data-bbox="475 439 895 517">There is a risk that the project does not deliver the benefits project and therefore does not demonstrate value for money.</p> <p data-bbox="475 546 671 573"><b>Recommendation</b></p> <p data-bbox="475 575 922 994">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 data-bbox="991 282 1437 315"><b>Responsible officer:</b> ICMS Project Manager</p> <p data-bbox="991 342 1358 376"><b>Implementation date:</b> 30 Apr 2020</p> <p data-bbox="991 409 1437 618">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>
Current status	Audit update	Management response
<p data-bbox="140 1151 256 1184">Complete</p>	<p data-bbox="475 1115 916 1220">Project closure report was presented to the Audit and Risk Committee in January 2020 outlining the benefits against the original business case.</p> <p data-bbox="475 1247 927 1384">The report noted four benefits that were still to be realised. We will continue to monitor the position until all expected benefits have been realised. However, we deem this action to be substantively complete</p>	<p data-bbox="991 1122 1031 1155">N/A</p>



Action plan point	Issue & recommendation	Management comments
<p>12. Scalability of ICMS</p> <p>Rating</p> <p><b>Grade 2</b></p>	<p><b>Issue</b> 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><b>Risk</b> 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><b>Recommendation</b> 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><b>Responsible officer:</b> ICMS Project Manager</p> <p><b>Implementation date:</b> 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>
Current status	Audit update	Management response
<p><b>Complete</b></p>	<p>As reported to the Audit and Risk Committee in January 2020, the future scalability of the product will continue to be measured as the project moves into a business as usual state.</p> <p>We will continue to monitor the position until all expected benefits have been realised. However, we deem this action to be substantively complete</p>	<p>N/A</p>
Action plan point	Issue & recommendation	Management comments
<p>13. Business continuity</p> <p>Rating</p> <p><b>Grade 2</b></p>	<p><b>Issue</b> No business continuity or disaster recover exercise was performed within the last 12 months.</p> <p><b>Risk</b> There is a risk that expected benefits of the system with regards to business continuity are not realised.</p> <p><b>Recommendation</b> 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><b>Responsible officer:</b> ICMS Project Manager</p> <p><b>Implementation date:</b> 31 Mar 2020</p> <p>Accepted - a Business Continuity exercise will be performed and reported to the Audit &amp; Risk Committee</p>
Current status	Audit update	Management response
<p><b>In progress</b></p>	<p>A business continuity exercise had been scheduled for early 2020. However, this has been delayed due to resource being reprioritised to focus on wider COVID-19 resilience.</p>	<p>An ICMS Risk Assessment and Business Impact Analysis session took place in mid May 2020. A Review of Disaster Recovery provision and Disaster Recovery Testing will take place over the summer. This recommendation will be complete by December 2020</p>



## Appendix 3: Audit Differences

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		SOPF	
	DR £m	CR £m	DR £m	CR £m
Payables			0.173	
Income		0.173		
<i>Being the potential overstatement of payables due to the unidentified balance within the Corporate Balance with Scottish Government payable</i>				
Net impact on income / expenditure	0.173			

