

# Scottish Court Service

Report on the 2009/10 Audit to the Scottish Court Service and the Auditor General for Scotland

30 June 2010

The logo for Audit Scotland, featuring a stylized blue 'A' with a checkmark inside a circle to its left.

AUDIT SCOTLAND

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# Contents

|  |           |   |           |
|--|-----------|---|-----------|
| <b>Key messages</b>                      | <b>1</b>  | <b>Performance</b>  | <b>16</b> |
| <b>Introduction</b>                      | <b>3</b>  | <b>Looking Forward</b>  | <b>21</b> |
| <b>Financial Statements</b>              | <b>5</b>  | <b>Appendix A: Action Plan</b>  | <b>22</b> |
| <b>Use of Resources</b>                  | <b>8</b>  | <b>Appendix B: Review of Risks<br/>Identified in the Audit Risk<br/>Analysis and Plan</b> | <b>23</b> |
| <b>Governance and<br/>Accountability</b> | <b>13</b> |   |           |



# Key messages

In 2009/10 we looked at the key strategic and financial risks faced by the Scottish Court Service. We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

## Financial statements

We intend to give an unqualified opinion on the financial statements of the Scottish Court Service for 2009/10. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

## Financial position and use of resources

Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight. It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known. Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available. In the current economic climate difficult decisions will have to be made across the public sector about priority spending programmes.

During financial year 2009/10, the Scottish Court Service recorded income of £32.7 million and received financing of £76.4million from the Scottish Government. The Scottish Court Service incurred a net operating cost of £82.0 million against a budget of £83.9million; a net underspend of £1.9 million on operating costs.

The balance sheet moved from an opening position of £377.6 million to a closing balance of £393.3 million after prior year adjustments. The capital budget allocated to the Scottish Court Service for 2009/10 was £18.7 million. An overspend of £0.7 million was recorded (£19.4 million outturn capital expenditure).

Scottish Ministers have agreed a total budget (including retained income) of £118.0 million for 2010/11. The budget for 2010/11 represents a 3.6% decrease on the 2009/10 budget of £122.4 million. The increasingly tight financial settlement for 2010-11 will be expected to meet the normal business of the Scottish Court Service. The Scottish Court Service will also be expected to achieve an efficiency target of £7.843 million.

## Governance and accountability

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control



arrangements for the Scottish Court Service operated satisfactorily during the year, as reflected in the Statement on Internal Control.

We examined the key financial systems which underpin the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.

## **Performance**

In 2008/09 the Scottish Court Service introduced a performance framework to address deficiencies in the previous framework and include the contribution made by operational support directorates to the delivery of front-line services. Performance has been reported for national targets, court performance indicators, service delivery targets, community impact indicators and operational support targets.

The Scottish Court Service corporate plan for 2008 – 2011 focuses on four major change programmes including the redevelopment of Parliament House and the implementation of Summary Justice Reform.

The Scottish Court Service completed a baseline review of its best value arrangements in 2005/06. During 2008/09 the Scottish Court Service completed a review of efficiency arrangements using the Audit Scotland delivering efficiencies toolkit. The findings were published in 'Improving Public Sector Efficiency' in February 2010.

## **Looking forward**

The final part of our report notes some key risk areas and issues for the Scottish Court Service going forward. We highlight a number of national issues which affect all public sector bodies including the Scottish Court Service. These include efficiencies and future funding; financial management and affordability, and best value. Strategic change; performance measurement and the redevelopment of Parliament House continue to represent a significant challenge to the Scottish Court Service.

The assistance and co-operation given to us by non executive members and staff during our audit is gratefully acknowledged.

**Audit Scotland**  
**30 June 2010**



# Introduction

1. This report summarises the findings from our 2009/10 audit of the Scottish Court Service. The scope of the audit was set out in our Audit Plan on accordance with the Code of Audit Practice, which was presented to the Audit Committee on 27 October 2009. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance. Appendix B details our findings from the review of the main risks.
2. We have issued a range of reports this year, and we briefly touch on the key issues we raised in this report. Each report set out our detailed findings and recommendations and the Body's agreed response. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.
3. Best value duties apply across the public sector and are a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and this has been further developed during 2009/10 with the completion of its bank of best value Toolkits which, although primarily designed for audit use, are available to all public bodies for reference.

Exhibit 1: Framework for a best value audit of a public body





4. A linked development here has been the Scottish Government's work to refresh its 2006 best value Guidance for Public Bodies. This latter initiative, due for issue later in 2010, will result in clearer guidance to public bodies, and particularly those in the Central Government and Health sectors, on securing continuous improvement in performance, with due regard to the balance between cost and quality.
5. Throughout this report we comment on aspects of the Scottish Court Service arrangements in this area. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not yet have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report represents a further step towards that goal.
6. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. Where these have a bearing on the activities, risks or performance of the Scottish Court Service, we make reference to these reports in this document. Full copies of the study reports can be obtained from Audit Scotland's website, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
7. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by management and Board members of the Scottish Court Service during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.



# Financial Statements

8. In this section we summarise key outcomes from our audit of the Scottish Court Service financial statements for 2009/10 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

## Our responsibilities

9. We audit the financial statements and give an opinion on:
- whether they give a true and fair view of the financial position of the Scottish Court Service and its expenditure and income for the period in question;
  - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
  - the consistency of the information which comprises only the Annual Report sections entitled About the Scottish Court Service, This Year in Focus, Our People and only the Financial Performance sub-section of Our Performance and the unaudited part of the Remuneration Report; and
  - the regularity of the expenditure and receipts.
10. We also review the statement on internal control by:
- considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control; and
  - assessing whether disclosures in the statement are consistent with our knowledge of the Scottish Court Service.

## Overall conclusion

11. We have given an unqualified opinion on the financial statements of the Scottish Court Service for 2009/10.



12. As agreed, the unaudited financial statements were provided to us on 4 May, supported by a comprehensive working paper package. The Annual Report and the remuneration report were not delivered by the agreed date. This has created some difficulties for us to complete our audit within the agreed timetable and provide our opinion to the Audit Committee on 30 June as timetabled. Nevertheless, the good standard of the supporting papers and the timely responses from the Scottish Court Service staff has allowed us to substantially conclude our audit by that date.

#### **Action Plan 1**

### **Issues arising from the audit**

13. As required by auditing standards we issue a report to those charged with governance to the audit committee on 30 June 2010 which covers the main issues arising from our audit of the financial statements.
14. A further management letter, including an action plan, covering other non material items identified during the course of the audit will be issued to management in due course. All items have been discussed with management and none are sufficiently material to warrant inclusion in this report.

### **Regularity**

15. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to her view on adherence to enactments and guidance. No significant issues were identified for disclosure.

### **International financial reporting standards (IFRS)**

16. UK Government departments and other public sector bodies prepared their accounts in accordance with International Financial Reporting Standards (IFRS) for the first time in financial year 2009/10. The transition arrangements to IFRS required bodies to prepare IFRS shadow accounts for 2008/09, including revised opening balances as at 1 April 2008.
17. During 2009/10 we were required to review the shadow accounts and report on them to the Scottish Government by 28 February 2010. The purpose of this exercise was to consider whether the shadow accounts had been properly prepared and report any matters that might prevent them forming a reliable basis for the first set of IFRS based accounts in 2009/10.



18. The shadow accounts and supporting documentation for the 2008/09 financial year were submitted by the Scottish Court Service for review by the deadline date of 28 February 2010
19. We made some recommendations for the production of the 2009/10 accounts, and considered progress on these when we audited the 2009/10 accounts. These included:
  - Bad Debt Provision – the provision was previously based on debtor balances over 90 days and did not include all historic balances; and
20. We found that the bad debt provision was calculated correctly.



# Use of Resources

21. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of the Scottish Court Service

- financial position;
- financial management; and
- management and use of information and communications technology (ICT).

## Financial Position

### Outturn 2009/10

22. Scottish Court Service is required to work within the resource budget set by the Scottish Government Justice Directorate. In 2009/10 the Scottish Court Service underspent its operating costs budget by £1.9 million and overspent its capital budget by £0.7 million (overall position is £1.2 million underspend) – see exhibit 1 below.

23. **Operating Cost Statement** - operating outturn decreased by £0.5 million from £82.5 million (2008/09) to £82.0 million (2009/10). Capital outturn increased by £0.5 million from £18.9 million (2008/09) to £19.4 million (2009/10).

24. During the year there were Machinery of Government changes relating to the transfer of District Courts in two sheriffdoms: North Strathclyde (15 December 2009), and South Strathclyde, Dumfries and Galloway (23 February 2010). These figures are detailed in Note 18 and are incorporated in the Operating Cost Statement.

25. **Balance Sheet** - The balance sheet as at 31 March 2010 shows net assets of £393.3 million (31 March 2009 net assets of £377.6 million). The overwhelming majority of SCS capital expenditure in 2009/10 was on the redevelopment of Parliament House.

#### Exhibit 2 – Performance against resource budget 2009/10 (£ million)

| Limits       | Budget       | Actual Outturn | Difference |
|--------------|--------------|----------------|------------|
| Operating    | 83.9         | 82.0           | 1.9        |
| Capital      | 18.7         | 19.4           | (0.7)      |
| <b>Total</b> | <b>102.6</b> | <b>101.5</b>   | <b>1.2</b> |



## Scotland's public finances

26. The Auditor General's report on *Scotland's public finances, published in November 2009*, contained an overview of the financial environment in Scotland and the pressures and challenges facing the public sector. The aim of this report was to help to inform the debate on the future of public finances in Scotland. The key messages from this report were:

### **Extract from Auditor General's report *Scotland's public finances***

*The public sector is coming under the greatest financial pressure since devolution.*

- Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight.
- The Scottish Government and the wider public sector need to work together to develop better activity, cost and performance information. This information is needed to enable informed choices to be made between competing priorities, and to encourage greater efficiency and productivity.

*The Scottish Government faces significant challenges in balancing the budget while also delivering on its commitments and meeting increasing demands for public services.*

- It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known.
- In many cases, the public sector uses income from various sources to pay for services. Income levels anticipated before the recession are unlikely to be realised, reducing the amount available to spend.
- The Scottish public sector faces significant challenges in balancing its budget while also delivering on its commitments. Changes in Scotland's population and rising unemployment rates will increase demand for public services.
- Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available.

*In the current economic climate difficult decisions will have to be made about priority spending programmes.*

- The Scottish Government's annual budget is largely developed on an incremental basis which involves making adjustments at the margin to existing budgets. This approach is not suitable for budgeting in a financial downturn because it does not easily allow informed choices to be made about priorities, based on robust information about activity, costs and performance.
- The Scottish Parliament has an important role in scrutinising the government's spending plans. Better information linking spending to costs, activities and service performance, and a rolling programme of performance reviews, would support the Scottish Parliament in fulfilling this role.

27. The Scottish Court Service has established a committee to oversee the efficiency programme.



## Financial sustainability and the 2010/11 budget

28. Scottish Ministers have agreed a resource budget for the Scottish Court Service of £118.0 million for 2010/11. This comprises operating expenditure of £97.7 million and capital expenditure of £20.3 million. This is to be funded as follows:

### Exhibit 3 – 2010/11 Proposed budget (£ million)

| Limits          | Budget       |
|-----------------|--------------|
| Financing       | 98.2         |
| Retained income | 19.8         |
| <b>Total</b>    | <b>118.0</b> |

29. Current projections forecast expenditure to be within budget in 2010/11.
30. The financial settlement for 2008-11 will be expected to deliver the day to day business of the Scottish Court Service. The corporate plan reflects the tight nature of the settlement. The Scottish Court Service has established the level of fine income that can be retained and a new pay remit was implemented during 2009/10 giving certainty over future staff costs. The Scottish Court Service will also be expected to achieve an increased efficiency savings target of £7.8 million.
31. Capital projects will continue to be a major area of the Scottish Court Service's activity. The majority of capital spend in 2010/11 will focus on the redevelopment of Parliament House.

## Management and use of ICT

32. As part of the 2009/10 audit we have carried out a 'Your Business @ Risk' survey of knowledge and attitudes to data security amongst the Scottish Court Service staff. The response rate in May 2010 was 19%, and provided a good basis for comparing the results of this year's survey with other Scottish public sector bodies.
33. The survey identified a number of areas where staff demonstrated a high level of awareness and good practice. These areas included awareness of actions to take in relation to lost or misplaced work related information, the SCS policy and procedures on the internet, email and telephones, and the procedures to adopt in relation to security incidents and password changes. There are, however, a number of areas where there is a lack of knowledge and awareness. These include procedures following the loss of an item of ICT equipment, the increased security controls for sharing information externally and the protective marking policy.
34. The results from the survey were also compared with a Scottish database of public sector clients who have taken part in the same survey to date. The comparison indicates that SCS compares favourably



with the benchmark data, with awareness around information governance being in line with the majority of the questions.

35. However there are a number of areas where SCS needs to continue to develop and reinforce, to help improve overall staff awareness of information security. Key actions going forward should include:
- Ensuring all staff are required to undertake information governance training, along with appropriate Data Protection training, with its completion being monitored
  - Refresh and re-launch policies and procedures and develop a good practice guidance booklet or other forms of communication to help improve staff behaviours. These should include clear guidance on:
    - secure methods of sharing information externally
    - secure methods of accessing information outside of the office, and methods that should not be used
    - password management, and accessing and locking your computer
    - loss of staff equipment, including security over removable media.
36. The Director of IT intends to communicate the survey outcomes to all staff.

## National Studies

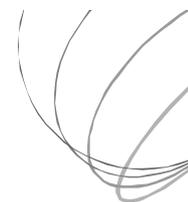
37. Audit Scotland are currently developing a more flexible approach to its national performance audit programme. Our focus continues to be on value for money, economy, efficiency, effectiveness and on governance and accountability. We have developed the following five key themes to help underpin our programme:
- **Managing reductions in public sector budgets:** in recognition of the cost pressures facing public services, and building on and developing issues arising from our reports on Scotland's public finances and Improving public sector efficiency.
  - **Investment:** looking at accountability for the use of public funds; examining the scope for reducing cost overruns and improving project management; and assessing whether investing in services with early intervention leads to better outcomes and savings in the longer term.
  - **Partnership working:** examining the value for money of partnership working and whether this way of planning and delivering services is making a real difference.
  - **User focus and personalisation:** looking across organisational boundaries and identifying cost-effective ways of delivering services which better suit people's needs at the same time as delivering savings.



- **Environmental auditing:** reviewing how Scotland is responding to the challenges of reducing carbon emissions and adapting to climate change.

## Future studies

38. Audit Scotland are about to start fieldwork for the performance audit '*Management of the Scottish Government's capital investment programme*'. As part of this work we will be speaking to the Scottish Court Service and discussing various aspects of the investment programme.
39. Overall, the project aims to provide independent assurance about how well the Scottish Government is managing its capital investment programme and associated risks. It will also assess and report on the outlook for investment spending and what improvements have been made in major project management since our previous report *Review of major capital projects in Scotland (June 2008)*. It is due to be published in Autumn 2010. The Scottish Court Service contributed information to the original report.
40. *Improving energy efficiency: a follow-up report* will re-evaluate the performance of the public sector in improving its energy efficiency. It will assess progress made against the recommendations in the *Improving energy efficiency report 2008*, and look at changes in public bodies' energy consumption and spending on energy since 2004/05. It will also look at how prepared participating public bodies are for the CRC Energy Efficiency Scheme. It is due to be published in December 2010. The Scottish Court Service contributed information to the original report.



# Governance and Accountability

41. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our findings arising from a review of the Scottish Court Service arrangements.
42. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

## Overview of arrangements

43. This year we reviewed:
  - key systems of internal control including peer review;
  - internal audit; and
  - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct.
44. We also refer to a National Study being carried out by Audit Scotland that is relevant to the operations of the Scottish Court Service.
45. Our overall conclusion is that arrangements within the Scottish Court Service are sound and have operated through 2009/10. We report that key controls were operating effectively, and that the Scottish Court Service has adequate systems of internal control in place.

## Strategic change

46. The status of the Scottish Court Service changed from executive agency to non-ministerial department on 1 April 2010 following enactment of the Judiciary and Courts (Scotland) Act. The judiciary form the majority on a new Board chaired by the Lord President.

## Systems of internal control

47. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2009/10



Scottish Government Internal Audit Division, the internal auditors, will be providing their opinion that based on the internal audit work undertaken during the year an overall assurance rating of 'Substantial' will be awarded.

48. As part of our audit we reviewed the high level controls in a number of the Scottish Court Service systems that impact on the financial statements. This audit work covered a number of areas including cash and bank, fixed assets, main accounting and payroll. Our overall conclusion was that key controls were operating effectively and that the Scottish Court Service has adequate systems of internal control in place. We did identify a number of areas where controls could be strengthened and agreed an action plan of improvements with management. These will be followed up in 2010/11 to confirm that improvements have been made.

## **Statement on Internal Control**

49. The Statement on Internal Control provided by the Scottish Court Service Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out the Scottish Court Service approach to this.

## **Internal Audit**

50. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2009/10 audit we assessed whether we could place reliance on the Scottish Court Service internal audit function. We concluded that Scottish Government Internal Audit Division operates in accordance with the Government Internal Audit Standards and therefore placed reliance on their work in number of areas during 2009/10, as we anticipated in our annual audit plan. This included reliance on aspects of internal audit's systems work to avoid duplication of effort.

## **Prevention and detection of fraud and irregularities**

51. The Scottish Court Service has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Board members. The Scottish Court Service maintains a register of Board member's interests. During the audit we examined client procedures for recording staff expenditure (e.g. travel), gifts and hospitality and performed testing to ensure procedures had been complied with. We found items had been appropriately recorded and authorised.



52. In February 2009 evidence of a systematic, long-term fraud was uncovered at Edinburgh Sheriff court. The case involved the alleged falsification of invoices and expense claims. A successful prosecution was brought during the year and the final loss of £130,000 was reported in the 2009/10 accounts.
53. During the year an investigation was conducted into staff awareness of SCS policy on acceptance of gifts, rewards and hospitality. The investigation made several recommendations to improve current practice and achieve compliance with the policy. The findings from the investigation have been referred to in the Statement on Internal Control.

## National Studies

54. In August 2010, Audit Scotland will be publishing a national study on *The Role of Boards* which will be relevant to the governance of the Scottish Court Service. Boards play a crucial role in ensuring that governance standards are maintained in public sector organisations. There are recent examples of the failure of public sector organisations to establish an adequate Board. We will assess how Board members are selected and whether the membership of Boards is appropriate. In this study we will also review how the performance of Boards is measured and the arrangements for induction and training for non-executive members. Feedback relating to the Scottish Court Service will be provided in due course where appropriate.



# Performance

55. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. Key features of best value include:

- setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery;
- a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes.

56. In this section we comment on:

- the Scottish Court Service corporate plan;
- performance against targets;
- performance management arrangements; and
- the Scottish Court Service efficiency programme

## Vision and strategic direction

57. The Scottish Court Service corporate plan for 2008 – 2011 describes the purpose of the SCS as delivering access to justice by providing the people buildings and technology to support the operation of the Courts and the Office of the Public Guardian. The plan then describes the aim and values of the organisation that support this purpose.

58. The plan goes on to describe the operating environment, specifically the influence of:

- the Scottish Government's policy framework;
- the financial resource available to the SCS and specifically the tight spending review settlement;
- the level of activity of the courts for example the increased high court workload; and
- other justice partners (eg the judiciary) on the effective operation of the justice system as a whole.

59. Four major change programmes are planned during the lifetime of the plan:

- **Efficiency and opportunity:** Improving systems to deliver frontline services more efficiently and reviewing funding and charging arrangements to reduce the level of public subsidy and ensure procurement policies represent best value;



- **Parliament House redevelopment:** Having successfully defined and let the contract to refurbish Parliament House, the SCS must now ensure that the work proceeds without disruption to the ongoing business of the Court of Session;
- **Judicially-led governance of the Scottish Court Service:** The Judiciary and Courts (Scotland) Act will transfer the Scottish Court Service changing status from Executive Agency to Non-ministerial department led by the Lord President; and
- **Summary Justice Reform:** Summary Justice represents approximately 96% of all prosecutions and reform was intended to deliver a more effective system. The most significant element of Summary Justice Reform to the Scottish Court Service was the unification of the administration of the Sheriff and Justice of the Peace Courts which has now been achieved.

## Performance overview

60. In 2008/09 the Scottish Court Service introduced a new performance framework to address deficiencies in the previous framework and include the contribution made by operational support directorates to the delivery of front-line services.
61. The following performance targets are reported:
  - **National Targets** – Both targets were achieved. These are the Justice system target (65% of criminal cases dealt with within 26 weeks) and the 2% year on year efficiency target;
  - **Court Performance Indicators** – These are predominantly measures of waiting periods. Performance is measured against indicative performance from prior periods. Performance against this wide variety of targets has been mixed;
  - **Service Delivery Targets** – Eight targets are used to measure court processes of most importance to court users eg 'process ordinary divorce cases within 5 days'. Three out of eight targets were met;
  - **Community Impact Indicators** – Four indicators cover performance in various activities impacting on communities; and
  - **Operational Support Targets** – Fifteen indicators are used to measure the contribution made by operational support directorates.
62. No targets are currently in place for the rate of fine payments. During 2009/10 SCS reported fine payment rates of around 88% (Sheriff court fines), around 76% (Justice of the Peace court fines) and over 60% (Procurator Fiscal and police fines).



## Performance management

63. The Scottish Court Service Performance framework document, including current performance is reviewed at Board meetings. Targets highlighted red are followed up and action taken.

## Risk management

64. There a number of key challenges and risks for the Board in delivering its plan. The Board has put in place robust systems for the identification and management of risk with the adoption of a single corporate risk register, corporate risk management policies and the issuing of guidance for managers. These corporate risk arrangements are supported by local departmental risk registers and arrangements. The challenge for the Board will be embedding a risk aware culture within the organisation for the future management of existing and emerging risks in the medium to long term.

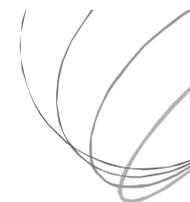
65. The main risk areas are:

- **Securing Financial Stability** – As has been noted elsewhere in this report, one of the significant challenges that the Board faces relates to its ability to fund a sustainable level of service and implement major service developments, in particular establishing the new body. This issue remains a significant challenge to the Board.
- **Business objectives and maintenance of the Estate** - The budget allocated to the Scottish Court Service by the Scottish Government for current and capital expenditure could be insufficient to deliver Ministerial priorities and expectations, and in-year demands on resources;
- **Maintaining Robust Performance Reporting Frameworks** – The importance of having robust systems of relevant, accurate and understandable information has been recognised by the Board. We expect the performance reporting framework to be further developed by the new board.
- **New governance structures** – The new committee structures are yet to be finalised; and
- **Capital Projects** – The refurbishment of Parliament House continues to dominate the capital expenditure programme and has associated risks. The SCS will need to continue to manage and monitor expenditure to manage those risks.

66. These risk areas are complex and comprise multiple issues which will require careful management to resolve. We have continued to monitor the SCS's progress in each of these areas over the course of the year.

## Improving public sector efficiency

67. The Audit Scotland report *Improving public sector efficiency* was published on 25 February 2010. It provided a provides a position statement on the first year (2008/09) of the Efficient Government



Programme (the Programme), which aims to deliver £1.6 billion efficiency savings over the three years to 2010/11. It also gave an update on how the Scottish Government and public bodies have addressed the recommendations made in the 2006 report about the previous efficiency programme.

68. The report found that Scottish public bodies reported more efficiency savings than the Government's two per cent target. But there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult.
69. The report recommended that to deal with reduced future funding and increase savings public bodies need to consider fresh approaches to improving efficiency and productivity. They must take a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working.
70. The drive to improve efficiency and productivity is not just an exercise for managers and service providers. It requires strong leadership and engagement from the very top of public bodies. Leaders and senior decision-makers within an organisation have a responsibility to check, challenge, monitor and support their organisations in delivering efficiency and productivity improvements. The report's recommendations highlighted areas that public bodies' key decision makers should look at to assess their organisation's development and to challenge existing arrangements (see below).

**Extract from Audit Scotland report *Improving public sector efficiency***

*In order to improve the delivery of efficiency savings public bodies should:*

- ensure they have a priority-based approach to budgeting and spending
- continue to improve collaboration and joint working, overcoming traditional service boundaries
- consider using alternative providers of services, if these providers can improve the efficiency, productivity or quality of services
- improve information on costs, activity, productivity and outcomes, including setting baselines to measure performance against
- give greater urgency to developing benchmarking programmes
- maintain the momentum of activities and initiatives to improve purchasing and asset management and extend shared services
- ensure there is a joined-up approach to efficiency savings across the public sector, avoiding duplication
- ensure that plans are in place to deliver savings, clearly setting out what action will be taken, the level of savings to be delivered and how these will be measured
- strengthen the involvement of front-line staff, service providers and users in redesigning public services
- reduce reliance on non-recurring savings to meet financial targets and generally use these as part of a wider and longer term strategy
- report efficiency savings consistently.

71. To support these high-level recommendations, Audit Scotland, the Northern Ireland Audit Office and the Wales Audit Office have drawn on their combined experience to develop a detailed good practice checklist. The checklist is intended to promote detailed review and reflection and, if necessary, a basis for improvement. We recommend that those responsible for leading efficiency and improvement work should consider assessing themselves against each question, and recording the results.



72. The Scottish Court Service's target for the Efficient Government Plan for the three years to 2007/08 were £6.5 million of efficiency savings. The target was exceeded and actual savings achieved to 31 March 2008 were £7.1 million.
73. In the next three years budget settlement (2008-11) the Scottish Court Service is required to make a 2% per annum cash releasing efficiency saving. SCS reported savings of £6.9 million against a 2% year on year efficiency target of £6.2 million. A specific committee has been established to oversee the efficiency programme.

## National Studies

74. A follow-up report is being undertaken to the 2006 report, *Public sector pension schemes in Scotland*. It will provide an update position on the six main public sector pension schemes and the implications for the Scottish Government spending going forward. It is due to be published in November 2010. Feedback relating to the Scottish Court Service will be provided in due course where appropriate.



# Looking Forward

75. The Scottish Court Service faces a number of challenges in 2010/11, which include:

- **Efficiencies and future funding** - Scottish public bodies reported more efficiency savings than the Government's two per cent target in 2008/09, but there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult. To deal with reduced future funding and increase savings fresh approaches to improving efficiency and productivity must be considered, taking a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working. The Scottish Court Service needs to achieve efficiency savings of £7.8 million in 2010/11. The challenge for the Scottish Court Service is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives;
- **Strategic Change** – On 1 April 2010 the Scottish Court Service changed from executive agency to non-ministerial department as a result of the Judiciary and Courts (Scotland) Act. The new board will consider, amongst other things, a new framework document and corporate plan;
- **Best Value** - The concept of best value is seen as a key driver of modernisation and improvement in public services. Audit Scotland has continued its commitment to extending the best value audit regime across the whole public sector and significant development work has taken place over the last year including the finalisation of its best value toolkits. This has been matched by the Scottish Government's commitment to refreshing its Best Value Guidance for Public Bodies. The Scottish Court Service should continue to respond to this important initiative as it develops;
- **Performance measurement** – The current performance framework reflects the performance indicators established in the 2008-11 Corporate Plan. Performance measurement is likely to be re-evaluated by the new SCS board and assessing the performance of the Scottish Court Service within the Justice system as a whole will be a significant challenge.
- **The redevelopment of Parliament House** – The second phase of the redevelopment of Parliament House commenced in November 2009. This project is likely to dominate Scottish Court Service capital expenditure and is due to complete in March 2012. Managing expenditure on this large scale capital project continues to present a challenge to Scottish Court Service.



# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

| Action Point | Risk Identified   | Planned Action  | Responsible Officer                                     | Target Date          |
|--------------|---|---|---|----------------------|
| 1            | <p><b>Annual Report compilation</b></p> <p>The draft Annual Report was received 17 days after the agreed date in the Audit Plan. In addition, the draft did not comply with the FReM in a number of areas.</p> <p>Audit Scotland works closely to the agreed timetable in order to achieve an efficient audit. If the full set of documents is unavailable at the start of the audit, there may be difficulties in clearing the accounts in time for the audit committee.</p> <p><i>We recommend that:</i></p> <p><i>The Scottish Court Service review its procedures and timetable for compiling the Annual Report section to ensure the timetable in the agreed Audit Plan is met and that the draft Annual Report and Accounts meet FReM requirements.</i></p> | <p>We will review the procedures and timetable for compiling the Annual Report and Accounts with the new SCS Audit Committee to ensure there is a reasonable time following the end of the financial year to prepare and clear relevant data and commentary. There may be some data that is still being validated at the time of audit, but most of the information should be able to be provided. We will also consider new arrangements for clearing the Annual Report and Accounts with the SCS Board.</p> | <p>Neil Rennick<br/>Director of Policy and Strategy</p> | <p>December 2010</p> |



# Appendix B: Review of Risks Identified in the Audit Risk Analysis and Plan

| Risk  | Source of assurance   | Planned audit action   | Outcome   |
|---|---|--|---|
| <p><b>1. Business objectives and maintenance of the Estate</b></p> <p>The budget allocated to Scottish Court Service by the Scottish Government for current and capital expenditure could be insufficient to deliver Ministerial priorities and expectations, and in year demands on resources.</p> | <ul style="list-style-type: none"> <li>▪ Prioritisation of use of available resources to support the delivery of the corporate plan</li> <li>▪ Performance measurement framework for the corporate plan</li> <li>▪ Efficient and effective use of resources in line with the Scottish Government Efficiency targets</li> <li>▪ Framework for reporting against Ministerial priorities, including annual reports and quarterly monitoring meetings.</li> <li>▪ Efficiency and opportunity programme board</li> </ul> | <ul style="list-style-type: none"> <li>▪ Review of performance monitoring information relating to delivery of Scottish Court Service's corporate plan</li> <li>▪ Review of progress in development of performance measurement framework</li> <li>▪ Review progress of achievement of efficiencies in annual report.</li> <li>▪ Review of annual report and quarterly monitoring information submitted to the Scottish Government.</li> <li>▪ Assessment of approach to efficiency through the national 'Delivering Efficiencies' study.</li> </ul> | <ul style="list-style-type: none"> <li>▪ Performance monitoring information was reviewed.</li> <li>▪ Implementation of performance measurement framework has been monitored.</li> <li>▪ Efficiency arrangements and performance against efficiency targets reviewed.</li> <li>▪ The annual report and quarterly monitoring information has been reviewed.</li> <li>▪ Efficiency arrangements were assessed in 'Improving Public Sector Efficiency'.</li> <li>▪ No issues identified.</li> </ul> |



| Risk   | Source of assurance   | Planned audit action  | Outcome  |
|--|---|---|--|
| <p><b>2. Unification of the district courts</b></p> <p>Unification of the district courts commenced during 2007/2008 and will continue in 2009/10.</p> <p>There is a risk to the continuing operations of the Scottish Court Service if planning for the merger of the final two sheriffdoms is not comprehensive.</p> | <ul style="list-style-type: none"> <li>▪ Management have risk registers and project management tools in place.</li> <li>▪ Improved communication with Local Authorities</li> <li>▪ Detailed plans for the mergers have been submitted to the Justice Committee</li> </ul> | <ul style="list-style-type: none"> <li>▪ Evaluate the current position.</li> <li>▪ Review financial data collected from local authorities.</li> <li>▪ Review progress according to the plan.</li> </ul> | <ul style="list-style-type: none"> <li>▪ Mergers have been achieved to timescale.</li> <li>▪ Merger accounting arrangements have been reviewed and are satisfactory.</li> <li>▪ The Scottish Court Service have taken steps to enable timely collection of financial data.</li> <li>▪ No issues identified.</li> </ul> |
| <p><b>3. Implementation of the Judiciary and Courts (Scotland) Act 2008</b></p> <p>There is a risk that all governance procedures may not be in place in the post balance sheet period of the 2009/10 accounts.</p>  | <ul style="list-style-type: none"> <li>▪ Management are planning a range of governance structures for implementation on the date of the management changeover.</li> <li>▪ SCS have begun recruiting members of the new governance structures</li> </ul>                   | <ul style="list-style-type: none"> <li>▪ Review management and committee minutes.</li> <li>▪ Review progress in establishing new governance structures.</li> </ul>                                      | <ul style="list-style-type: none"> <li>▪ Management and committee minutes reviewed.</li> <li>▪ Progress in establishing new governance structures examined and discussed with officials.</li> <li>▪ No issues identified.</li> </ul>   |



| Risk   | Source of assurance   | Planned audit action   | Outcome   |
|--|---|--|---|
| <p><b>4. Parliament House</b></p> <p>The most significant capital project currently managed by SCS is the redevelopment of Parliament House. There is a risk that time, quality or cost slips due to the complexity of the project.</p>                            | <ul style="list-style-type: none"> <li>▪ SCS systematically manage and monitor expenditure on large capital projects.</li> <li>▪ The Parliament House monitoring group meets at least quarterly</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Monitor the progress of PH and any other large capital projects.</li> <li>▪ Review minutes of the PH monitoring group.</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Progress of PH and other large capital projects reviewed as part of interim and final audits.</li> <li>▪ Minutes of the PH monitoring group were examined during the audit.</li> <li>▪ No issues identified.</li> </ul>  |
| <p><b>5. Preparation of IFRS-based financial statements</b></p> <p>SCS is required to submit fully compliant IFRS-based accounts for financial year 2009/10. There is a risk that the additional requirements imposed by the introduction of IFRS are not met.</p> | <ul style="list-style-type: none"> <li>▪ Management have put in place the resources required to meet the requirements of IFRS.</li> <li>▪ SCS have submitted a restated balance sheet as at 31 March 2008 and draft 2008/09 shadow accounts.</li> </ul> | <ul style="list-style-type: none"> <li>▪ Assess the accounting areas identified as relevant to SCS.</li> <li>▪ Review the 2008/09 shadow accounts.</li> <li>▪ Assess compliance of 2009/10 accounts with IFRS-based FReM.</li> </ul> | <ul style="list-style-type: none"> <li>▪ The accounting areas identified as relevant to SCS for IFRS compliant accounts were reviewed.</li> <li>▪ The 2008/09 shadow accounts were reviewed and an audit report noting satisfactory progress was issued in November 2009.</li> <li>▪ The 2009/10 accounts were examined and found to comply with the IFRS-based FReM.</li> <li>▪ No issues identified.</li> </ul> |



| Risk  | Source of assurance  | Planned audit action  | Outcome   |
|---|--|---|---|
| <p><b>6. Provision for Hayweight House dilapidation</b></p> <p>There is currently a dispute between Scottish Court Service and the Hayweight House Landlord over the amount required to return the building to its original condition.</p> <p>There is a risk that the dilapidation provision currently held on the balance sheet is insufficient to cover the dilapidation costs.</p>  | <ul style="list-style-type: none"> <li>▪ The current provision has been agreed by SCS's professional valuers.</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Review correspondence with the valuers.</li> <li>▪ Review progress towards resolving the dispute.</li> </ul> | <ul style="list-style-type: none"> <li>▪ The level of the provision has been reviewed as part of final audit testing</li> <li>▪ The current position regarding the dispute has been confirmed.</li> </ul> |
| <p><b>7. Funds held on behalf of third parties</b></p> <p>The amount held on behalf of third parties is significant in relation to the account (£27.5m – 2009/09; £24.4m – 2007/08). These funds are held in short-term bank accounts with low interest yields.</p> <p>Although there are arguments why there can be no restriction on access to funds, there is a risk that Scottish Court Service could be challenged that funds held on behalf of third parties had not been held at optimum interest rates.</p> | <ul style="list-style-type: none"> <li>▪ SCS are investigating an option to pool accounts with the Royal Bank of Scotland. This 'client money service' may be piloted with the Accountant of Court during 2009/10</li> </ul> | <ul style="list-style-type: none"> <li>▪ Review the conclusions of the investigation</li> <li>▪ Review pilot progress</li> </ul>                      | <ul style="list-style-type: none"> <li>▪ Review of progress towards establishing the accountant of court pilot has been reviewed.</li> </ul>  |



| Risk  | Source of assurance   | Planned audit action  | Outcome  |
|---|---|---|--|
| <p><b>8. Application of travel management policies</b></p> <p>A review of travel management by internal audit identified inconsistencies in the application of travel management policies.</p> <p>There are reputational risks to the Scottish Court Service.</p>                     | <ul style="list-style-type: none"> <li>▪ The travel and subsistence policy has been revised.</li> <li>▪ Excess fares policy has been revised.</li> <li>▪ Relocation policy has been revised.</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Review revised policies.</li> <li>▪ Review internal audit follow up review.</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Revised policies have been reviewed.</li> <li>▪ Internal audit work in this area has been reviewed.</li> <li>▪ No issues identified.</li> </ul>         |
| <p><b>9. Performance measurement</b></p> <p>2008/09 was the first year that a new set of performance measures was used.</p> <p>Internal audit were only able to provide limited assurance in this area in 2008/09 and there is a risk that performance information is inaccurate.</p> | <ul style="list-style-type: none"> <li>▪ Methods of recording source data underpinning performance measurement have been reviewed.</li> <li>▪ Performance reporting will be reviewed following the change in agency status on 1 April 2010</li> </ul> | <ul style="list-style-type: none"> <li>▪ Review the data collection arrangements.</li> <li>▪ Review underpinning data of a sample of performance indicators as part of final accounts audit.</li> </ul> | <ul style="list-style-type: none"> <li>▪ The data collection arrangements were reviewed.</li> <li>▪ A sample of performance indicators were reviewed as part of final accounts audit.</li> </ul> |