

# Scottish Court Service

Report on the 2008/09 Audit

17 June 2009

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AUDIT SCOTLAND

# Scottish Court Service

**Report on the 2008/09 Audit**

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# Key messages

In 2008/09 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 2008/09. 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**

During financial year 2008/09, the Scottish Court Service recorded income of £29.2 million from operating activities and received financing of £75.9 million from the Scottish Government. The Scottish Court Service incurred a net operating cost of £80.2 million against a budget of £79.4 million; a net overspend of £0.8 million on operating costs.

The balance sheet moved from an opening position of £390.1 million to a closing balance of £397.9 million. The capital budget allocated to the Scottish Court Service for 2008/09 was £19.2 million. An underspend of £0.3 million was recorded (£18.9 million outturn capital expenditure).

The increasingly tight financial settlement for 2008-11 will be expected to deliver summary justice reform changes in addition to the normal business of the Scottish Court Service. The Scottish Court Service will also be expected to achieve 2% year on year efficiency savings.

## **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 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. 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 from this national study will be published later in 2009.

## **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, the National Performance Framework and the introduction of Scotland Performs; the impact of international financial reporting standards; and the review of data handling arrangement in public bodies across Scotland. Summary Justice Reform 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**

**17 June 2009**



# Introduction

1. This report summarises the findings from our 2008/09 audit of the Scottish Court Service. The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 5 November 2008. 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.
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 Agency's agreed response. Appendix A of this report sets out the key risk highlighted in this report and the action planned by management to address it.
3. Best value duties apply across the public sector and, in central government, best value is 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 throughout this report we comment on aspects of the Scottish Court Service arrangements.

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





4. 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 have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report is the first step towards that goal.
5. 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. We mention the key findings from all relevant reports, and the implications for the Scottish Court Service, throughout this report. 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).
6. 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

7. In this section we summarise key outcomes from our audit of the Scottish Court Service financial statements for 2008/09 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

8. 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, 2008/9 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.
9. 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

10. We have given an unqualified opinion on the financial statements of the Scottish Court Service for 2008/09.
11. As agreed, the unaudited financial statements were provided to us on 5 May, supported by a comprehensive working paper package. Some of the schedules including parts of the Annual Report and the remuneration report were not delivered by the agreed date. This has created difficulties for us to complete our audit within the agreed timetable and provide our opinion to the Audit Committee on 17 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

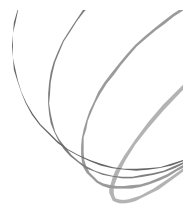
12. As required by auditing standards we issue a report to those charged with governance to the audit committee on 17 June 2009 which covers the main issues arising from our audit of the financial statements. There are no significant issues that need to be highlighted.
13. A further management letter, 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

14. 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)

15. As announced by the Chancellor in the 2008 Budget report on 12 March 2008 (Budget report paragraph C103), Government departments and other public sector bodies will report using International Financial Reporting Standards (IFRS) from 2009/10. The Scottish Government announced on 25 April 2008 that all Scottish Government Departments, Executive Agencies, Health Bodies and Non-Departmental Public Bodies would be required to produce shadow IFRS based accounts for financial year 2008/09. This was to include a restated balance sheet as at 1 April 2008.
16. In terms of the audit of the IFRS opening balance sheet at 1 April 2008, there were two key dates to achieve as outlined below:
  - **28 November 2008** – opening 2008 IFRS-based balance sheet were to be presented to auditors for dry-run audit; and
  - **28 February 2009** – dry-run audit of opening balances was to be completed, resulting in a letter to management highlighting the work done, auditors' findings and areas for further work.



17. The opening balance sheet and supporting documentation were submitted by the Scottish Court Service for review by the deadline date of 28 November 2008. The restated balance sheet and supporting working papers were comprehensive.
  
18. We made some recommendations for the delivery of the next stage of IFRS reporting on the production of the shadow accounts for 2008/09, and will consider progress on these when we review the shadow accounts later in 2009. These included:
  - Debtors/Creditors - a number of adjustments regarding debtors/creditors amortised costs were not calculated on grounds of immateriality. Details of the combined amortised costs are required to ensure that no cumulative material mis-statement exists; and
  - Leases - a review of all leases was carried out by the Scottish Court Service, however additional information relating to remaining asset lives is required to uphold the assertion that all leases remain as operating leases.



# Use of Resources

19. 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 2008/09

20. Scottish Court Service is required to work within the resource budget set by the Scottish Government Justice Directorate. In 2008/09 the Scottish Court Service overspent its operating costs budget by £0.8 million and underspent its capital budget by £0.3 million (overall position is £0.5 million overspend) – see exhibit 1 below. The Scottish Court Service has received dispensation for this overspend from the Scottish Government Justice Directorate.
21. Operating outturn decreased by £0.7 million from £80.9 million (2007/08) to £80.2 million (2008/09). The movement of £1.4 million from £17.5 million (2007/08) to £18.9 million (2008/09) capital outturn relates largely to additional funding received in year for major capital projects, for example the Parliament House redevelopment.
22. During the year there were Machinery of Government changes relating to the transfer of District Courts in three sheriffdoms: Grampian, Highlands and Islands (2 June 2008), Glasgow and Strathkelvin (8 December 2008) and Tayside, Central and Fife (23 February 2009). These figures are detailed in Note 20 and are incorporated in the Operating Cost Statement.

**Exhibit 2 – Performance against resource budget 2008/09 (£ million)**

Limits	Budget	Actual Outturn	Difference
Operating	79.4	80.2	0.8
Capital	19.2	18.9	(0.3)
<b>Total</b>	<b>98.6</b>	<b>99.1</b>	<b>0.5</b>



## Financial sustainability and the 2009/10 budget

23. Scottish Ministers have agreed a budget for the Scottish Court Service of £112.7 million for 2009/10. This comprises operating expenditure of £94 million and capital expenditure of £18.7 million. This is to be funded as follows:

### Exhibit 3 – 2009/10 Proposed budget

Limits	Budget
	£million
Financing	92.9
Retained income	19.8
<b>Total</b>	<b>112.7</b>

24. Current projections forecast expenditure to be within budget in 2009/10.
25. The financial settlement for 2008-11 will be expected to deliver the continuing changes required by summary justice reform as well as 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 now established the level of fine income that can be retained and successfully achieved an increase in fees. A new pay remit was also implemented during 2008/09 giving certainty over future staff costs. The Scottish Court Service will also be expected to achieve 2% year on year efficiency savings.
26. Capital projects will continue to be a major area of the Scottish Court Service's activity. The vast majority of capital spend in 2009/10 will focus on the redevelopment of Parliament House.

## Management and use of ICT

27. As part of our 2006/07 audit of the Scottish Court Service, Audit Scotland carried out a Computer Services Review and identified appropriate risks to the organisation and scope for improvement in a number of areas. The Scottish Court Service agreed to take action on the identified risks within a set timescale. As part of the 2008/09 audit, these areas have been revisited to determine whether the agreed risks have been actioned. The audit work was delayed from 2007/08 on request of the Scottish Court Service.
28. The Scottish Court Service has implemented the following risks and observations that were reported in the initial review:
- documenting the lack of a fire suppressant system in the risk register;
  - upgrading the library and storage on the Intranet resulting in no requirement for implementing an eRDM system across their business areas at present;



- providing staff with updated security guidance;
- implementing replication services on key systems and servers across business areas to increase; and
- overall business continuity arrangements

29. The Scottish Court Service has also made good progress in implementing the actions to address the remaining risks and observations reported:

- benefits realisation reviews being undertaken within 12 months of key projects being implemented;
- developing and incorporating up to date information security procedures for all key systems into 2009 operational projects;
- undertaking a review of the information security standard ISO 27001 during 2009; and
- developing and testing business continuity plans across all business areas commencing 2009.

30. As part of the 2008/09 audit planned work we will be carrying out a '*Your Business @ Risk Survey*' by a specialist ICT auditor to determine the awareness of data security arrangements by Scottish Court Service staff. The timing of the survey will be decided after the discussion in June on data security by the Scottish Courts Service Executive Board. We anticipate that the survey will take place in early autumn 2009.

## National Studies

31. Audit Scotland published two national studies relevant to the Scottish Court Service use of resources. These were use of consultancy services and improving energy efficiency.

## Use of consultancy services

32. The overall aim of the study was to review central government's use consultancy services and to make recommendations to improve the public sector's use consultants' knowledge, skills and resources to help deliver new services and initiatives quickly and expertly. The key findings were as follows:

- The public sector is strengthening the way it buys goods and services.
- Central government does not have a clear strategy for its use of consultants or for linking use to its priorities or financial and workforce plans.



- In most cases, central government buys consultancy services well but some improvements can be made.
- Central government could improve how it manages consultancy projects through more consistent and formal evaluation of consultants' work and learning more from them.
- Central government could make savings of up to £13 million a year through better planning and buying of consultancy services.

33. The report made specific recommendations for public bodies:

- confirm they have clear processes for approving and recording the use of consultants and monitoring progress, and reinforce these as required
- plan their use of consultancy services when developing their forward work programme to ensure that consultants are used where their knowledge and skills bring greatest value for money
- always evaluate the option to use consultants against the option to use their own staff
- gather and share consistent information on the consultancy skills bought and why consultants are used
- improve the quality of their invitations to tender through better and earlier discussion with consultants about their consultancy needs
- increase the use of framework agreements where possible by ensuring that existing agreements are used and new ones developed as appropriate
- select and use the most economical competition routes by using framework agreements, restricted competitions and closed tendering approaches when appropriate
- evaluate the work of consultants more systematically and share findings from these reviews
- work closely with consultants to increase assurance on quality and make use of opportunities to learn from consultants and ensure knowledge transfer, where appropriate.

## **Improving energy efficiency**

34. Our Improving energy efficiency report was published 11 December 2008. Audit Scotland assessed how councils, NHS bodies and central government bodies were improving energy efficiency in relation to buildings and transport use. This included examination of a range of issues including whether public bodies demonstrate commitment to improving energy efficiency; how public bodies are performing against their objectives and targets for improving energy efficiency; and if public bodies are delivering continuous improvement in this area. The following conclusions were drawn:



- funding has been made available by the Scottish Government and public bodies to improve energy efficiency. While energy consumption in buildings has fallen, spending on energy increased in the three years to 2006/07;
- there is a need for stronger leadership by the Scottish Government and within public bodies to improve energy efficiency and ensure that the necessary cultural and behavioural changes are made;
- a robust strategy is central to the coordination of activities to improve energy efficiency, however, there are inconsistencies in the quality of strategies being implemented; and
- there is a lack of formal monitoring and reporting of progress in improving energy efficiency by public bodies and the Scottish Government.

35. The Scottish Court Service contributed information to this report. Feedback relating to the Scottish Court Service will be provided in due course.

## **Delivering Efficiencies**

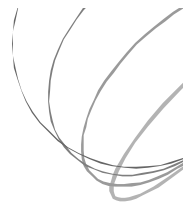
36. In June 2004, the Scottish Executive launched the Efficient Government Initiative. The initiative aspired to achieve £1.5 billion of efficiency savings by 2007/08 and reported efficiency savings of £1.7 billion. In November 2007 the Scottish Government announced the Efficient Government Programme 2008/09 – 2010/11, setting set out its target to deliver cash-releasing efficiency savings amounting to £1.6 billion in 2010/11.

37. To achieve this level of savings the Scottish Government set portfolios a target of two per cent cash-releasing savings – producing the same outputs with fewer inputs – for each of the three financial years. Public bodies will therefore need to be able to deliver year on year efficiency savings and contribute to the achievement of these portfolio savings targets.

38. As part of Audit Scotland's performance audit programme a national study on the delivery of efficiencies within the Scottish public sector is being undertaken. The study will provide an overview of the Scottish Government's Efficient Government Initiative 2005/06 – 2007/08 and consider the extent to which public bodies are set up to deliver year on year efficiency savings.

39. To assess the readiness and ability of public sector bodies to deliver year on year efficiency savings Audit Scotland undertook fieldwork across central government, the NHS and councils, with five bodies being selected from each. The Scottish Court Service agreed to participate in the study.

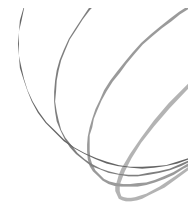
40. The fieldwork was carried out during March and April, including interviews with senior officers and analysis of supporting documentation. The fieldwork used Audit Scotland's Best Value Efficiency Toolkit. The toolkit is a document specifically created to enable auditors or public sector bodies to



assess the efficiency arrangements in place within an organisation. The fieldwork assessed the arrangements for monitoring and measuring efficiencies and how public bodies seek to ensure that reported savings have are delivered without affecting service delivery.

41. Audit Scotland's national report will be published in late 2009. Feedback relating to the Scottish Court Service will be provided in due course.





# Governance and Accountability

42. 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.
43. 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

44. This year we reviewed:
- key systems of internal control including peer review;
  - internal audit;
  - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct; and
45. Our overall conclusion is that arrangements within the Scottish Court Service are sound and have operated through 2008/09.

## Strategic change

46. The status of the Scottish Court Service will change from executive agency to non-ministerial department following enactment of the Judiciary and Courts (Scotland) Act. The change is currently expected to occur on 1 April 2010. The judiciary will form the majority on a new Strategic Board to be 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 2008/09 Scottish Government Internal Audit Division, the internal auditors, provided their opinion that based on the internal audit work undertaken during the year an overall assurance rating of 'Substantial' was 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, budgetary control, 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 2009/10 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. Two significant failures in internal controls were raised by the Accountable Officer in the Statement on Internal Control:

- In January 2009 the marked registers of electors and postal voters for the Glenrothes by election that should have been held by Kirkcaldy Sheriff Court were reported as missing. An independent investigation concluded that a combination of human error and weaknesses or failures in management systems and work processes at the Sheriff Clerk's Office in Kirkcaldy caused the loss and the delay in responding to the request for access. There were a number of recommendations to management systems and document handling, intended to prevent a recurrence of such a loss.
- In February 2009 a long-term fraud was discovered at one of the larger courts. The case involves the alleged falsification of invoices and expense claims. A full investigation was carried out by the police and charges have been brought. The Scottish Court Service has commissioned an independent review of payment procedures.

## **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 2008/09 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 Manual and therefore placed reliance on their work in number of areas during 2008/09, 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.
52. We are pleased to note that the Scottish Court Service established a register of Strategic Board member's interests during 2008/09
53. In February 2009 evidence of a systematic, long-term fraud was uncovered at one of the larger courts. The case involved the alleged falsification of invoices and expense claims. Charges have been brought following a full police investigation.



# Performance

54. 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.
55. 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

56. The Scottish Court Service corporate plan for 2008 – 2011 describes the purpose of the agency 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.
57. The plan goes on to describe the agency's operating environment, specifically the influence of:
- The Scottish Government's policy framework;
  - The financial resource available to the agency 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.
58. 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 agency 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 lead to 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 is intended to deliver a more effective system. The most significant element of Summary Justice Reform to the Scottish Court Service is the unification of the administration of the Sheriff and Justice of the Peace Courts.

## Performance overview

59. 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.

60. The following performance targets are reported:

- **National Targets** – Both targets were achieved. These are the Justice system target (66% 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 either against indicative performance from prior periods (five indicators) or no target has been set (eight indicators). Performance indicators have been achieved against the five indicators measured against indicative performance;
- **Service Delivery Targets** – Eight targets are perceived to be the key court processes of most importance to court users eg ‘process ordinary divorce cases within 5 days’. Five targets were met;
- **Community Impact Indicators** – Four indicators cover performance in various activities impacting on communities. Indicative performance was achieved in two out of three indicators (indicative performance is not set for one indicator); and
- **Operational Support Targets** – Fifteen indicators (targets set for five) are used to measure the contribution made by operational support directorates. Two out of five targets were met.



61. No targets are currently in place for the rate of fine collection but over the past four years the rate has consistently been at about the 80% level for sheriff court imposed fines. The collection rate by value is approximately 10% lower.

## Performance management

62. The Scottish Court Service Performance framework document, including current performance is reviewed at monthly meetings of the Executive Board and at the quarterly meetings of the Strategic Board. Targets highlighted red are followed up and action taken.

## Risk management

63. 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.

64. The main risk areas are:

- **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;
- **Unification of the district courts** - Unification of the district courts commenced during 2007/2008 and will continue during 2009/10. The unification represents a significant operational challenge facing the Scottish Court Service in the near future. There is a risk to the continuing operations of the Scottish Court Service if planning and implementation of this merger is not comprehensive and successful;
- **Implementation of the Judiciary and Courts (Scotland) Bill** - There is a risk that governance structures and procedures may not be in place in the post balance sheet period of the 2009/10 accounts; and
- **Capital Projects** – The refurbishment of Parliament House is a large capital project with significant risks attached. The agency will need to continue to manage and monitor expenditure to manage those risks.



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

## Efficiency

66. 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.

67. In the next three years budget settlement the Scottish Court Service is required to make a 2% per annum cash releasing efficiency saving. The 2% efficiency represents in the region of £1.6 million per annum. An impressive start has been made with £5.7 million of efficiency savings achieved in the first year.

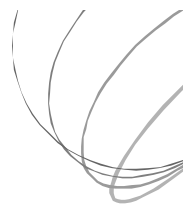


# Looking Forward

68. The Scottish Court Service faces a number of challenges in 2009/10, which include:

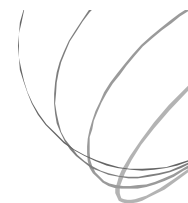
- **National Performance Framework** - The Scottish Government is continuing to develop its approach to performance management based on the National Performance Framework and local authority single outcome agreements. The National Performance Framework is an outcome-based approach that is publically reported on the Scottish Government's web site in the 'Virginia-style' model of performance measurement and reporting. This will include progress on overall delivery of the administration's purpose for Government, the five strategic objectives for Scotland and other aspects of the outcomes based National Performance Framework. We will consider how the Scottish Court Service is addressing this developing area as part of the 2009/10 audit;
- **Efficiencies and future funding** - Budgets for 2008/09 and the immediate future will need to be managed within a tighter funding regime. This includes no scope for the application of end of year flexibility for the Government with HM Treasury until the next Spending Review; no option to transfer funds from capital to revenue; and the impact of the introduction of International Financial Reporting Standards (IFRS), particularly on leases and infrastructure accounting;
- **Data handling** – The Scottish Government carried out a review of data handling arrangements in Scotland during 2007. The review considered current policies and procedures on data protection, consistency with government standards and local arrangements for implementation of procedures. A report published in June 2008 made recommendations for a higher level of oversight and guidance from the Scottish Government and improved security of sensitive information. We will monitor the Scottish Court Service's progress against recommendations due to be implemented during 2009/10;
- **International Financial Reporting Standards (IFRS)** – Central government accounts in Scotland are to be IFRS compliant with effect from the 2009/10 financial year. The Scottish Government have notified central government bodies that they will be required to produce shadow IFRS based accounts for the financial year in 2008/09 using restated balance sheets as at 1 April 2008. This process will require significant resource to enable completion within the Scottish Government's consolidation timetable;
- **Strategic Change** – The status of the Scottish Court Service is expected to change from executive agency to non-ministerial department as a result of the Judiciary and Courts (Scotland) Bill. It is anticipated that the judiciary will form the majority on a new Strategic Board to be chaired by the Lord President. Although this change is not anticipated until 1





April 2010 the implications resulting from the change will need to be considered in the new framework of governance arrangements and corporate plan;

- **Relocation of the Agency Headquarters** – The decision to exercise the November 2009 break point in the Hayweight House lease was taken during 2008/09. The Scottish Court Service has established a working party to oversee the relocation of the agency. Careful project management is required to ensure a smooth relocation with minimum impact on operations;
- **Performance measurement** - A new set of performance measures have been put in place and reported on in the 2008/09 annual report and accounts. Reporting on these measures and the collection of robust supporting data will continue to be a challenge to the Scottish Court Service;
- **Summary Justice Reform** - The unification of the administration of sheriff and district courts is now well underway with mergers now complete in four out of six Sheriffdoms. The unifications continue to have implications for financial planning and control. Production of financial statements are necessarily more complex as a result of machinery of government changes e.g. accounting for the assets of district courts merged in 2008/09. The Scottish Court Service has made good progress in meeting these challenges to date and will need to ensure that the remaining mergers are progressed efficiently; and
- **The redevelopment of Parliament House** - Managing and monitoring expenditure on this significant capital project will continue to represent a challenge to the agency.



# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	<p>The draft Annual Report was received earlier this year after a review of compilation procedures by the Scottish Court Service. Nevertheless it was received 11 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 and may not clear the accounts on time if the full set of documents is unavailable at the start of the audit.</p> <p><i>We recommend that:</i></p> <p><i>(1) 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.</i></p> <p><i>(2) The Scottish Court Service Annual Report compiler is made aware of all FReM requirements in advance and uses the NAO Agency checklist in conjunction with Finance to determine compliance with FReM and other relevant legislation.</i></p>	<p>In preparing our report we looked to comparable organisations approach to preparing their annual reports in order to improve the layout and information we provide to the public. However we will ensure we cross check changes with the FReM in future years.</p> <p>It is also a very tight timescale in which to prepare operational results many of which require time lags to ensure that we are not mis-counting in areas such as fines payments and registered cases</p>	<p>Stephen Coulter</p> <p>Deputy Director Planning and Performance Management</p>	Jan 2010



# 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 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.</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> </ul>	<ul style="list-style-type: none"> <li>▪ Review of performance monitoring information relating to delivery of the 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 (SG).</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 has been reviewed.</li> <li>▪ No issues identified in context of 2008/09 accounts.</li> <li>▪ Overall conclusion satisfactory.</li> </ul>



Risk	Source of assurance	Planned audit action	Outcome
<p><b>2. Failure to reflect Scottish Government priorities</b></p> <p>There is a risk that the Scottish Court Service will not adequately reflect the priorities of the Scottish Government in its corporate plan.</p>	<ul style="list-style-type: none"> <li>▪ Regular meetings with SG Justice directorate and senior staff.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review documentation of links between corporate plan, and SG strategic priorities.</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate and Business plans have been reviewed and are satisfactory.</li> <li>• Enactment of The Judiciary and Courts (Scotland) Bill taken as evidence of future the Scottish Court Service role in delivering Scottish Government policy.</li> </ul>
<p><b>3. Unification of the district courts</b></p> <p>Unification of the district courts commenced during 2007/2008 and will continue in 2008/09. The unification represents one of the largest challenges facing the Scottish Court Service in the near future.</p> <p>There is a risk to the continuing operations of the Scottish Court Service if planning for this merger 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> </ul>	<ul style="list-style-type: none"> <li>▪ Review planning process and evaluate current position.</li> <li>▪ Review arrangements for merger accounting.</li> <li>▪ Review arrangements for the collection of financial data from local authorities.</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. Data collection has improved since 2007/08.</li> </ul>
<p><b>4. Implementation of the Judiciary and Courts (Scotland) Bill</b></p> <p>There is a risk that all governance procedures may not be in place in the post balance sheet period of the 2008/09 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> </ul>	<ul style="list-style-type: none"> <li>▪ Review management plans and proposed governance arrangements.</li> <li>▪ Review management and committee minutes.</li> </ul>	<ul style="list-style-type: none"> <li>• The proposed governance arrangements have been reviewed.</li> <li>• No issues have arisen from our review of management and committee minutes.</li> </ul>



Risk	Source of assurance	Planned audit action	Outcome
<p><b>5. Recognition of capital and revenue costs</b></p> <p>There is an ongoing risk that capital and revenue costs are not correctly identified on large capital projects.</p>	<ul style="list-style-type: none"> <li>▪ Management have procedures to obtain accurate valuations for the capital and revenue costs associated with assets under construction.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review management's procedures for monitoring and accounting for expenditure on large capital projects.</li> <li>▪ Review the accounting for capital and revenue costs during our testing of fixed assets.</li> <li>▪ Review expenditure sample for capital items wrongly coded as expenditure.</li> </ul>	<ul style="list-style-type: none"> <li>• Procedures for monitoring expenditure on large capital projects were reviewed with satisfactory results.</li> <li>• Accounting for capital and revenue costs was satisfactory.</li> <li>• A single item of expenditure (£13k) was identified as capital during testing. Otherwise expenditure testing was satisfactory.</li> </ul>
<p><b>6. Preparation of IFRS-based financial statements</b></p> <p>The Scottish Court Service is required to submit an IFRS-based 2008 opening balance sheet and full IFRS-based shadow accounts for 2008/09.</p> <p>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 reviewed the additional requirements of IFRS.</li> <li>▪ Management have put in place the resources required to meet the requirements of IFRS.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review management's plans for the introduction of IFRS.</li> <li>▪ Evaluate the level of resource allocated to IFRS introduction.</li> <li>▪ Assess the accounting areas identified as relevant to the Scottish Court Service.</li> <li>▪ Review the conclusions of management's IFRS review.</li> </ul>	<ul style="list-style-type: none"> <li>• the Scottish Court Service plans for IFRS implementation were reviewed and are satisfactory.</li> <li>• An appropriate level of resource has been allocated to IFRS introduction.</li> <li>• Accounting areas affected by IFRS were accurately identified.</li> </ul>



Risk	Source of assurance	Planned audit action	Outcome
<p><b>7. 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 and a potential negative impact on staff morale.</p>	<ul style="list-style-type: none"> <li>▪ The travel and subsistence policy is due to be revised.</li> <li>▪ Excess fares policy to be revised.</li> <li>▪ Relocation policy to be revised.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review revised travel and subsistence policy.</li> <li>▪ Review revised excess fares policy.</li> <li>▪ Review revised relocation policy.</li> <li>▪ Include sample of claims made under travel management policies as part of expenditure testing.</li> </ul>	<ul style="list-style-type: none"> <li>• Revised policies have been reviewed and address earlier inconsistencies.</li> <li>• A sample of travel claims were tested in the expenditure sample with satisfactory results.</li> </ul>
<p><b>8. Performance measurement</b></p> <p>2008/09 is the first year that a new set of performance measures will be used.</p> <p>There is a risk that the performance information included in the annual report lacks relevance and is insufficiently robust.</p>	<ul style="list-style-type: none"> <li>▪ The Scottish Court Service has revised its performance indicators.</li> <li>▪ Methods of recording source data underpinning performance measurement have been reviewed.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review the design of new performance indicators.</li> <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>▪ Performance monitoring information was reviewed.</li> <li>▪ Implementation of performance measurement framework has been monitored.</li> <li>• A small sample of performance indicators were reviewed with satisfactory results at final audit.</li> </ul>



Risk	Source of assurance	Planned audit action	Outcome
<p><b>9. Capital Projects</b></p> <p>The Scottish Court Service is currently managing several large capital projects throughout the estate, most significantly Parliament House. There is a risk that expenditure on capital projects is not monitored effectively.</p>	<ul style="list-style-type: none"> <li>▪ The Scottish Court Service systematically manage and monitor expenditure on large capital projects.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review tendering process for any new projects</li> <li>▪ Monitor progress of large capital projects.</li> </ul>	<ul style="list-style-type: none"> <li>• No new major capital projects have been initiated.</li> <li>• Monitoring of existing capital projects continues to be satisfactory.</li> </ul>
<p><b>10. 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 (£24.4m – 2007/08, £29.9m – 2006/07). These funds are held in short-term bank accounts with low interest yields.</p> <p>Although there are good legal arguments why there can be no restriction on access to funds, there is a risk that the 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>▪ Accountant of Court staff are evaluating available options for assessing management of funds held on behalf of third parties.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review existing arrangements and any proposed changes following assessment.</li> </ul>	<ul style="list-style-type: none"> <li>• The review of banking arrangements has been put on hold pending the outcome of the central Scottish Government banking arrangements review.</li> </ul>



Risk	Source of assurance	Planned audit action	Outcome
<p><b>11. Information security awareness</b></p> <p>There is a risk that the Agency's business information may not be accurate, complete, available and secure if it is unable to gain assurance that its Information Security policies and procedures are embedded into the organisation and are effective through staff awareness.</p>	<ul style="list-style-type: none"> <li>▪ Participation in the survey being rolled out to public sector bodies by Audit Scotland and development of an appropriate action plan.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Completion, evaluation and reporting of findings of Your Business @ Risk Survey by specialist ICT auditor.</li> </ul>	<ul style="list-style-type: none"> <li>• Computer Service Review Follow-Up report was issued in February 2009. Satisfactory progress was noted.</li> <li>• The timing of the YB@R survey will be decided after the Scottish Courts Service Executive Board discussion in June on data security.</li> </ul>
<p><b>12. Information Systems</b></p> <p>There is a risk that information systems are not effectively supported and that risks are not properly assessed.</p>	<ul style="list-style-type: none"> <li>▪ Development and implementation of IS strategy.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Follow-up of Computer Services Review.</li> </ul>	<ul style="list-style-type: none"> <li>• Computer Service Review Follow-Up report was issued in February 2009. Satisfactory progress was noted.</li> </ul>