



**Scott-Moncrieff**  
business advisers and accountants

# **Scottish Courts and Tribunals Service**

External Audit Plan  
2017/18

**January 2018**

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# Introduction

# Introduction

## Overview

1. This document summarises the work plan for our 2017/18 external audit of the Scottish Courts and Tribunals Service (“SCTS”).
2. The core elements of our work include:
  - an audit of the 2017/18 annual report and accounts;
  - a review of arrangements as they relate to the four dimensions of wider-scope public audit: governance and transparency, financial management, financial sustainability and value for money; and
  - any other work requested by Audit Scotland, for example, input into performance audit work.

## Audit appointment

3. The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of Scottish Parliament. The Auditor General is independent and not subject to any control of any member of the Scottish Government or the Parliament. The Auditor General is responsible for securing the audit of most public bodies in Scotland outside the local government sector, including central government bodies in Scotland, and reporting on their financial health and performance.
4. Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out her statutory functions, including monitoring the performance of auditors through a quality control process.
5. The Auditor General has appointed Scott-Moncrieff as external auditor of SCTS for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2017/18 and summarises:
  - the respective responsibilities of Scott-Moncrieff (as external auditor) and SCTS;
  - our audit strategy;
  - our planned audit work and how we will approach it;
  - our proposed audit outputs, timetable and fee; and

- background to Scott-Moncrieff and the audit team.

## Confirmation of independence

6. ISA (UK) 260 requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence. We confirm that we will comply with FRC’s Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.
7. As disclosed within the last SCTS financial statements, SCTS purchased non-audit services from Scott-Moncrieff totalling £23,304 during 2016/17. Further fees of £14,364 will be recognised in relation to this non-audit work in 2017/18. At the request of SCTS, Scott-Moncrieff assisted in the preparation of two business cases related to estates projects. The non-audit work consisted of reviewing the reasonableness and completeness of business case assumptions. This work did not involve management decision making and was undertaken by the Scott-Moncrieff Corporate Finance team, entirely separately from the Public Sector External Audit team.
8. In line with Audit Scotland planning guidance, approval was obtained from the Scott-Moncrieff ethics partner and Audit Scotland before commencing non-audit work.

## Adding value through the audit

9. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to SCTS through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help SCTS promote improved standards of governance, better management and decision making and more effective use of resources.
10. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: [www.surveymonkey.co.uk/r/S2SPZBX](http://www.surveymonkey.co.uk/r/S2SPZBX).

11. While this plan is addressed to SCTS, it will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

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# Respective responsibilities

# Respective responsibilities

## Auditor responsibilities

### Code of Audit Practice

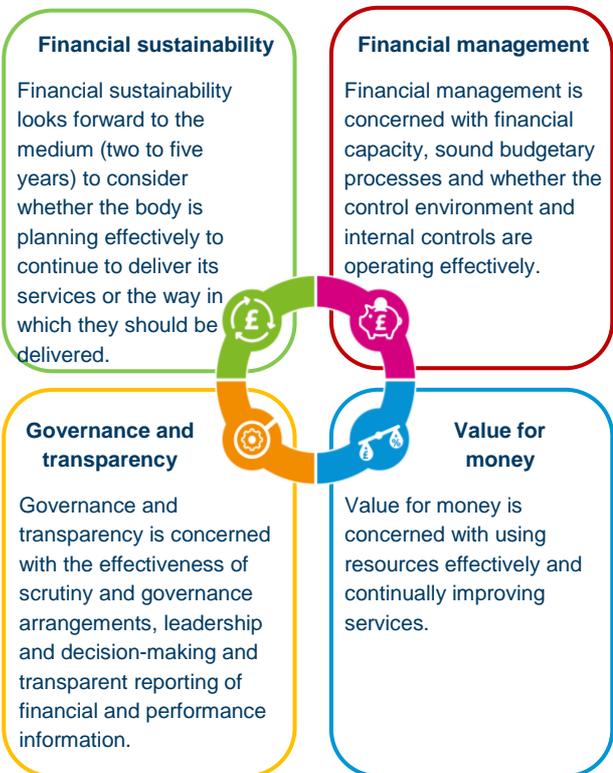
12. The Code of Audit Practice (the Code) outlines the responsibilities of external auditors appointed by the Auditor General and it is a condition of our appointment that we follow it.

### Our responsibilities

13. Auditor responsibilities are derived from statute, the Code, International Standards on Auditing (UK) (ISAs), professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities (paragraph 13). These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on audited bodies' financial statements and where appropriate, the regularity of transactions;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports;
- notify the Auditor General when circumstances indicate that a statutory report may be required;
- demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':
  - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets;
  - suitability and effectiveness of corporate governance arrangements;
  - financial position and arrangements for securing financial sustainability.

## Exhibit 1: Audit dimensions of wider scope public audit



14. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

### Wider scope audit work

15. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised above in Exhibit 1.

16. The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the annual accounts, but also on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability projections.

17. Where the application of the full wider scope is judged by us not to be appropriate then our annual audit work on the wider scope is restricted to:

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and

- Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.

18. Our assessment takes into account the size, nature and risks of SCTS. Taking these factors into consideration, we have concluded that we will apply our full wider scope audit responsibilities at SCTS.

### SCTS's responsibilities

19. SCTS has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives. SCTS's responsibilities are summarised below in Exhibit 2.

## Exhibit 2 – SCTS's responsibilities

Area	SCTS's responsibilities
<p><b>Annual report and accounts:</b> SCTS must prepare an annual report and accounts containing financial statements and other related reports.</p>	<p>SCTS has responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures</li> <li>• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority</li> <li>• maintaining proper accounting records</li> <li>• preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements.</li> </ul>

## Exhibit 2 – SCTS’s responsibilities

Area	SCTS’s responsibilities
<p><b>Financial sustainability:</b> Financial sustainability looks forward to the medium and longer term to consider whether SCTS is planning effectively to continue to fulfill its functions in an affordable and sustainable manner.</p>	<p>SCTS is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with any statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• How the organisation plans to deal with uncertainty in the medium and long term; and</li> <li>• The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>
<p><b>Financial management:</b> Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>It is SCTS’s responsibility to ensure that its financial affairs are conducted in a proper manner. Management are responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.</p> <p>SCTS is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>It is SCTS’s responsibility to establish arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
<p><b>Governance and transparency:</b> Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>SCTS, through its chief executive (as accountable officer) is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. SCTS should involve those charged with governance in monitoring these arrangements.</p> <p>SCTS is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>

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## Exhibit 2 – SCTS’s responsibilities

Area	SCTS’s responsibilities
<b>Value for money:</b> Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.	Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.

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# Audit strategy

# Audit strategy

## Risk-based audit approach

20. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to SCTS. This ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:



21. Planning is a continuous process and our audit plans are therefore updated during the course of the audit to take account of developments as they arise

### Communications with those charged with governance

22. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed with SCTS that these communications will be through the Audit and Risk Committee.

### Professional standards and guidance

23. We perform our audit of the financial statements in accordance with ISAs, the International Standard on Quality Control 1 (UK), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

### Partnership working

24. We will coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

### Audit Scotland

25. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We will share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

26. Audit Scotland undertakes national performance audits on issues affecting SCTS. We will review SCTS's arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We plan to assess the extent to which SCTS uses the national performance reports as a means to help improve performance at the local level.

27. During the year we may also be required to provide information to Audit Scotland to support the national performance audits.

### Internal audit

28. We are committed to avoiding duplication of audit effort and ensuring an efficient use of SCTS's total audit resource. We meet with the internal audit team annually and will consider the findings of the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource available to SCTS is used efficiently and effectively.

### Other inspection bodies

29. We plan to contribute to the 'whole organisation' approach to inspection through co-ordination amongst auditors, inspectors and other scrutiny bodies. Through enquiry of management as part of our initial planning discussions, we have currently not identified any other inspection work planned for 2017/18 which is directly relevant to our work, other than the work of internal audit and Audit Scotland. We will monitor this situation over the course of 2017/18 and update our plans as necessary.
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# Annual report and accounts

# Annual report and accounts

## Introduction

30. Audited bodies' annual report and accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of SCTS's annual report and accounts.
31. The annual report and accounts of SCTS comprise the financial statements, the performance report and the accountability report.

## Approach to audit of the financial statements

32. Our opinion on the financial statements will be based on:

### Risk-based audit planning

33. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the financial statements will be based.

### An audit of key systems and internal controls

34. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the financial statements.
35. The systems we review and the nature of the work we perform will be based on the initial risk assessment. We will examine and test compliance with best practice and the SCTS's own policies and procedures.
36. We will take cognisance of any relevant internal audit reviews of systems and controls.
37. We will update the risk assessment following our evaluation of systems and controls. This will ensure that we continue to focus attention on the areas of highest risk.

### A final audit of the financial statements

38. During our final audit we will test and review the material amounts and disclosures in the financial statements. The extent of testing will be based on the risk assessment.

39. Our final audit will seek to provide reasonable assurance that the financial statements are free from material misstatement, comply with the HM Treasury Financial Reporting Manual 2017-18 (FReM) and give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder.

40. In order to provide assurance on the regularity of transactions, we also review whether, in all material respects, expenditure has been incurred and income applied in accordance with guidance issued by Scottish Ministers.

### Independent auditor's report

41. Our opinion on the truth and fairness of the financial statements and the regularity of transactions will be set out in our independent auditor's report which will be included within the financial statements.

### Materiality

42. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.
43. Our initial assessment of materiality for the financial statements is £2.25million, approximately 1.7% of the SCTS's expenditure. Achieving a breakeven position through the application of both income and parliamentary funding is a key target for SCTS and one of the principal considerations for the users of the accounts when assessing financial performance. We will review our assessment of materiality throughout our audit.

44. We set a performance (testing) materiality for each area of work which is based on a risk assessment for the area. We will perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be of significant risk of material misstatement.

45. We will report any misstatements identified through our audit that fall into one of the following categories:

- All material corrected misstatements;
- Uncorrected misstatements with a value over £67,500; and
- Other misstatements below the £67,500 threshold that we believe warrant reporting on qualitative grounds.

Area risk assessment	Weighting	Performance materiality
High	40%	£0.9million
Medium	55%	£1.238million
Low	75%	£1.688million

#### Key audit risks in the financial statements

46. Auditing standards require that we inform the Audit and Risk Committee of our assessment of the risk of material misstatement in the financial statements. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the Audit and Risk Committee if our assessment changes significantly during the audit

### Exhibit 3 – Key audit risks in the annual accounts

#### 1. Revenue recognition

Under ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the SCTS could adopt accounting policies or recognise income in a way that materially misstates financial performance.



47. We have identified that for Scottish Government funding the risk of revenue recognition can be rebutted due to a lack of incentive and opportunity to manipulate transactions of this nature. We have concluded, however, the risk of fraud in relation to revenue recognition is present in all non-government revenue streams. We will evaluate each material revenue stream and review the controls in place over revenue accounting. We will consider SCTS's key revenue transactions and streams and carry out testing to confirm that the revenue recognition policy is appropriate and has been applied consistently throughout the year.

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

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



48. In response to this risk we will evaluate the significant expenditure streams at SCTS (excluding payroll which we do not consider to be a significant risk area) and review the controls in place over accounting for expenditure. We will consider the key areas of expenditure and obtain evidence that the expenditure was recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.

### 3. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 – *The auditor's responsibilities relating to fraud in an audit of financial statements*.



49. In response to this risk we will review the SCTS's accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business are valid and accounted for correctly.

### 4. Key account reconciliations

Due to difficulties in completing a comprehensive reconciliation of the fees and fines control account in time for the approval of the annual accounts, a £1.2million unadjusted difference was reported in our 2016/17 annual audit report. Initial audit planning has indicated that SCTS cannot yet state with certainty where the constituent parts of the £1.2million balance should be posted.

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



50. We will review the work carried out by SCTS during 2017/18 over the reconciliation of the fees and fines control account. We will confirm that any and all remedial action taken by SCTS to amend the outstanding balance has been supported by detailed investigatory work and has resulted in appropriate accounting treatment being adopted.

### 5. Asset Valuation and additions

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

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



51. We will review asset valuations and ensure SCTS have completed a recent assessment for impairment. We will ensure assets are held in line with the FReM and SCTS' accounting policies and that capital additions have been accounted for appropriately and in line with the stated accounting policies. We will review all new material lease agreements and confirm that they have been accounted for, and disclosed, in line with the FReM and the underlying international financial reporting standards.

## The performance report, accountability report and other information

52. The FReM sets out the content required within the annual report and accounts. In addition to presenting our opinions over the financial statements our independent auditor's report will also presents our opinion on other aspects of the annual report and accounts:

### Other information

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

54. We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our independent auditor's report.

### The performance report

55. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It contains two sections:

- an overview of the organisation, its purpose, the key risks to the achievement of its objectives and how it has performed during the year; and

- a detailed performance summary of how the entity measures its performance.

56. Our independent auditor's report will confirm whether in our opinion the performance report has been properly prepared and is consistent with the financial statements.

### The accountability report

57. The accountability report is required in order to meet key parliamentary accountability requirements. It has three sections:

- A corporate governance report (including a governance statement) explaining the composition and organisation of the entity's governance structures and how they support the achievement of the entity's objectives.
- A remuneration and staff report setting out staff numbers and costs as well as the entity's remuneration policy for directors and the remuneration awarded to directors.
- A parliamentary accountability report disclosing the regularity of expenditure and other parliamentary accountability requirements.

58. Our independent auditor's report will confirm whether in our opinion the governance statement and the audited part of the remuneration and staff report have been properly prepared and are consistent with the financial statements.

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# Wider scope audit

# Wider scope audit

## Introduction

- 59. As described in section 2, the Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. As part of our annual audit we will consider and report against these four dimensions: financial management; financial sustainability; governance and transparency; and value for money.
- 60. Our planned audit work against the four dimensions is risk based and proportionate. Our initial assessment builds upon the understanding of SCTS which we developed in 2016/17, along with discussions with management and review of Board and committee minutes and key strategy documents.
- 61. In 2017/18 we have also considered the following risk areas as they relate to SCTS:
  - EU withdrawal;
  - New financial powers;
  - Ending of public sector pay cap;
  - Response to cyber security risks; and
  - Openness and transparency.
- 62. At this stage of our audit planning process, we have identified one significant risk to the wider scope of our audit in relation to financial sustainability and one significant risk in relation to value for money (outlined below).
- 63. We have not, at this stage, identified any significant risks in relation to financial management or governance and transparency. Audit planning is a continuous process and we will report any identified significant risks, as they relate to the four dimensions, in our annual audit report. The tables below summarises our audit work in respect of each dimension.



### Financial sustainability

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

Consideration	Our audit approach
<p>In 2016/17 we found that SCTS had effective arrangements in place for short term financial planning. However, it had not yet fully developed medium or long term financial plans and all of the related supporting strategies.</p> <p>The corporate plan sets out SCTS’s strategic vision and priorities for the period 2017-20. Annually, a business plan is developed which sets out SCTS’s operating environment and the desired business outcomes for the coming year.</p> <p>Budgeting was aligned to the business planning process. Business planning and budgeting guidance made clear that the allocation of resources and agreement of budgets must be aligned to SCTS’s strategic priorities.</p> <p>As noted since 2015/16, SCTS could not demonstrate how it would deliver its key priorities within the available financial resources over the longer term.</p>	<p>During our 2017/18 audit we will consider SCTS’s financial standing. This will involve a review of the arrangements in place for short, medium and long term financial planning, budgetary control and financial reporting.</p> <p>It is important that such arrangements are adequate in order to properly control SCTS’s operations and use of resources</p>

## Significant audit risk 6: Financial sustainability

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

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

If a long-term Financial Strategy is not in place, there is a risk that SCTS will not be able to deliver its key priorities within available resources over the longer term.



64. During our audit we will ensure that a long-term Financial Strategy has been developed, approved and implemented. We will consider whether these strategies are appropriately aligned to one another and the Corporate Plan 2017-20.



### Financial management

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

Consideration	Our audit approach
<p>Our planning to date indicates that SCTS has adequate arrangements in place for financial management and the use of resources. However our 2016/17 annual audit report identified weaknesses in the financial management of the ICMS development.</p> <p>Financial reporting to the end of October 2017 outlines a total budget for 2017/18 of £108.8million, though the level of retained fines income has continued to fall below forecast. The Executive reported that budgets remained tight across the organisation generally and that representations had been made to the Scottish Government in order ensure that the final outturn can be effectively managed</p> <p>The Scottish Government Internal Audit Directorate provides SCTS's internal audit service. To avoid duplication of effort and to ensure an efficient audit process we will take cognisance of all of the work of internal audit.</p> <p>In 2016/17 we found SCTS's arrangements for the prevention and detection of fraud and irregularities to be sufficient and appropriate.</p>	<p>During our 2017/18 audit we will review, conclude and report on the following:</p> <ul style="list-style-type: none"> <li>• Whether SCTS has arrangements in place to ensure systems of internal control are operating effectively;</li> <li>• Whether SCTS can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely performance;</li> <li>• How SCTS has assured itself that its financial capacity and skills are appropriate;</li> <li>• Whether SCTS has established appropriate and effective arrangements for the prevention and detection of fraud and corruption; and</li> <li>• SCTS's participation and progress in the National Fraud Initiative.</li> </ul>



## Governance and transparency

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

Consideration	Our audit approach
<p>SCTS has appropriate overarching governance arrangements in place. However, it does not hold Board or committee meetings in public and in 2016/17 we found that arrangements for the registration of interests could be made more transparent.</p> <p>The SCTS Executive committed to ensuring that the issue of Board transparency was considered by the Board during 2017/18. That review would lay out a range of potential steps that could be taken to promote transparency whilst balancing this with Board effectiveness, efficiency and security.</p> <p>SCTS has an established risk management framework in place with ongoing development and discussions taking place throughout 2016/17. The Audit and Risk Committee reviews the overall risk management arrangements and reports to the Board at least annually.</p>	<p>We will review the effectiveness of SCTS's governance framework and the extent to which the arrangements and management of the SCTS Board and committees comply with relevant good practice guidance.</p> <p>We will consider whether the information provided to the Board and committees is sufficient for members to assess the impact of decisions on resources and performance.</p> <p>Our work will include consideration of how risk management has been addressed within SCTS.</p>



## Value for money

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

Consideration	Our audit approach
<p>In 2016/17 we found that the SCTS had generally effective performance management arrangements in place to support the achievement of value for money. However, there was significant scope to enhance the management arrangements in place around the strategic project to deliver ICMS.</p> <p>SCTS maintains an assurance and best value framework that outlines the key assurance sources available to the organisation in respect of the achievement of best value</p>	<p>During our 2017/18 audit we will work with SCTS to identify and review evidence which demonstrates the achievement of value for money in the use of resources.</p> <p>We will seek evidence from SCTS that outcomes are improving and there is sufficient focus on continuous improvement and the pace and sustainability of that improvement.</p>

Consideration (continued)	Our audit approach
<p>The SCTS Business Plan sets out desired outcomes for the year ahead. At each meeting, the Board receives an update on the progress against the outcomes and any planned activity ahead of the next update. In addition to reviewing performance against the delivery of key outcomes, the Board reviews SCTS's operational performance using a range of key performance indicators.</p>	

### Significant audit risk 7: ICMS

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

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

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

There is a continuing risk that ICMS does not deliver the expected functionality or benefits and that the costs, both incurred and projected, on the development are not subject to the appropriate scrutiny and challenge. As a key strategic project for SCTS, it is essential that further development of the ICMS is properly planned, monitored and reported at an appropriately senior level



- 65.** During our audit we will consider the ongoing implementation and project management of the new case management system and the extent to which SCTS is able to demonstrate that it is achieving value for money.

# 6

## **Audit outputs, timetable and fees**

# Audit outputs, timetable and fees

Audit output	Format	Description	Target date
External audit plan	Report	This report sets out the scope of our audit for 2017/18.	January 2018
Interim management report	Report	This report will summarise our interim work on accounting systems and corporate governance arrangements.	April 2018
Independent Auditor's Report	Report	This report will contain our opinions on the truth and fairness of the annual accounts and on the regularity of transactions.	August 2018
Annual Report to members and the Auditor General for Scotland	Report	At the conclusion of each year's audit we will issue an annual report setting out the nature and extent of our audit work for the year and summarising our opinions, conclusions and the significant issues arising from the work. This report will pull together all of our work on the use of resources, annual accounts and governance arrangements.	August 2018

## Audit outputs

- 66.** Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate. We will endeavour to supply a draft report within three weeks of completion of the fieldwork. We will require formal management responses within two weeks of receipt of the draft report. On occasion these timescales may need to be shortened, e.g. to meet Audit and Risk Committee and certification deadlines.
- 67.** The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

## Audit fee

- 68.** Audit Scotland sets an expected fee for each audit carried out under appointment that assumes the audited body has:

- sound governance arrangements in place and operating effectively throughout the year;
- prepares comprehensive and accurate unaudited accounts; and
- meets the agreed timetable for the audit.

- 69.** The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.

- 70.** Audit Scotland is not empowered to levy charges on SCTS and the costs of auditing SCTS is met from Parliamentary funding. Although SCTS is not required to meet the resulting cash cost of the audit fee, it is required to disclose notional audit fees in the financial statements. This will count against budget cover and reflect, among other things, the standard of governance and control perceived to be in place in the body.

71. Audit Scotland advises that fees must be agreed between the auditor and each audited body. Through the fee agreement process the auditor remuneration element of the fee may be varied by up to 10% above the expected level where significant local issues require additional work to be undertaken. In exceptional circumstances higher remuneration can be agreed with the prior agreement of Audit Scotland.

- attendance at all Audit and Risk Committee meetings;
- access to advice and information on relevant audit issues; and
- a contribution towards Audit Scotland's pooled costs.

72. The expected fee set by Audit Scotland for the 2017/18 audit of SCTS was £84,900 (£1,000 higher than the expected fee in 2016/17). We propose setting the 2017/18 audit fee at £89,500. This is £500 higher than the fee agreed in 2016/17 and equates to an increase of 5% on the expected fee level (7% of auditor remuneration).

Composition of the audit fee	
Auditor remuneration	£69,500
Pooled costs	£16,200
Audit support costs	£3,800
<b>Total fee</b>	<b>£89,500</b>

73. The audit fee reflects the level of work we consider required in response to the seven specific key audit risks raised within this audit plan. In particular we consider that substantial work will be required again in 2017/18 over the ongoing ICMS project.

75. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

74. The audit fee will cover:

- the 2017/18 audit work and outputs described in this plan;

**Audit timetable**

76. The dates for our interim and final audits have been discussed with the Chief Financial Officer. A summary timetable, including audit outputs, is set out below:



# 7

## Appendices

# Appendix 1: Your audit team

Scott-Moncrieff is one of the largest independent accountancy firms in Scotland. We have 17 partners and 200 staff operating from Edinburgh, Glasgow and Inverness. We are also part of the global Moore Stephens network.

Edinburgh	Glasgow	Inverness
Exchange Place 3 Semple Street Edinburgh EH3 8BL	25 Bothwell Street Glasgow G2 6NL	Scott-Moncrieff 10 Ardross Street Inverness IV3 5NS
(0131) 473 3500	(0141) 567 4500	(01463) 701 940

## Extensive public sector audit experience

We have been external auditors within the public sector for at least fifty years, initially in local government. We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE Colleges. We also provide services to charities, schools, as well as private and public limited companies.

## Your audit team



**Gary Devlin, Audit Partner**  
[gary.devlin@scott-moncrieff.com](mailto:gary.devlin@scott-moncrieff.com)

Gary is the partner responsible for all aspects our audit of SCTS as well our other external and internal audit appointments in the criminal justice sector. Gary has over 20 years’ experience in providing audit, assurance and advisory services to a wide range of public sector clients, with over 15 years acting as an Engagement Lead for appointments through Audit Scotland. He brings with him significant central government external audit experience. Gary is always available to provide advice and support to members and officers of SCTS.



**Michael Lavender, Audit Manager**  
[michael.lavender@scott-moncrieff.com](mailto:michael.lavender@scott-moncrieff.com)

Michael has 9 years’ experience of delivering successful, high quality audits across the public sector. He is the public sector representative on the firm’s technical committee. This position reflects the deep understanding he has of accounting and auditing standards both in theory and in practice. Michael’s technical knowledge allows him to analyse complex issues quickly. He is also able to convey technical subject matter in a clear, concise, understandable way.



**Paul Kelly, Business Technology and Consultancy Director**  
[paul.kelly@scott-moncrieff.com](mailto:paul.kelly@scott-moncrieff.com)

Paul leads the delivery of computer audit services and has significant experience of delivering a range of services including network infrastructure and security reviews and determining compliance with the requirements of the information security standard, BS7799.

## Confirmation of independence

ISA (UK) 260 requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence. We confirm that we will comply with FRC's Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff and SCTS, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

# Appendix 2: Statement of understanding

## Introduction

The purpose of this statement of understanding is to clarify the terms of our appointment and the key responsibilities of the SCTS and Scott-Moncrieff.

## Annual report and accounts

We will require the annual report and accounts and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant SCTS staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit. We will issue a financial statements strategy which sets out roles, responsibilities and expectations in terms of audit deliverables. This document helps to ensure we can work together effectively to deliver an efficient and effective audit.

## Scope of audit

As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for the SCTS's responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from SCTS during the course of the audit on matters having a material effect on the annual accounts. This will take place by means of a letter of representation, which will require to be signed by the Chief Executive.

## Internal audit

It is the responsibility of the SCTS to establish adequate internal audit arrangements. The audit fee is agreed on the basis that a satisfactory internal audit function exists. We will liaise with internal audit to ensure an efficient audit process.

## Fraud and irregularity

In order to discharge our responsibilities regarding fraud we require any fraud issues to be reported to us as they arise. We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

## Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants of Scotland.

## Fees

We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The indicative financial statements strategy referred to above is a key means for us to clarify our expectations in terms of quality, quantity and extent of working papers and supporting documentation.

## Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting Gary Devlin. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins (bernadette.higgins@scott-moncrieff.com). In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants of Scotland.

We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

## Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work. We will endeavour to supply a draft report within three weeks of the completion of the fieldwork of each element of work.

As stated within the Code, management should prepare an action plan summarising their response to the recommendations in the reports. The action plan should include target dates for implementation and details of the responsible officer. Management responses should be prepared and provided to us within two weeks of the receipt of the draft report.

These timescales may need to be truncated, e.g. to meet Audit and Risk Committee reporting deadline.

## Agreement of terms

We shall be grateful if the SCTS's Audit and Risk Committee would consider and note this Statement of Understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.



**Scott-Moncrieff**  
business advisers and accountants