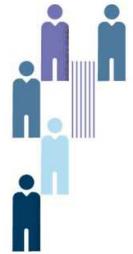


# Scottish Courts and Tribunals Service

External Audit Plan  
2018/19

January 2019





# Table of contents

---

1. Introduction	<b>1</b>
2. Respective responsibilities of the auditor and SCTS	<b>3</b>
3. Audit strategy	<b>7</b>
4. Annual report and accounts	<b>10</b>
5. Wider scope audit	<b>16</b>
6. Audit outputs, timetables and fees	<b>21</b>
7. Appendices	<b>24</b>



# 1. Introduction

---

---



## Introduction

1. This document summarises the work plan for our 2018/19 external audit of the Scottish Courts and Tribunals Service (“SCTS”).
2. The core elements of our work include:
  - an audit of the 2018/19 annual report and accounts;
  - a review of SCTS’ arrangements for governance and transparency, financial management, financial sustainability and value for money;
  - monitoring SCTS’ participation in the National Fraud Initiative (NFI); and
  - any other work requested by Audit Scotland.
3. As disclosed within the 2017/18 financial statements, SCTS purchased non-audit services from Scott-Moncrieff totalling £14,364. At the planning stage SCTS has not indicated any intention to purchase non-audit services in 2018/19.

(June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.

## Audit appointment

3. The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of the Scottish Parliament. The Auditor General is independent and not subject to control of any member of the Scottish Government or the Parliament. The Auditor General is responsible for securing the audit of the Scottish Government and most public bodies, including NHS 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 2018/19 and summarises:
  - the responsibilities of Scott-Moncrieff as the external auditor;
  - our audit strategy;
  - our planned audit work and how we will approach it;
  - our proposed audit outputs and timetable; and
  - background to Scott-Moncrieff and the audit team.

## 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.

## Feedback

10. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: [www.surveymonkey.co.uk/r/S2SPZBX](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).

## Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We confirm that we will comply with Financial Reporting Council’s (FRC) Revised Ethical Standard



# 2. Respective responsibilities of the auditor and SCTS

---



## Respective responsibilities of the auditor and SCTS

### 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 for Scotland and it is a condition of our appointment that we follow it.

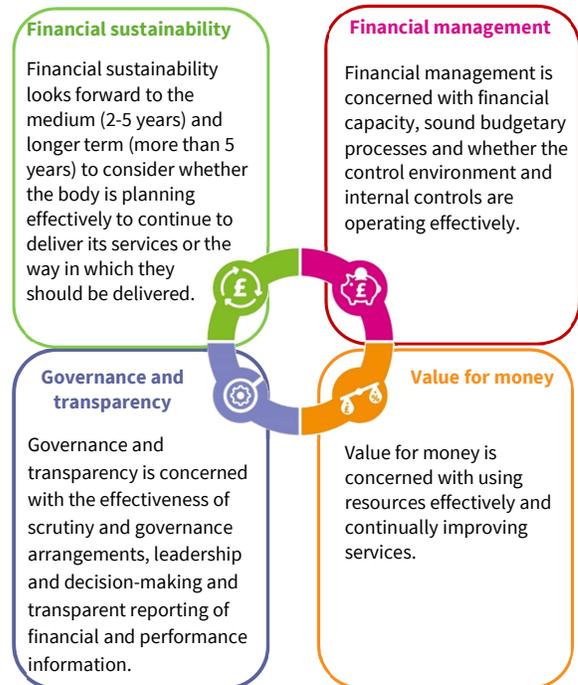
#### Our responsibilities

13. Auditor responsibilities are derived from statute, the Code, International Standards on Auditing (UK) (ISAs (UK)), professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities (paragraph 15). 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
14. Weaknesses or risks identified by auditors are only those which have come to their attention during their 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 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

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



undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

16. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.
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 the organisation. Taking these factors into



consideration, we have concluded that application of the full wider scope is appropriate at SCTS.

## SCTS responsibilities

SCTS has 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' responsibilities are summarised in Exhibit 2.

## Exhibit 2 – SCTS responsibilities

Area	SCTS responsibilities
<p><b>Financial statements:</b> Annual accounts containing financial statements and other related reports should be prepared.</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>
<p><b>Financial sustainability:</b> Financial sustainability looks forward to the medium and longer term to consider whether the organisation is planning effectively to continue to fulfil 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>



Area	SCTS responsibilities
<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>SCTS is responsible for ensuring that 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>SCTS is responsible for establishing 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 their affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p> <p>SCTS is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>
<p><b>Value for money:</b> Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.</p>	<p>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.</p>



# 3. Audit strategy

---



# Audit strategy

## Risk-based audit approach

19. 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:

Discussions with senior officers and non-executive members	Our understanding of the central government sector and its key priorities and risks	Attendance at the Audit and Risk Committee
Guidance from Audit Scotland	Discussions with Audit Scotland and other central government auditors	Discussions with internal audit and reviews of their plans and reports
Review of SCTS' corporate strategies and plans	Review of SCTS' corporate risk register	The outcomes of prior year audits

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

### Communications with those charged with governance

21. 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

22. We perform our audit of the financial statements in accordance with International Standards on Auditing (UK) (ISAs (UK)), 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

23. 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

24. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with them 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.
25. Audit Scotland undertakes national performance audits on issues affecting the public sector. We will review SCTS' 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.
26. During the year we may also be required to provide information to Audit Scotland to support the national performance audits.



## Internal audit

---

27. We are committed to avoiding duplication of audit effort and ensuring an efficient use of SCTS' total audit resource. We 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 to SCTS is used efficiently and effectively.



# 4. Annual report and accounts

---



# Annual report and accounts

## Introduction

28. 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' annual report and accounts.
29. 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

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

### Risk-based audit planning

31. 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

32. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the financial statements
33. 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 SCTS' own policies and procedures.
34. We will take cognisance of any relevant internal audit reviews of systems and controls.
35. We will update the risk assessment following our evaluation of systems and controls and this will ensure that we continue to focus attention on the areas of highest risk.

### A final audit of the financial statements

36. 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 our risk assessment.
37. Our final audit will seek to provide reasonable assurance that the financial statements are free from

material misstatement and comply with the HM Treasury Financial Reporting Manual 2018/19 (FRM) and give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder.

38. 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

39. Our opinion on whether the financial statements give a true and fair view of the financial position and its net expenditure and of the regularity of transactions will be set out in our independent auditor's report which will be included in the annual report and accounts.
40. We also provide an opinion on the audited part of the remuneration report, annual governance statement and performance report.

### Materiality

41. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We will review our assessment of materiality throughout our audit.
42. Our initial assessment of materiality for the financial statements of SCTS is £2.25 million, approximately 1.7% of SCTS' expenditure. Achieving a breakeven position through the application of 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.
43. Performance materiality is the amount set by the auditor at less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed materiality for the financial statements as a whole.
44. We set a performance (testing) materiality for each area of work which is based on a risk assessment for the area. We perform audit procedures on all



transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.

	Area risk assessment £million		
	High	Medium	Low
Performance materiality	1.013	1.238	1.575

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

- All material corrected misstatements;
- Uncorrected misstatements over £90,000; and
- Other misstatements below £90,000 that we believe warrant reporting on qualitative grounds.

#### 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 financial statements

### 1. Management override

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

47. In response to this risk we will review SCTS' accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We will adopt data analytics techniques to review and test aspects of this significant risk. We will review the key accounting estimates, judgements and decisions made by management. This will include, for example, depreciation and amortisation rates, asset valuations, provisions and arrears.

### 2. 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 SCTS could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

48. 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, including the controls over revenue accounting. We will conduct substantive testing on all material revenue streams to confirm revenue has been recognised appropriately and in line with accounting policies.

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

In 2016, the Public Audit Forum issued Practice Note 10 "The Audit of Public Sector Financial Statements" which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

49. 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 audit risk area) and review the controls in place over accounting for expenditure. We will consider SCTS' 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.



## 4. Asset valuation and additions

SCTS has an extensive estate covering a range of buildings across Scotland. The value of land and buildings recorded in the 2017/18 accounts was £423.722 million. SCTS has noted challenges with the estates which includes a significant proportion of pre-1960's buildings. The estates strategy outlines significant expenditure on repairs and maintenance but also significant capital spend to improve the buildings. Capital commitments of £24.530million were disclosed in the 2017/18 financial statements with the most significant element being the Inverness Justice Centre (£21.900). This is expected to be completed in 2018/19 and therefore a significant addition is expected.

In accordance with the FReM, all land and buildings have been subject to valuation by an external valuer every five years. The latest full valuation was carried out at 31 March 2014, with the next full valuation expected as at 31 March 2019. Given the level of assets held, any misstatement in asset value could potentially result in a material misstatement in the financial statements.

- 
50. We will review all additions to ensure they are accounted for in line with accounting policies and are recognised at an appropriate value in line with accounting standards. In addition we will review expenditure on repairs and maintenance to ensure they are categorised correctly.
  51. We will consider the competence, capability and objectiveness of the external valuer in line with ISA 500 (UK). We will review the valuation report and consider the assumptions used by the valuer against external sources of evidence. In addition to this we will consider the scope of the valuers work and the information provided to the valuer for completeness.

## 5. Dilapidations provision

In November 2017 the SCTS signed a lease for Atlantic Quay, however the property was not occupied until April 2018. The lease is deemed to be an operating lease and an appropriate commitment has been recognised in the notes to the financial statements.

In addition to the commitments we considered the treatment for dilapidations. SCTS use an independent valuer to inform its judgements on the likely value of dilapidations over the course of the lease. With regards to Atlantic Quay the expected dilapidation level was £6.40 million and over our materiality level. Historically SCTS has estimated and recognised dilapidations as a provision at the inception of the lease. However, this is not in line with IAS 37 which states that a provision should only be recognised when obligations arising from past event exist independently of an entity's future actions.

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

- 
52. We will review the terms and conditions of the Atlantic Quay lease and ensure that the provision for dilapidations is in line with the requirements of IAS 37. We will work with SCTS to ensure the accounting policy for dilapidations provisions does not result in a material departure from accounting standards.



## 6. Accounting records

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

53. We will review the process for transferring the data from SEAS to the new package. We will also review the client reconciliations between systems and confirm accuracy of the data used in the reconciliations. Any differences will be investigated to ensure the data has transferred correctly.

## The performance report, accountability report and other information

54. The HM Treasury Government Financial Reporting Manual 2018/19 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 present our opinion on other aspects of the annual report and accounts:

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

58. 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.

### Other information

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

56. 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 by 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 accountability report

59. 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.

60. 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.

### The performance report

57. 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



# 5. Wider scope audit

---

---



## Wider scope audit

### Introduction

61. As described in section 2, the Code frames a significant part of our audit responsibilities in terms of four wider scope audit dimensions. As part of our annual audit we consider and report against these four dimensions:

- financial sustainability
- financial management
- governance and transparency; and
- value for money.

62. Our planned audit work against the four dimensions is risk based and proportionate. Our initial assessment builds upon our work in prior years to develop an understanding of SCTS' key priorities and risks. In

2018/19, Audit Scotland has also identified the following wider scope risks, which we will consider during our audit as they relate to SCTS:

- EU withdrawal
- Changing landscape of public financial management
- Dependency on key suppliers
- Openness and transparency.

63. At this stage of our audit planning, we have identified two significant risks to the wider scope of our audit in relation to financial sustainability and value for money (Exhibit 4).

## Exhibit 4 – Wider Scope Significant Risks

### 1. Financial sustainability

Following our audit recommendation in 2016/17, SCTS developed a longer term financial strategy in 2017/18 which links to the annual business plan. This strategy includes clear consideration of up to five years, however, detailed figures are only included for 2018/19.

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

64. In response to this risk we will consider how SCTS are using the information in the long term financial strategy to develop longer term operational plans and options to bridge the funding gap identified.



## 2. Value for Money: Integrated Case Management System (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. Since the awarding of the contract, a number of significant changes have been made to the core platform and civil online. This has resulted in the size of the product being increased. This includes a decision towards hosting ICMS within a cloud environment, as opposed to the originally planned on-site hosting.

In 2018, a revised business case was prepared for the ICMS project. This was approved in March 2018, and contained revised projected lifecycle costs of £12.7m. It is expected that by September 2019, phase one and two of Civil Online, the functionality to introduce case management within the Court of Session and the functionality to support Simple Procedure Special Claims (SPSC) will be in place.

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



65. 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.

66. We have not, at this stage, identified any significant risks in relation to the financial management and governance and transparency dimensions. Audit planning however is a continuous process and we will report any identified significant risks, as they relate to

the four dimensions, in our annual audit report. We set out below our audit work in respect of each dimension.



### Financial sustainability

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

#### Consideration

In 2017/18 we concluded that the SCTS had made progress in its medium to long term financial planning. We reviewed SCTS’ outturn position as part of our 2017/18 work on financial management and the financial statements. SCTS reported a small surplus in 2017/18.

Financial projections for 2018/19 indicate that there will be a minor overspend against the Departmental Expenditure Limit (DEL) will be reported. There are ongoing challenges particularly relating to the downward trend in fees and fines income over 2018/19. In addition to

#### Our audit approach

During our 2018/19 audit we will consider the ongoing approach to financial planning. We will monitor SCTS’ ongoing financial position through financial monitoring reports to the Board. We will seek to identify any impact on the quality and performance of the service.

In addition we will consider the approach taken by SCTS to link key issues arising from the estates and people strategy with their long term financial plans. We will draw conclusions on this work and risks for future years within



## Consideration

this there is limited scope to create savings due to the proportion of costs incurred by SCTS associated with maintaining the estate and creating a flexible and effective workforce.

## Our audit approach

our annual report



### Financial management

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

## Consideration

In 2017/18 we concluded that SCTS had satisfactory arrangements in place for financial planning over the short term and budget monitoring across the financial year.

At the planning stage it was noted that there were additional cost pressures of £4.4million relating to a reduction in fees and fines income and a lower than anticipated spring budget settlement. The SCTS has recognised the impact of the cost pressures and are projecting an overspend against DEL at the year end. SCTS has informed the Scottish Government of the likely position and are working to reduce the overspend through cost savings initiatives

The National Fraud Initiative (NFI) is a counter fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error.

The most recent NFI exercise commenced in 2018 and as part of our 2018/19 audit we will monitor SCTS' participation in NFI.

## Our audit approach

During our 2018/19 audit we will review, conclude and report on the following:

- The achievement of financial targets and effectiveness of financial performance reporting during 2018/19;
- Whether SCTS continues to have arrangements in place to ensure systems of internal control are operating effectively;
- How SCTS has assured itself that its financial capacity and skills are appropriate;
- The effectiveness of the budgetary control system in communicating accurate and timely performance; and
- Whether SCTS has established appropriate and effective arrangements for the prevention and detection of fraud and corruption
- SCTS' participation and progress in the National Fraud Initiative.



## 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

In 2017/18 we reported that SCTS had appropriate governance arrangements in place. Our assessment was informed by a review of the corporate governance arrangements in place, information provided to the Board and Committees, as well as the risk management arrangements in place.

We highlighted ongoing sector risks regarding the openness and transparency of decision making and noted that there was scope for improvement at SCTS. The Board have formally considered this and have determined that the current approach is appropriate.

In May 2018 the Scottish Government updated its guidance for audit committees in the public sector through an update to its Audit Committee Handbook.

The revised handbook sets out the fundamental principles relating to the role, membership and work of the Audit and Assurance Committees.

### Our audit approach

As part of our work on governance and transparency work in 2018/19 we will review, conclude and report on:

- whether SCTS can demonstrate that the governance arrangements in place are appropriate and operating effectively;
- whether induction arrangements for new Board members support effective scrutiny and challenge;
- whether SCTS are compliant with the revised Audit Committee Handbook.
- the transparency of decision-making, and on financial and performance reporting; and
- SCTS' preparations for the potential impact of Brexit



## Value for money

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

### Consideration

In 2017/18 we reported that SCTS met 12 out of 17 performance indicators and that an established and appropriate performance management framework was in place. In addition to this 24 of 31 objectives from annual Business Plan were achieved. The Board receives an update on the progress against the outcomes and any planned activity ahead of the next update.

### Our audit approach

During 2018/19, we will review, conclude and report on:

- the continued development and robustness of SCTS' performance management framework, through the continued refresh of objectives aligned to the annual plan; and
- how SCTS provides evidence of the achievement of value for money in the use of resources



# 6. Audit outputs, timetables and fees

---

---



## Audit outputs, timetable and fees

This section of our plan provides details of our audit outputs, timetable and proposed audit fees for the audit of SCTS.

Audit output	Format	Description	Target month
External audit plan	Report	This report sets out the scope of our audit for 2018/19.	January 2019
Independent Auditor's Report	Report	This report will contain our opinion on the financial statements, the regularity of transactions and the audited part of the remuneration report, annual governance statement and performance report.	August 2019
Annual Report to SCTS and the Auditor General for Scotland	Report	At the conclusion of each year's audit we issue an annual report setting out the nature and extent of our audit work for the year and summarise our opinions, conclusions and the significant issues arising from our work. This report pulls together all of our work under the Code of Audit Practice.	August 2019

### Audit outputs

67. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.
68. 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

69. Audit Scotland sets an expected fee for each audit carried out under appointment that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. 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. As auditors we negotiate a fee with the audited body during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.

72. The expected fee set by Audit Scotland for the 2018/19 audit of SCTS was £87,360 (£2,460 higher than the expected fee in 2017/18). We propose setting the 2017/18 audit fee at £92,340. This is £2,900 higher than the fee agreed in 2017/18 and equates to an increase of 5.7% on the expected fee level (7.5% of auditor remuneration).
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 2018/19 over the ongoing ICMS project. We have projected additional fees of £3,500 to address the significant risk associated with the ICMS project (2017/18 £5,000). This is included in the overall auditor remuneration figure included below.

	2018/19	2017/18
Auditor remuneration	£71,390	£69,500
Pooled costs	£17,090	£16,200
Audit support costs	£3,860	£3,800
<b>Total expected fee</b>	<b>£92,340</b>	<b>£89,500</b>

74. We will take account of the risk exposure of SCTS and the management assurances in place. 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.

## Audit timetable

75. A summary timetable, including audit outputs, is set out as follows:

<b>JAN 19</b>	●	Planning meetings and visits to inform the 2018/19 audit
<b>JAN 19</b>	●	Presentation of External Audit Plan to the Audit and Risk Committee
<b>FEB/ MAR 19</b>	●	Interim audit including a review of accounting systems and wider scope audit dimensions.
<b>JUN 19</b>	●	Accounts presented for audit and final audit visit begins
<b>AUG 19</b>	●	Annual audit report presented to Audit and Risk Committee and submitted to the Auditor General for Scotland



# 7. Appendices

---





## Appendix 1: Your audit management team

Scott-Moncrieff is one of the largest independent accountancy firms in Scotland. We have 16 partners and over 200 staff operating from Edinburgh, Glasgow and Inverness. We are also part of the global Moore Stephens network. We have been external auditors within the public sector for at least fifty years. 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.

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

### Your audit management 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.



#### Claire Gardiner

##### Senior Audit Manager

[Claire.gardiner@scott-moncrieff.com](mailto:Claire.gardiner@scott-moncrieff.com)

Claire has over 12 years' public sector external audit experience. She has delivered external audit services to a range of public sector bodies, including central government bodies. Over the course of her career Claire has been involved with the audits of the Scottish Government Justice Portfolio and judicial salaries.

Claire will manage the onsite team and work alongside Gary to deliver the audit engagement.



---

## **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.

---



## Appendix 2: Confirmation of independence

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

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.

As disclosed within the 2017/18 financial statements, SCTS purchased non-audit services from Scott-Moncrieff totalling £14,364. At the planning stage SCTS has not indicated any intention to purchase non-audit services in 2018/19.



## Appendix 3: Statement of understanding

### Introduction

The purpose of this statement of understanding is to clarify the terms of our appointment and the key responsibilities of Scottish Courts and Tribunals Service (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 SCTS' 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 financial statements. 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 SCTS to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective 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 and irregularity we require any fraud or irregularity 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 fee will depend upon the level of skill and responsibility of the staff involved. 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. 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. Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target dates for implementation and details of the responsible officer.

### Agreement of terms

We shall be grateful if the 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 Chartered Accountants 2019. All rights reserved. “Scott-Moncrieff” refers to Scott-Moncrieff Chartered Accountants, a member of Moore Stephens International Limited, a worldwide network of independent firms.

Scott-Moncrieff Chartered Accountants is registered to carry on audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants of Scotland.