



Scott-Moncrieff
business advisers and accountants

With **Campbell Dallas**
a Cogent company

Scottish Courts and Tribunals Service

External Audit Annual Plan 2019/20

January 2020

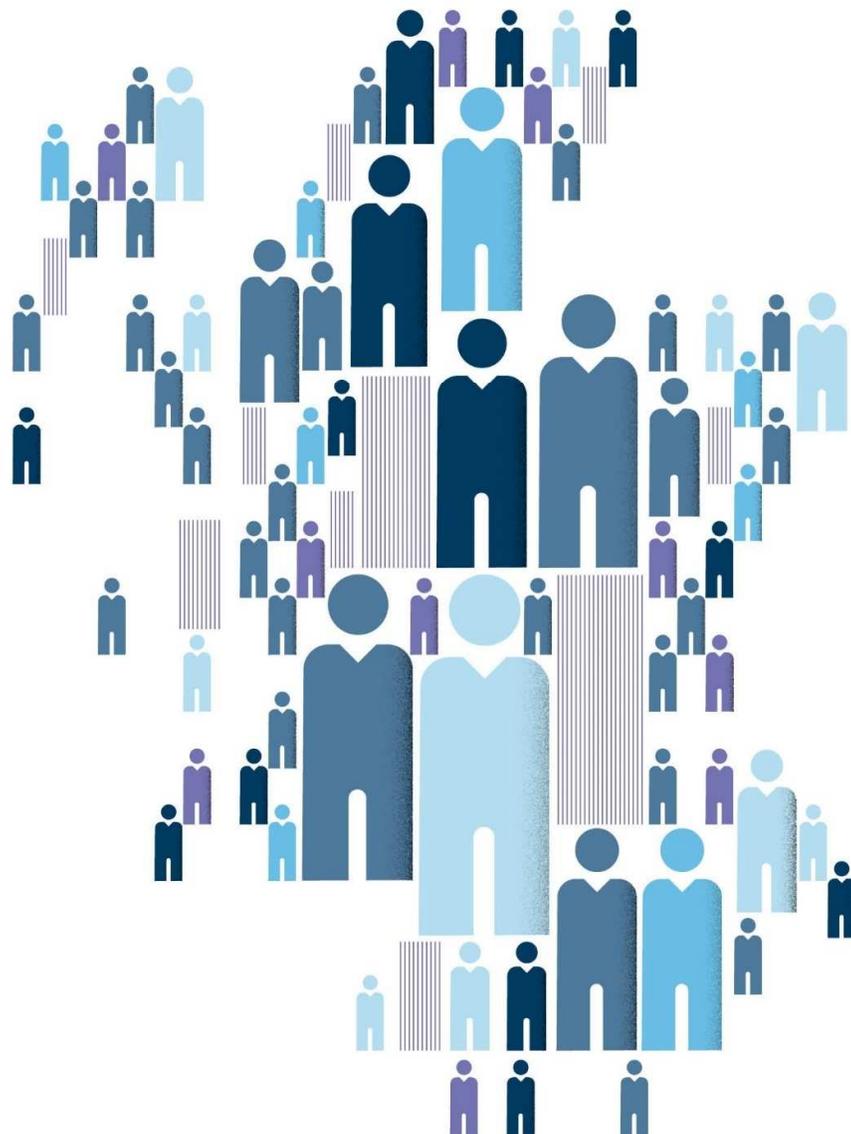
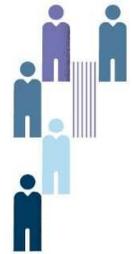




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1. Introduction



Introduction

1. This document summarises the work plan for our 2019/20 external audit of the Scottish Courts and Tribunals Service (“SCTS”).
2. The core elements of our work include:
 - an audit of, and provision of a specified audit opinion on, the 2019/20 annual report and accounts;
 - consideration and reporting of SCTS’ arrangements on the four audit dimensions: governance and transparency, financial management, financial sustainability and value for money;
 - monitoring SCTS’ participation in the National Fraud Initiative (NFI); and
 - any other work requested by Audit Scotland, including the contribution to performance audits (including overview reports, performance audit reports, and impact reports).

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 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 2019/20 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.

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 comply with the Financial Reporting Council’s (FRC) Ethical Standards. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.
8. We set out in Appendix 2 our assessment and confirmation of independence.

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 any member of your audit team.

Openness and transparency

11. This plan will be published on Audit Scotland’s website www.audit-scotland.gov.uk.



2. Respective responsibilities of the auditor and SCTS

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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.

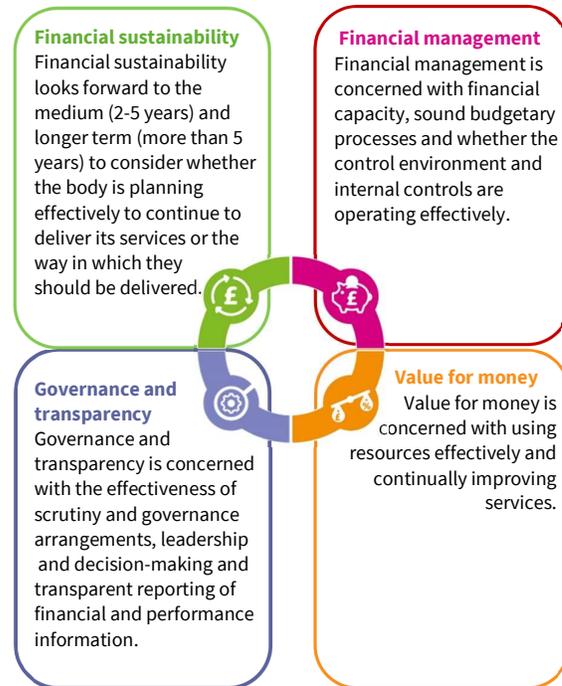
Our responsibilities

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.

Exhibit 1: Audit dimensions of wider scope public audit



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 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. 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>Financial statements: 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"> • 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 • 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 • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority • maintaining proper accounting records • 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
<p>Financial sustainability: 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"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with any statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • How the organisation plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.



Area	SCTS responsibilities
<p>Financial management: 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>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.</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>Value for money: 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

18. 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	Review of internal audit's plans and reports
Review of SCTS' corporate strategies and plans	Review of SCTS' corporate risk register	The outcomes of prior year audits

19. 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

20. 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

21. 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

22. 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

23. 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.
24. 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 also consider the extent to which SCTS uses the national performance reports as a means to help improve performance at the local level.
25. During the year we may also be required to provide information to Audit Scotland to support the national performance audits or provide information to support the assessment of the impact of specified published performance audit reports.



Internal audit

26. 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

27. 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.
28. 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

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

Risk-based audit planning

30. 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

31. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the financial statements
32. 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.
33. We will take cognisance of any relevant internal audit reviews of systems and controls.
34. 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

35. 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.

36. 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 2019/20 (FReM) and give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder.
37. 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

38. 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.
39. We also provide an opinion on the audited part of the remuneration report, annual governance statement and performance report.

Materiality

40. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We review our assessment of materiality throughout our audit.
41. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or group 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.
42. Performance materiality set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the



probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.

	Materiality £000
Overall materiality: Our initial assessment is based on approximately 1.7% of SCTS' expenditure in 2018/19. Achieving a breakeven position through the application of parliamentary funding is a key target for SCTS and one of the principle considerations for the users of the accounts when assessing financial performance	2,500
Performance materiality: using our professional judgement we have calculated performance materiality at approximately 50% of overall materiality.	1,250

43. 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 in excess of 5% of the overall materiality figure; and
 - Other misstatements below 5% threshold that we believe warrant reporting on qualitative grounds.

Key audit risks in the financial statements

44. 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*.

45. 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.

46. 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.

47. 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 additions and capitalisation

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

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

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

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48. We will review all additions, including intangible assets, 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.
 49. We will consider the competence, capability and objectiveness of the external valuer in line with ISA 500 (UK). We will review the valuation report for 2019/20 and consider the assumptions used by the valuer against external sources of evidence. In addition, we will consider the scope of the valuers work and the information provided to the valuer for completeness. We raised an issue in our 2018/19 Annual Audit Report regarding a lack of rigorous review by the finance team over the valuations provided by the management expert prior to processing and will ensure appropriate action has been taken in 2019/20 to address this.



5. Bank and control account reconciliations

In 2018/19, we reported that not all reconciliations had been completed between the feeder systems and the general ledger. This included payroll, accounts payable and accounts receivable. There were no issues in reconciling the accounts receivable and accounts payable sub ledgers with the general ledger, however, there were differences between the payroll system and the general ledger that which were identified and audited.

In addition, from period three onwards SCTS were not conducting regular monthly bank reconciliations or fully monitoring the cash position across the accounts. This lack of control resulted in differences between the ledger and the bank statements for a number of accounts, with no explanation available at the start of the audit. The most significant variance was on the Government Banking Service (GBS). The total difference at year-end was £9.031 million and the finance team identified and posted an adjustment of £8.800 million to the financial statements during the audit process.

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

50. We will monitor and review the completion of bank and control account reconciliations to ensure these are completed appropriately, undertaken in a timely manner and that reconciling items are investigated.

51.

The performance report, accountability report and other information

52. The HM Treasury Government Financial Reporting Manual 2019/20 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:

Other information

53. "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.
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 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 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 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.



5. Wider scope audit





Wider scope audit

Introduction

59. 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.

60. 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 2019/20, Audit Scotland has also identified the following wider scope risks, which we will consider during our audit as they relate to SCTS:

- EU withdrawal
- Risk of fraud in the procurement function

61. We have not, at this stage, identified any significant risks in relation to the four wider scope 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 2018/19 we concluded that SCTS had developed an appropriate finance strategy which focusses on key areas of risk to delivering services within budget and highlights the pressures on SCTS to maintain service delivery.

There are on-going challenges particularly relating to the downward trend in fees and fines income over 2019/20. In addition, 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

During our 2019/20 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 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 2018/19 we reported that SCTS has satisfactory arrangements in place for financial planning over the short term and monitoring financial position against its Departmental Expenditure Limit (DEL). However, the Annually Managed Expenditure (AME) budget was significantly overspent due to a lack of reporting on potential risks to the position throughout the year.

As at 31 March 2019, SCTS held cash balances of £44.554 million (£16.692 million as at 31 March 2018). We noted a significant rise in the cash held at the year-end over the past three years which is indicative that SCTS may be drawing down grant funds in advance of need.

At the planning stage, it was noted that SCTS have received a higher than expected indicative spring budget settlement and are therefore forecasting a balanced year end position, subject to ratification by Scottish Government of budget allocations.

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 2019/20 audit we will monitor SCTS' participation in NFI.

Leaders of public bodies have a responsibility to embed effective standards for countering fraud and corruption in their organisations¹. In 2019/20, Audit Scotland has identified fraud and corruption in respect of the procurement function as a particular risk area across the public sector and area of audit focus.

Our audit approach

During our 2019/20 audit we will review, conclude and report on the following:

- The achievement of financial targets and effectiveness of financial performance reporting during 2019/20;
- 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;
- Whether SCTS has established appropriate and effective arrangements for the prevention and detection of fraud and corruption, with particular focus on fraud and corruption in the procurement function; and
- SCTS' participation and progress in the National Fraud Initiative. We are required to complete and submit to Audit Scotland, by 28 February 2020, a questionnaire on SCTS' participation in the NFI. The information provided will be used in Audit Scotland's next NFI report due to be published in summer 2020

¹ <https://www.cipfa.org/services/networks/better-governance-forum/counter-fraud-documentation/code-of-practice-on-managing-the-risk-of-fraud-and-corruption>



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>In 2018/19 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.</p> <p>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.</p> <p>In May 2018 the Scottish Government updated it's guidance for audit committees in the public sector through an update to its Audit Committee Handbook.</p> <p>The revised handbook sets out the fundamental principles relating to the role, membership and work of the Audit and Assurance Committees. We are satisfied that SCTS has implemented appropriate revisions in 2018/19 to ensure it remains compliant with the revised requirements.</p>	<p>As part of our work on governance and transparency work in 2019/20 we will review, conclude and report on:</p> <ul style="list-style-type: none"> • 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; • 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	Our audit approach
<p>In 2018/19 we reported that SCTS met 13 out of 18 performance indicators and that an established and appropriate performance management framework was in place.</p> <p>In addition, out of the 28 desired outcomes set in the 2018/19 business plan, SCTS had fully delivered 23 outcomes with the remaining deemed to be partially delivered. Appropriate action has been taken to ensure that the outstanding actions were reprofiled into the 2019/20 business plan.</p> <p>There is a continuing risk that ICMS does not deliver the expected functionality or benefits and that the costs, both incurred or projected, are not subject to the appropriate scrutiny and challenge.</p>	<p>During 2019/20, we will review, conclude and report on:</p> <ul style="list-style-type: none"> the continued development and robustness of SCTS' performance management framework, through the continued refresh of objectives aligned to the annual plan; how SCTS provides evidence of the achievement of value for money in the use of resources: and 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, 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 2019/20.	January 2020
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 2020
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 2020

Audit outputs

62. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.
63. 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.

varied above the expected fee level to reflect the circumstances and local risks within the body.

67. The expected fee set by Audit Scotland for the 2019/20 audit of SCTS is £89,100 (£1,740 higher than the expected fee in 2018/19). We propose setting the 2019/20 audit fee at £95,896. This is £3,556 higher than the fee agreed in 2018/19 and equates to an increase of 7.6% on the expected fee level (10% of auditor remuneration).

Audit fee

64. 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.
65. 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.
66. As auditors we negotiate a fee with the audited body during the planning process. The fee may be

68. The audit fee reflects the level of work we consider required in response to the five specific key audit risks raised within this audit plan and the issues reported in 2018/19 with regards to completeness and quality of working papers. No additional fee has been separately identified in relation to the ICMS project (2018/19: £3,500) as we do not deem this to be a significant audit risk in 2019/20.

	2019/20	2018/19
Auditor remuneration	£74,756	£71,390
Pooled costs	£17,610	£17,090
Audit support costs	£3,530	£3,860
Total fee	£95,896	£92,340

69. 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

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

JAN 20	●	Planning meetings and visits to inform the 2019/20 audit
JAN 20	●	Presentation of External Audit Plan to the Audit and Risk Committee
FEB/ MAR 20	●	Interim audit including a review of accounting systems and wider scope audit dimensions.
JUN 20	●	Accounts presented for audit and final audit visit begins
AUG 20	●	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 Scotland's leading firms of auditors and business advisers. We are part of the fast-growing Cogital Group, giving us a both a UK-wide presence and international reach in 190 offices with 6,500 staff. Cogital Group is an innovator, investor and early adopter of technologies that provide continuous improvement to the service we provide our clients.

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

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.



Nicola MacKenzie

Assistant Manager

nicola.mackenzie@scott-moncrieff.com

Nicola has over 5 years' public sector external audit experience. She has delivered external audit services to a range of public sector bodies, including central government bodies and this is her fourth year working with SCTS.

Nicola 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

Paul leads the delivery of computer audit services and has significant experience of delivering a range of services including network infrastructure and security reviews.



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.

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

We confirm that we comply with FRC's Ethical Standards. 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 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 in advance of our final audit 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. In particular we require to be notified of all frauds which:

- Involve the misappropriation or theft of assets or cash which are facilitated by weaknesses in internal control
- Are over £5,000

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.

Anti-money laundering

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 impose an obligation on the Auditor General to inform the National Crime Agency (NCA) if she knows or suspects that any person has engaged in money laundering or terrorist financing.

We require SCTS to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants in England and Wales.

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 in England and Wales.



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.

