



Scottish Courts and Tribunals Service

External Audit Annual Plan 2020/21

January 2021



Table of Contents

Introduction	3
Respective responsibilities of the auditor and SCTS	6
Audit strategy	11
Annual report and accounts	14
Wider scope audit	23
Audit outputs, timetables and fees	30
Appendices	34

Introduction



Introduction

1. This document summarises the work plan for our 2020/21 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 specific audit opinion on, the 2020/21 annual report and accounts and related matters;
 - 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.
3. This document summarises the work plan for our 2020/21 external audit of the Scottish Courts and Tribunals Service (“SCTS”).
4. 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.
5. The Auditor General has appointed Azets as external auditor of the Scottish Courts and Tribunals Service for the six year period 2016/17 to 2021/22. This document summarised the audit plan for 2020/21 and includes:
 - The responsibilities of Azets as the external auditor;
 - Our strategy;
 - Our planned audit work and how we will approach it;
 - Our proposed audit outputs and timetable; and
 - Background to Azets and the audit team.

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 his statutory functions, including monitoring the performance of auditors through a quality control process.
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 complied with the Financial Reporting Council’s (FRC) Ethical Standard. In our professional judgement, the audit process is independent and our objectivity is not compromised in any way.
8. We set out in Appendix 2 our assessment and confirmation of independence.

Auditor independence

Adding value through the audit

9. All of our clients 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 report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

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

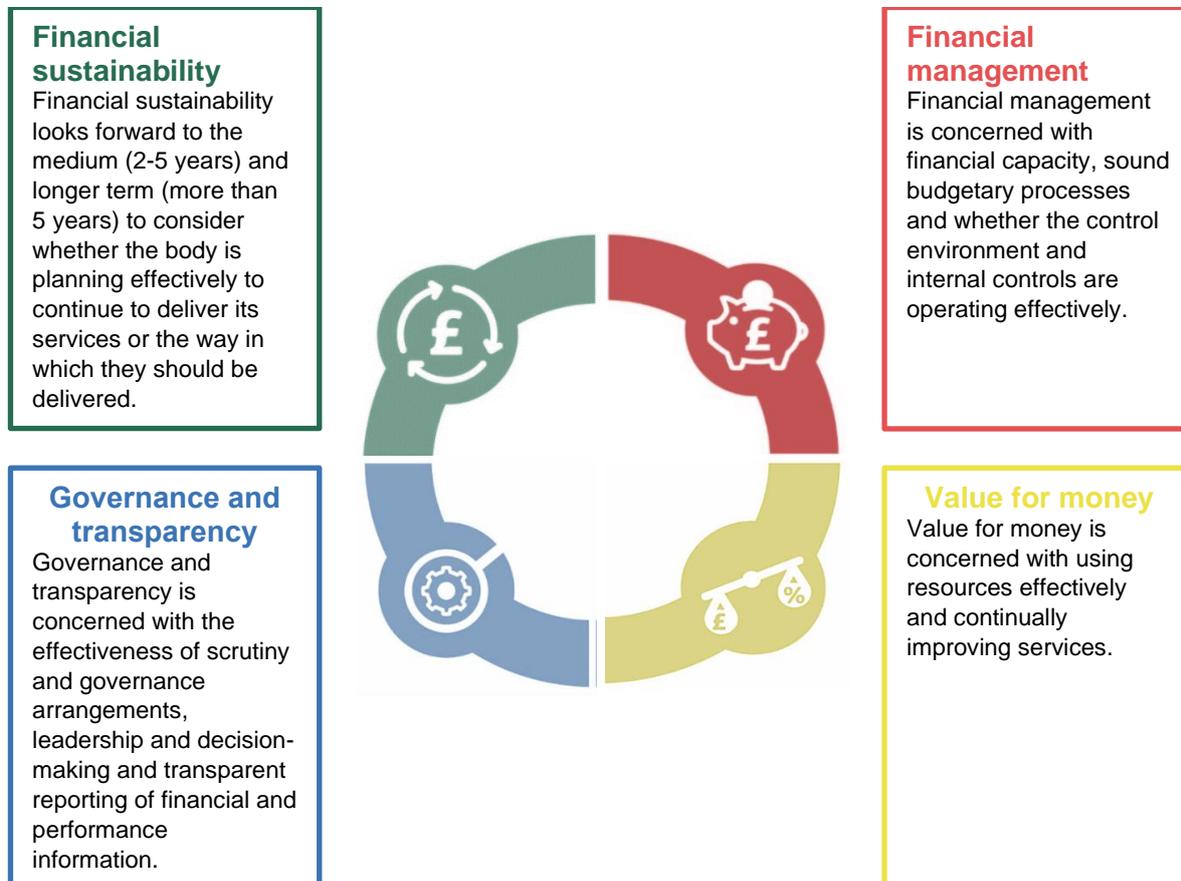
13. Auditor responsibilities are derived from statute, the Code, International Standards on Auditing (UK) (ISAs (UK)), professional requirements and best practice. These are to:
 - undertake statutory duties, and comply with professional engagement and ethical standards;
 - provide an opinion on audited 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; and
 - demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies.

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

Exhibit 1: Audit dimensions within the Code of Audit Practice



SCTS responsibilities

18. 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 its financial position and its 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 its 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 the 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 is 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>

Audit strategy

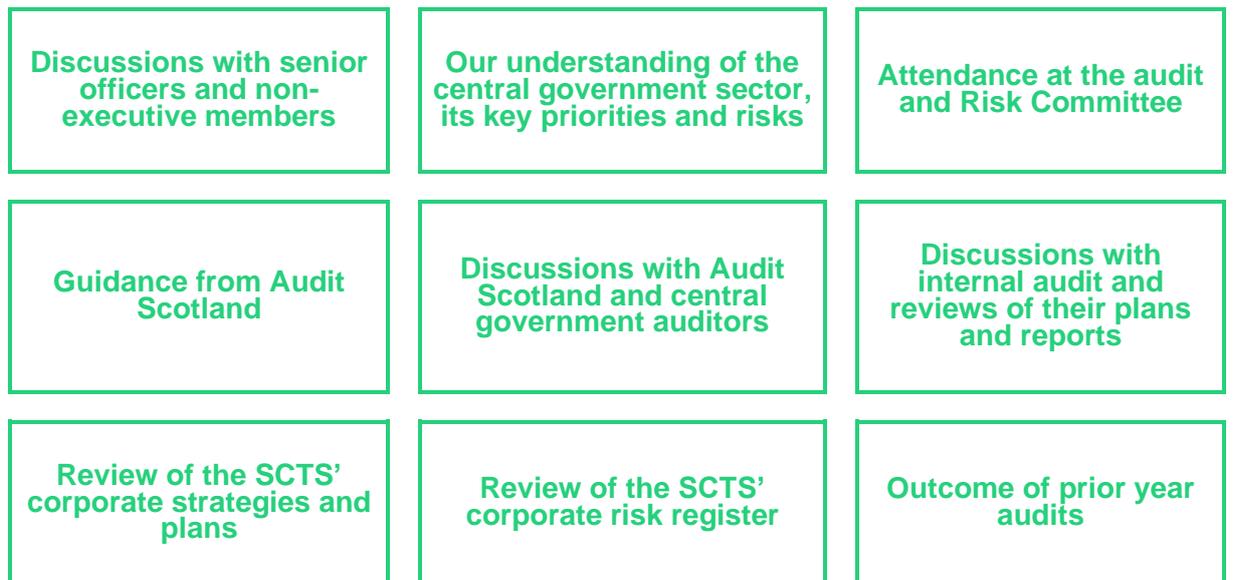


Audit strategy

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:



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.

Communication 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 with the public sector.

Audit Scotland

24. Although we are independent of Audit Scotland and are responsible for forming our own views and opinion, 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 also consider the extent to which SCTS uses the national performance reports as a means to help improve performance at the local level.

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.

Annual report and accounts



Annual report and accounts

Introduction

27. Audited bodies' annual 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.
33. We will take cognisance of any relevant internal audit reviews of systems and controls.
34. Since the start of the pandemic, the risk of fraud and error has increased as the control environment and internal controls change. Potential areas of risk include:
- Public sector staff working under extreme pressure leading to some internal controls being suspended or relaxed;
 - Procurement fraud or, normal controls being relaxed to allow bodies to buy goods or services which are required urgently, possibly from new suppliers;
 - Weakened governance arrangements;
 - Admin and finance staff being redeployed to operational areas; and
 - Staff working remotely may pose potential security risks e.g. when using personal devices and/or using removable devices to download data.

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.

Accounting systems and internal control

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.
35. We will update the risk assessment following our evaluation of systems and controls, considering the impact the pandemic has had on SCTS' accounting systems and controls. This will ensure that we continue to focus attention on the areas of highest risk.
36. This work is not for the purpose of expressing an opinion on the effectiveness of internal controls. We will report to you, significant deficiencies in internal controls that we

identify during the audit. These matters will be limited to those which we conclude are of sufficient importance to merit being reported to you. The scope of our work is not designed to be an extensive review of all internal controls.

Prevention and detection of fraud or error

37. We plan our audit in such a way as to obtain reasonable assurance of detecting material misstatements in the financial statements resulting from fraud or error.
38. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
39. We will assess the susceptibility of SCTS' financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:
 - making enquiries of management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and
 - considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations.
40. Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be

relied upon for this purpose. Material misstatements that arise due to fraud can be harder to detect than those that arise from error as they may involve deliberate concealment or collusion.

Laws and regulations

41. We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact the financial statements. Our audit procedures include the following:
 - Identification of the laws and regulations applicable to SCTS through enquiries with management, and from our knowledge and experience of SCTS and the sector;
 - A focus on specific laws and regulations which we consider may have a direct material effect on the financial statements or the operations of SCTS;
 - Reviewing minutes of relevant meetings;
 - Enquiring of management and SCTS legal representatives the position in relation to litigation, claims and assessments; and
 - Performing detailed testing of transactions and balances.
42. There are however inherent limitations in our audit procedures described above. The more removed that laws and regulations are from financial transactions, the less likely it is that we would become aware of non-compliance.

A final audit of the financial statements

43. 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.
44. 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 2020/21 (FReM) and give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder.
 45. 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

46. 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.
47. We also provide an opinion on the audited part of the remuneration report, annual governance statement and performance report.

Materiality

48. 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.

49. 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.
50. 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 2019/20. 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	2,700
Performance materiality: using our professional judgement we have calculated performance materiality at approximately 65% of overall materiality.	1,755

51. We will report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements;
 - Uncorrected misstatement 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

52. 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

Management override

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

53. 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.

Revenue recognition

Under ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Board could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

54. 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.

Risk of fraud in the recognition of expenditure

Practice Note 10 - *The Audit of Public Sector Financial Statements* 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.

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55. In response to this risk we will evaluate the significant expenditure streams at SCTS (excluding payroll which is considered separately below) 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.

Payroll records

SCTS introduced a new payroll system part way through 2020/21 with the old system due to be decommissioned in January 2021. Moving between key systems introduces additional risk of misstatement, especially when completed part way through a financial year. There is an increased risk of misstatement due to incomplete or duplicate payroll data following the transfer to the new system, or that transferred records are inaccurate.

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56. We will review the process for introducing the new payroll system to ensure there is no loss or duplication of payroll data. We will review the checks and reconciliations performed to confirm accuracy of data transfers and any differences will be investigated. Substantive testing of payroll records will cover both the old and new payroll system.

The performance report, accountability report and other information

57. The HM Treasury Government Financial Reporting Manual 2020/21 sets out the content required within the annual report and accounts. In response to the continuing impact of COVID-19; HM Treasury has issued an addendum to the Government Financial Reporting Manual 2020-21 which sets out the minimum reporting requirements in respect of the performance report and accountability report.
58. The addendum permits, but does not require, bodies to omit the performance analysis section from the Performance Report. Where relevant performance information has already been published elsewhere, bodies are encouraged to refer to the relevant publication.
59. Where unaudited information otherwise required to be included in the Accountability Report is already published elsewhere, bodies are permitted to refer to the relevant publication rather than including the information in their Accountability Report.
60. In addition to presenting our opinions over the financial statements our independent auditor's report will also present our opinion on the other aspects of the annual report and accounts:

Other information

61. "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.

62. 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

63. 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.
64. 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

65. 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.
66. 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.

Wider scope audit



Wider scope audit

Introduction

67. 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
68. 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. Audit Scotland has highlighted that the risk profile of public bodies for 2020/21 audits is significantly affected by the COVID-19 pandemic, highlighting the following wider scope risk areas which we will consider during our audit as they relate to SCTS:
- Appropriateness of revised governance arrangements in response to the pandemic;
 - Risk that performance reporting does not meet users' needs;
 - Management of the financial impact of the pandemic;
 - Appropriateness of risk management processes in response to the pandemic;
 - Risk of fraud and error as the control environment and internal controls change; and
 - Risk of fraud in procurement function
69. Exhibit 4 summarises the significant risk in relation to our wider scope audit responsibilities that we have identified at this stage of our audit planning. The risk relates to financial sustainability.
70. We have not, at this stage, identified any significant risks in relation to the other dimensions. Audit planning however is a continuous process and we will report any other identified significant risks, as they relate to the four dimensions, in our annual audit report. Exhibit 5 summarises our audit work in respect of each dimension.

Exhibit 4 – Wider scope significant risks

Financial sustainability

COVID-19 has continued to have a significant impact on both the income and expenditure of SCTS and, as reported in 2019/20, work is still ongoing to quantify the potential impact on medium and long term financial plans. SCTS is expecting to deliver a balanced budget in 2020/21 but this has only been achievable through additional government funding of £9.9million and reductions in some operational costs as a consequence of the lockdown.

Court activity was halted for three months during 2020/21 resulting in a significant backlog across all aspects of SCTS' operations and there is uncertainty over whether this will increase further. SCTS contingency arrangements to manage court activity have been working well and new ways of operating are likely to become a more permanent feature of future service delivery, impacting on the operating model for SCTS.

SCTS' ability to address the backlog of cases and remain financially sustainable is dependent on additional financial support and will further impact their projected level of income and financial position over the medium term. Management continue to liaise with Scottish Government to ensure SCTS can respond to these operational challenges in a sustainable way.

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71. In response to this risk we will consider SCTS' arrangements for managing its financial position and use of resources, and the ongoing work to update financial plans to reflect the medium and long term impact of COVID-19. Our conclusion will be based on a review of SCTS' financial performance, underlying financial position, financial plans and financial reporting.

Exhibit 5 - Our audit approach to the wider scope audit dimensions



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	Our audit approach
<p>In 2019/20 we concluded that medium term financial plans were in place, but that work was still ongoing to reflect on this in light of the impact of COVID-19.</p> <p>There are on-going operational challenges, particularly relating to the backlog of cases and the downward trend in fees and fines income over 2020/21. 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.</p>	<p>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.</p> <p>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.</p>



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 2019/20 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). Improvements were made in 2019/20 to strengthen the monitoring and reporting of the position against the Annually Managed Expenditure (AME) budget. There were significant overspends against the AME budget in 2019/20 as a result of an impairment to the Inverness Justice Centre and the Board were notified of this as soon as management were made aware.

A Cash Management Group was established in 2019/20 in response to recommendations raised in our 2018/19 audit report. We concluded in 2019/20 that there were appropriate processes in place to ensure that funding is not requested in advance of need.

SCTS is forecasting to deliver a balanced budget in 2020/21, receiving £9.9million of additional funding to cover the shortfall in fees and fines income. Management are continuing to closely monitor the appropriateness of key assumptions over fee income to ensure delivery of a balanced budget is still achievable.

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 January 2021, with matches to be investigated by 30 September 2021.

Our audit approach

During our 2020/21 audit we will review, conclude and report on the following:

- The achievement of financial targets;
- 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;
- Whether SCTS can demonstrate the effectiveness of its 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
- 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 2019/20 we concluded that SCTS has appropriate governance arrangements in place and that sufficient action had been taken to mitigate the risks introduced by remote working during the national lockdown. 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.

There is scope to improve the transparency of decision making by publishing Board and Committee papers on the SCTS website and we have recommended that this area is kept under regular review with the aim of moving towards best practice

Our audit approach

As part of our work on governance and transparency work in 2020/21 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; and
- The transparency of decision-making, financial reporting and performance data.



Value for money

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

Consideration

In 2019/20 we reported that SCTS 12 out of 18 performance indicators and that an established and appropriate performance management framework was in place.

In addition, SCTS fully delivered 24 of the 28 desired outcomes set in the 2019/20 Business Plan. The remaining outcomes were deemed partially delivered and deferred into 2020/21.

We recognise that COVID-19 continues to have an unprecedented impact on the operation and performance of SCTS. As part of our 2020/21 audit, we will consider the appropriateness of SCTS performance indicators and whether there is any additional benchmarking that management could undertake to support effective decision making.

We noted in 2019/20 that SCTS continues to operate with significant levels of backlog maintenance which is essential to the continued operation of the large court estate. Current restrictions on public financing present an ongoing challenge to investment in this area.

Our audit approach

During 2020/21 we will review, conclude and report on;

- The robustness of SCTS' performance management framework and the appropriateness of key performance indicators in supporting effective scrutiny and decision making;
- How SCTS provides evidence of the achievement of value for money in the use of resources, including consideration of the realisation of benefits from the ICMS project; and
- How SCTS' plans to address and manage the maintenance backlog in a timely and sustainable manner.

Audit outputs, timetables and fees



Audit outputs, timetable and fee

Audit Outputs

The statutory deadline for laying the accounts in Scottish Parliament is 31 December 2021. Audit Scotland proposes a submission deadline for the annual accounts as 31 October for 2020/21.

We have set out below target months which align to SCTS's 2021 schedule of Audit and Risk Committee and Board meetings. We will aim to meet these scheduled meetings however this will be monitored during the audit process and may require to be revised to reflect emerging issues as a result of the pandemic.

Audit output	Format	Description	Target month
External audit plan	Report	This report sets out the scope of our audit for 2020/21.	January 2021
Independent Auditor's Report	Report	This report will contain our opinion on the financial statements, the audited part of the remuneration report, annual governance statement and management commentary.	August 2021
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 2021

72. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.
73. 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

74. 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.

75. 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 the 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.
76. 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.
77. The expected fee set by Audit Scotland for the 2020/21 audit of SCTS is £91,320 (£2,220 higher than the expected fee in 2019/20). We propose setting the 2020/21 audit fee at £94,820. This is £1,076 lower than the fee agreed in 2019/20 and equates to an increase of 3.8% on the expected fee level (5% on auditor remuneration).
78. The audit fee reflects the level of work we consider required in response to the five audit risks and ongoing work to address issues noted in previous audits.

	2019/20	2020/21
Auditor remuneration	£74,756	£73,500
Pooled costs	£17,610	£18,250
Contribution to Audit Scotland costs	£3,530	£3,070
Total fee	£95,896	£94,820

79. 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

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

- JAN 21** ● Planning meeting to inform the 2020/21 audit
- JAN 21** ● Presentation of External Audit Plan to the Audit and Risk Committee
- FEB 21** ● Interim audit including a review of accounting systems and wider scope audit dimensions.
- JUN 21** ● Accounts presented for audit and final audit visit begins
- AUG 21** ● Annual audit report presented to Audit and Risk Committee and submitted to the Auditor General for Scotland

Appendices



Appendix 1: Azets

On 7 September 2020, the CogitalGroup of companies (Scott-Moncrieff, Campbell Dallas, Baldwins and Wilkins Kennedy) came together as Azets. Whilst it is a new name, we still deliver the same personal approach to accounting, tax, audit, advisory and business services, digitally and locally.

With over 6,500 advisers and specialists across our office network, we help people and organisations of all shapes and sizes save time, work smarter and achieve their goals. Our job is to give you the support you need so you can focus on what you do best.

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.

Your audit management team

Gary Devlin

Audit Partner

gary.devlin@azets.co.uk



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

Manager

nicola.mackenzie@azets.co.uk

Nicola has over 6 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 fifth year working with SCTS.

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

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.

In particular, FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. SCTS has purchased non-audit services from Azets in 2020/21 with an expected fee of £9,200. 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. In addition, we provided advisory services to SCTS on VAT matters. 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 Standard. 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 Azets 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 Azets.

Annual report and financial statements

We will require the annual report and financial statements 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 visit which sets out our expectations in terms of audit deliverables. This document helps to ensure we can work together effectively to deliver an efficient and effective audit.

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.

Scope of audit

As auditors we do not act as a substitute for the 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 of 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 he 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 and the Code of Audit Practice.

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 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.



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We are an accounting, tax, audit, advisory and business services group that delivers a personal experience both digitally and at your door.
Accounting | Tax | Audit | Advisory | Technology
