



Scottish Courts and Tribunals Service

External Audit Annual Plan

2021/22

January 2022



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Introduction



Introduction

1. This document summarises the work plan for our 2021/22 external audit of the Scottish Courts and Tribunals Service (“SCTS”).
2. The core elements of our work include audits of:
 - the 2021/22 annual report and accounts and related matters;
 - SCTS’ arrangements for governance and transparency, financial management, financial sustainability and value for money; and
 - any other work requested by Audit Scotland.
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.
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 2021/22¹. This document reflects the audit plan for 2021/22 and summarises:
 - 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

Auditor independence

6. International Standards on Auditing in the 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 Standard. In our professional judgement, we are independent and our objectivity is not compromised in any way.
8. We set out in Appendix 2 our assessment and confirmation of independence.

¹ In October 2020, the Auditor General extended our audit appointment for one year through to the audit of

the 2021/22 financial year to provide continuity and stability in the current challenging environment.

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 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.

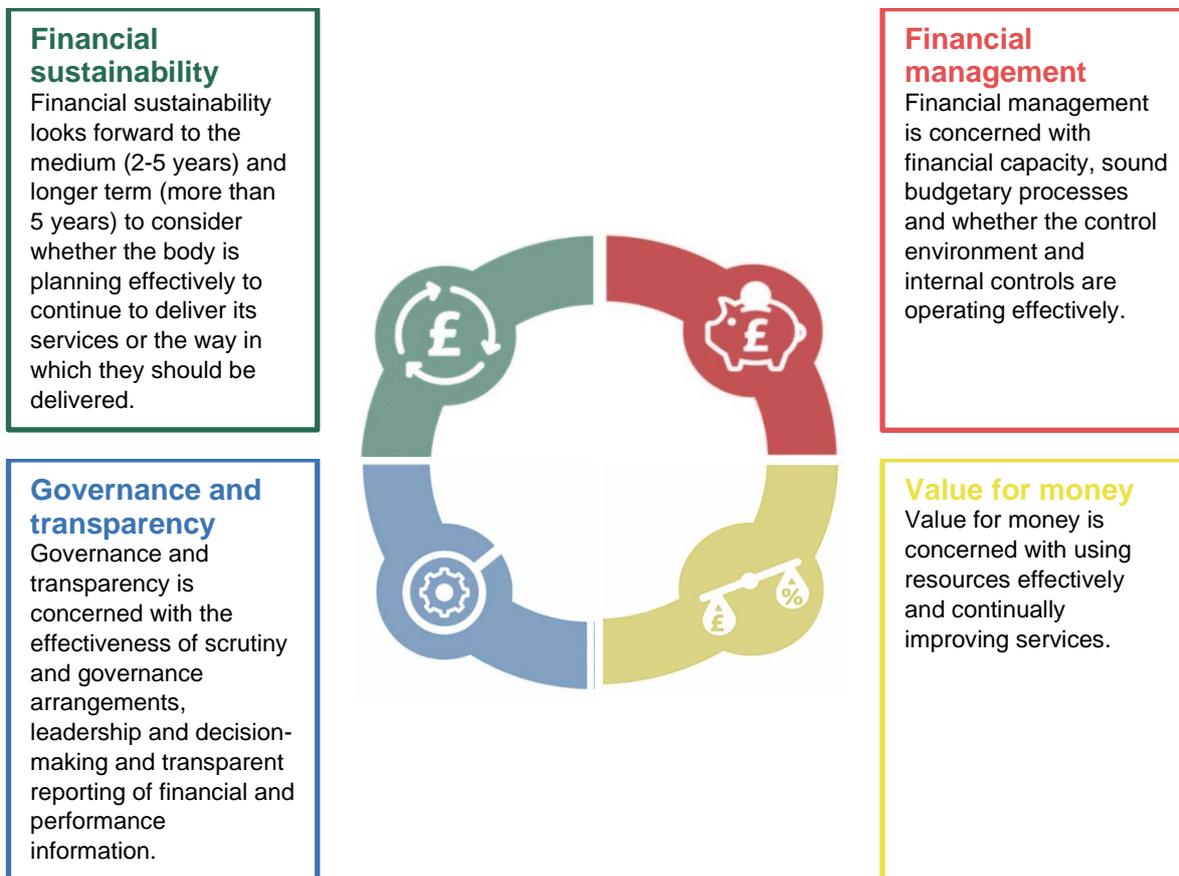
Our responsibilities

13. Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK), professional requirements and best practice. These are to:
 - undertake statutory duties, and comply with professional engagement and ethical standards
 - provide an opinion on the financial statements and 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 scope of public audit.

Wider scope audit work

14. 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 on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.
15. The Code of Audit Practice sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.

Exhibit 1: Audit dimensions within the Code of Audit Practice



16. We have concluded that application of the full wider scope is appropriate at SCTS.
17. Weaknesses or risks identified by the audit are only those which have come to our attention during our normal audit work in accordance with the Code and may not be all that exist. Communication by Azets 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.

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 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

Area	SCTS responsibilities
	<ul style="list-style-type: none"> The impact of planned future policies and foreseeable developments on the financial position.
<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

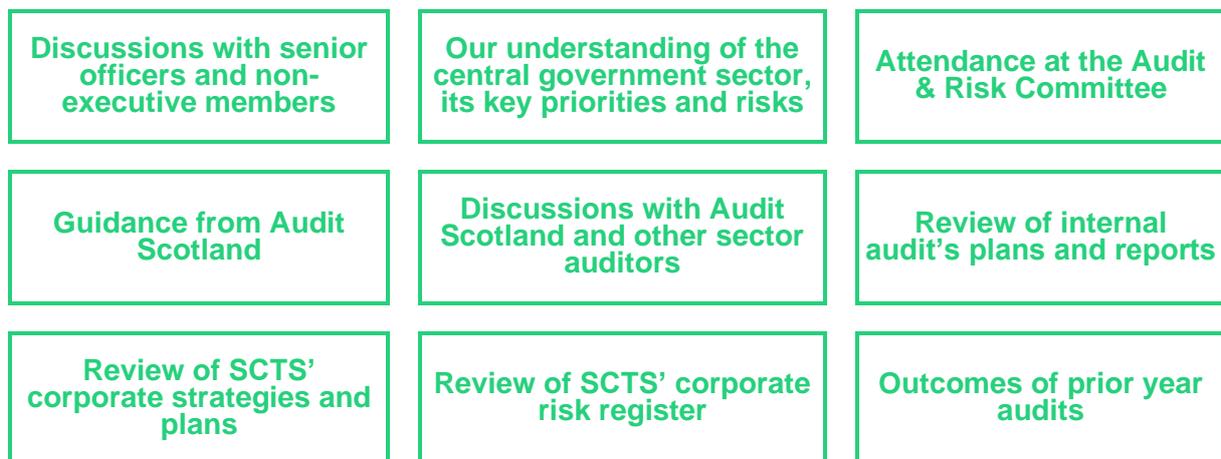


Audit strategy

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. The financial statements and our annual report will also be reported to the Board.

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

Audit Scotland

24. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We 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. 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 will consider 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 as efficiently and effectively as possible.

COVID-19 – impact on our 2021/22 audit strategy

27. The COVID-19 pandemic has had, and continues to have, a significant and profound effect on every aspect of Scottish society.
28. We appreciate that organisations have been impacted differently by COVID-19, as have finance teams, and some organisations are better set up for

remote working. We also know that plans can change quickly and it only takes the absence of one key member of staff from a finance team to have a big impact. Equally our own teams may also be impacted by the pandemic. The wellbeing of our clients and our staff is paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance.

Remote working

29. As we do not know when the current restrictions will end, we are planning to carry out our 2021/22 audit remotely. As in 2020/21 we have the following arrangements in place:
 - All of our people have the equipment, technology and systems to allow them to work remotely, including secure access to all necessary data and information.
 - All of our staff are fully contactable by email, phone call and video-conferencing.
 - All meetings are now held over Skype, Microsoft Teams or by telephone.
 - We are keeping all of our staff fully up to date with the latest government guidance in order to keep everyone as safe as possible.
30. If resourcing levels in any part of our business are compromised due to illness or inability to work, we will refocus our teams as necessary to deliver to deadlines. Our teams are holding regular catch ups to allow us to re-prioritise workloads as necessary.

Secure sharing of information

31. We use a cloud-based file sharing service that enables users to easily and securely exchange documents.

Audit evidence

32. Working remotely, does unfortunately result in the audit team requesting audit evidence which we would have previously obtained through other means (for example, face to face meetings or access to systems and client premises).
33. Where required, we will consider other ways in which we can obtain audit evidence or carry out alternative audit procedures.
34. We will employ greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

Regular contact

35. During the 'fieldwork' phase of our audit, we will look to agree regular catch-ups with key personnel to discuss the progress of the audit. The frequency of these meetings will be discussed and agreed with management.

Audit reporting

36. It may be that the current circumstances lead to more modified opinions in auditor's reports, than would typically have been the case in previous years. This has included, for example, the recognition of a material uncertainty around asset valuation in response to the COVID-19 pandemic.
37. Where necessary, we will engage with the Audit Committee to explain the implications of our proposed report and consider whether there are other

procedures that could be undertaken, which could mitigate any modification either fully or in part.

38. Sufficient time should be set aside by the Audit Committee to allow for comprehensive, complete and informed communication with the auditor. This will need to take account of the potential for extended communication to explain any modified audit reports, or to report any higher than expected deficiencies or misstatements, that may result from the current circumstances.
39. Audit Scotland uses a system for electronic signatures (DocuSign) that it recommends all bodies use for signing annual accounts. Annual accounts signed electronically are acceptable for laying in Parliament.
40. Electronic signatures simplify the process of signing the accounts. Accounts can be signed using any device from any location. There is no longer a need for duplicate copies to be signed, thus reducing the risk of missing a signature and all signatories have immediate access to a high quality PDF version of the accounts.
41. We again propose using DocuSign in 2021/22.

Annual report and accounts

Annual report and accounts

Introduction

42. 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.
43. The annual report and accounts comprise the financial statements, the performance report and the accountability report.

Approach to audit of the financial statements

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

Risk-based audit planning

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

An audit of key systems and internal controls

46. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the financial statements.
47. 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's own policies and procedures.

48. We will take cognisance of any relevant internal audit reviews of systems and controls.
49. 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 increased 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.
50. 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.
51. This work is not for the purpose of expressing an opinion on the effectiveness of internal controls. We will report to the Audit and Risk Committee 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. The scope of our work is not designed to be an extensive review of all internal controls.

Prevention and detection of fraud or error

52. 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.
53. Reasonable assurance is a high level of assurance, but it cannot be guaranteed 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.
54. 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.
55. 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

56. 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.
57. 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

58. 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.

- 59. 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 2021/22 (FReM) and give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder.
- 60. 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

- 61. Our opinion on whether the financial statements give a true and fair view of the financial position and 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.
- 62. We also provide an opinion on the audited part of the remuneration and staff report, annual governance statement and performance report.

Materiality

- 63. 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.

- 64. 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.
- 65. Performance materiality is 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 1.5% of SCTS' 2020/21 expenditure, which is considered one of the principal considerations for users of the financial statements when assessing performance.	2,450
.....	
Performance materiality: using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.	1,840
.....	

67. 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 the 5% threshold that we believe warrant reporting on qualitative grounds.

Key audit risks in the financial statements

68. 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*.

69. 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 assess whether judgements and assumptions made by management in determining accounting estimates as set out in the financial statements are indicative of potential bias.

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 income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

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70. As part of our planning process, we have considered the nature of the revenue streams at SCTS against the risk factors set out in ISA (UK) 240. 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 revenue of this nature. We have concluded, however, the risk of fraud in relation to revenue recognition is present in all other income streams.
 71. We will review and 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

As most public sector bodies are net spending bodies, the risk of fraud is more likely to occur in expenditure. There is an increased risk that expenditure may be misstated due to improper recognition of expenditure, resulting in a material misstatement in the financial statements.

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72. In response to this risk, we will evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. (Payroll is subject to separate tailored testing). 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. We will review accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

Valuation of tangible and intangible assets (significant accounting estimate)

SCTS holds an extensive portfolio of land and buildings across Scotland with a value of £492.653 million as at 31 March 2021. Significant additions are expected in 2021/22. Land and buildings are subject to professional valuation on a five year cycle with indexation applied in interim years to take account of price movements. SCTS intend to undertake a full valuation in 2021/22, bringing this forward from 2023/24 to reflect changes in the componentisation of buildings.

In addition, SCTS hold intangible assets with a value of £17.489 million as at 31 March 2021, including the internally generated case management system (ICMS). With no active market, these assets are held at depreciated replacement cost.

There is a significant degree of subjectivity in the measurement and valuation of tangible and intangible assets. This subjectivity and the material nature of SCTS' asset base represents an increased risk of misstatement in the financial statements.

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73. We will ensure that assets, including capital additions, are recorded in line with the FReM and SCTS' accounting policies, and have been accounted for appropriately. We will review asset valuations and ensure that SCTS has completed a recent assessment for impairment across its estate.
 74. Where professional advice has been sought, 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 2021/22 and consider assumptions used by the valuer against external sources of evidence. In addition, we will consider the scope of the valuer's work and the information provided to the valuer for completeness.

Dilapidations provision (significant accounting estimate)

SCTS recognise a provision for estimated amounts due on the expiry of property leaseholds to return the properties to their original condition. The amounts due and timing of payment depends on the terms and conditions of each lease, the extent of alterations carried out by SCTS and general wear and tear over the period of the lease. The value of this provision as at 31 March 2021 was £4.408 million.

There is a significant degree of subjectivity in the measurement and valuation of provisions. This subjectivity represents an increased risk of misstatement in the financial statements.

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75. We will review the method and underlying assumptions used to carry out the valuation to ensure these are appropriate and accurately reflect SCTS' obligation as at 31 March 2022.
 76. Where professional advice has been sought, we will consider the competence, capability and objectiveness of the external valuer in line with ISA 500 (UK). We will consider the scope of the valuer's work and the information provided to the valuer for completeness, reviewing assumptions against external sources of evidence.

Other risk factors

Impact of COVID-19 on the financial statements

77. Further to the identification of significant audit risks, we also continue to monitor the impact COVID-19 could have on the financial statements. COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. It is uncertain how long these challenges will persist.
78. We continue to monitor government and relevant announcements as they pertain to the audit and will adapt our audit approach as required.

Accounting estimates

79. Changes to ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures, which is applicable for accounting periods beginning on or after 15 December 2019, places increased regulatory requirements on the auditor in respect of the auditing of significant estimates at the planning and completion stages of the audit.
80. As part of the planning stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements. Consideration was given to asset valuations, impairment, depreciation and amortisation rates, provisions, provisions for doubtful debts, and accruals. Other than asset valuations and the dilapidations provision we have not determined the accounting estimates to be significant. We will however revisit our assessment during

the fieldwork and completion stages of our audit.

The performance report, accountability report and other information

81. The HM Treasury Government Financial Reporting Manual 2021/22 sets out the content required within the annual report and accounts.
82. HM Treasury issued an addendum to the Government Financial Reporting Manual in 2019/20 and 2020/21 which permitted bodies to omit the performance analysis section of the Performance Report. This addendum does not apply in 2021/22 and full compliance with the Government Financial Reporting Manual is expected.
83. 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

84. "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.
85. 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.

report have been properly prepared and are consistent with the financial statements.

The performance report

86. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. 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

87. 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.
88. Our independent auditor's report will confirm whether in our opinion the governance statement and the audited part of the remuneration and staff

Wider scope audit



Wider scope audit

Introduction

89. As described above, the Code of Audit Practice frames a significant part of our audit responsibilities in terms of four wider scope audit dimensions:
- Financial sustainability
 - Financial management
 - Governance and transparency
 - Value for money.
90. 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, along with discussions with management and review of committee minutes and key strategy documents.
91. As outlined in the Scottish Public Finance Manual, accountable officers have a specific responsibility to ensure that arrangements are in place to secure best value in public services. Audit Scotland has requested that external auditors focus on the arrangements relating to the best value theme of fairness and equality. We will consider this in the context of our wider scope audit work and include commentary in our annual audit report as appropriate.
92. We have identified one significant risk to the wider scope of our audit in relation to financial sustainability (Exhibit 4). At this stage we have not identified any significant risks specifically in relation to the other dimensions.
93. Audit planning 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

As a result of the COVID-19 pandemic, there is a significant backlog of cases that could not be brought to trial in 2020/21. The “Recover, Renew and Transform” programme of work, published by the Scottish Government in March 2021, is a justice collaboration that aims to enable the system to not only operate at pre-pandemic levels, but to prepare for future transformation.

The programme outlines areas of focus between 2021 and 2025, identifying recovery and addressing the court case backlog as the immediate priority. The Scottish Government committed £50 million of funding in 2021/22 to manage the financial consequences of this.

As highlight in our 2020/21 Annual Audit Report, whilst SCTS had modelled the cost and operational impact of increasing capacity over the medium term, the five year financial strategy had not been updated to reflect this. Medium term operational planning has continued throughout 2021/22, including consideration of workforce and estates.

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94. During our audit we will continue to review whether SCTS has appropriate arrangements in place to manage its financial position and use of resources. Our work will include an assessment of progress made in developing financially sustainable plans which reflect the medium and longer term impact of COVID-19 and that continue to support the delivery of strategic objectives.

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

A key priority for SCTS is to address the court case backlog caused by the COVID-19 pandemic and use the opportunities presented by this to develop a more efficient, resilient and user-focussed justice system.

Medium term operational planning to support this increased capacity and business as usual activity has been ongoing, but further work is required to reflect this activity in the medium-term financial strategy.

Our audit approach

During 2021/22, we will review and conclude on:

- The ongoing development of financial planning and modelling to identify and address risks to financial sustainability;
- The appropriateness and effectiveness of arrangements in place to address any identified funding gaps; and
- The impact COVID-19 is having on financial plans and sustainability.



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 2020/21 SCTS met the overall budgetary requirement for the Departure Expenditure Limit (DEL), reporting an underspend of £8.516 million of which £6.429 million related to non-cash depreciation. A small underspend is forecasted for 2021/22.

Significant work has gone into building technical capacity within the finance team and establishing an appropriate team structure. In August 2021 we reported 16 vacancies within the finance team. This has now been reduced to three vacancies following significant commitment and priority demonstrated by senior management, however we note that further work is required to build resilience within the team.

Our audit approach

During our 2021/22 audit we will review, conclude and report on the following:

- The achievement of financial targets and effectiveness of financial performance reporting during 2021/22, including the impact of COVID-19;
- Whether SCTS can demonstrate suitable arrangements in place to ensure systems of internal control are operating effectively;
- Whether SCTS can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely financial performance; and
- Whether SCTS has established appropriate and effective arrangements for the prevention and detection of fraud and corruption, with particular focus on the impact of changes in the control environment, fraud and corruption in the procurement function, and action taken to address previously raised areas for improvements.



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 2020/21 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 2021/22 we will review, conclude and report on:

- Whether SCTS can demonstrate that the governance arrangements in place are appropriate and operating effectively, including risk management processes and any changes implemented in response to the pandemic;
- Whether inductions and ongoing training 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 2020/21 we reported a decline in SCTS' performance with only 50% of key performance indicators being consistently met throughout the year and failure to meet 22% of targets. We recognised however, that the COVID-19 pandemic had a significant impact on SCTS' ability to progress court business and this decline in performance is to be expected.

SCTS delivered 23 of the 28 desired outcomes set in the 2020/21 Business Plan with the remaining outcomes deemed partially delivered.

SCTS are due to review key performance indicators and targets to ensure they remain appropriate, reflect current methods of operation and align with the Recover, Renew and Transform programme.

The pandemic has presented an opportunity to develop a more flexible, user-focused, efficient and resilient justice system. The Executive Team committed to undertaking a lessons learned review of SCTS' response to the COVID-19 pandemic to identify ways in which the organisation can enhance resilience.

Our audit approach

During 2021/22 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;
- The steps taken by SCTS to reflect on its response to the pandemic, identify which business practices have been successful, and consider opportunities for continuous improvement; and
- How SCTS' plans to address the maintenance backlog in a timely and sustainable manner.

Audit outputs, timetables and fees



Audit outputs, timetable and fees

Audit outputs

We have set out below target months which align to SCTS' 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	Description	Target month	Deadline for submission to Audit Scotland
External audit plan	This report sets out the scope of our audit for 2021/22.	January 2022	28 February 2022
Independent Auditor's 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 2022	31 August 2022
Annual Report to the Board and the Auditor General for Scotland	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 2022	31 August 2022

95. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.
96. 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

97. Audit Scotland sets an expected audit fee 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.
98. 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
99. As auditors we negotiate a fee with the audited body during the planning process. The fee may be varied by up to 10% above the expected fee level to reflect the circumstances and local risks within the body.
100. For 2021/22 we propose setting the audit fee at 3.7% (£3,600) above the expected fee level (5% increase on auditor remuneration). This reflects the level of work we consider is required in response to the key audit risks identified.

	2021/22	2020/21
Auditor remuneration	£75,090	£73,500
Pooled costs	£18,640	£18,250
Contribution to Audit Scotland costs	£3,040	£3,070
Total fee	£96,770	£94,820

101. 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

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

DEC 21	●	Planning meeting to inform the 2021/22 audit
JAN 22	●	Presentation of External Audit Plan to the Audit & Risk Committee
FEB 22	●	Interim audit including a review of accounting systems and wider scope dimensions
JUN 22	●	Accounts presented for audit and final audit visit begins
AUG 22	●	Presentation of Annual Report on the Audit to Audit & Risk Committee

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.

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

Audit Manager

nicola.mackenzie@azets.co.uk



Nicola will manage the delivery of the onsite work and work alongside Gary to deliver the audit engagement. Nicola has delivered external audits to a range of public sector bodies, including further education, central government bodies, health bodies and local authorities.

Nicola has over 7 years' public sector external audit experience and this is her sixth year working with SCTS.

Appendix 2: Confirmation of independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" and the Revised Ethical Standard 2019 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. Azets has not been appointed by SCTS to provide any non-audit services during the year.

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 the College, 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 accounts

We 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 visit which sets out our expectations in terms of audit deliverables. This document helps to ensure we can work together 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.

Representations

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 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 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.



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