

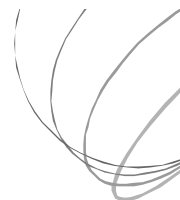
Crown Office and Procurator Fiscal Service

Report on the 2005/06 Audit

September 2006

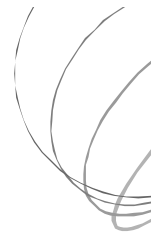


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Executive Summary

Introduction

In 2005-06 we audited the financial statements of the Crown Office and Procurator Fiscal Service (COPFS) which included looking at aspects of performance management and governance. This report sets out our key findings. At the planning stage we identified eight audit risks which informed our audit procedures. From our audit and review work we can conclude that these risks are being satisfactorily managed by COPFS.

Financial Statements

We have given an unqualified opinion on the financial statements of COPFS for 2005-06.

Governance

The COPFS corporate governance and control arrangements operated satisfactorily in the period under review as reflected in the Statement on Internal Control. We have also found the work of the internal audit service to be satisfactory and continue to place formal reliance on its work.

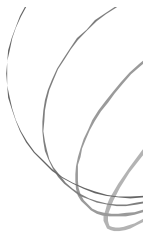
Performance Management

The Management Board monitor the achievement of their key business targets via periodic reports. We note that COPFS met its Spending Review 2002 targets (covering the period April 2003 to March 2006) and is making satisfactory progress against the targets for Spending Review 2004 covering April 2005 to March 2008.

During 2005-06 we completed a baseline analysis of the COPFS management arrangements for achieving Best Value and concluded that arrangements were well developed. We also carried out a baseline review of COPFS arrangements for monitoring the Efficient Government Initiative. This noted that for some categories of saving the savings were readily identifiable. For others the quantification of savings would involve an element of judgement. Overall the review concluded that COPFS had adequate arrangements for monitoring the Efficient Government Initiative, but we recognised there is scope to further develop the bases for the judgements that underpin the more complex efficiency programmes/ targets.

I would like to record my thanks to management and staff for their co-operation and assistance.

Peter Tait CPFA, Assistant Director



Introduction

Scope of the Audit

1. This report summarises the findings from our 2005-06 audit of the COPFS. The planned audit approach was discussed with the Audit Committee on 15 February 2006 and issued in March 2006. The Audit Plan described the work we planned to carry out on financial statements, governance and performance. Subsequent to agreement of the plan, and as discussed at the Committee meeting of 24 May 2006, we have carried out a baseline review of COPFS arrangements for Best Value.
2. This report to management sets out our findings from our audit work. Any weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily all the weaknesses which may exist. It is the responsibility of management to determine the extent of the internal control system appropriate to COPFS. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
3. The contents of this report have been agreed with relevant officers to confirm factual accuracy.
4. This is the final year of a five year audit appointment. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Board during the course of our appointment. This report will be submitted to the Auditor General for Scotland and will be published on our website at www.audit-scotland.gov.uk.

Outcome on Risks Identified in the Audit Plan

5. Eight audit risks were identified at the planning stage. The outcome against planned activity is summarised at Appendix A. Some of these risks and outcomes are considered further in the body of this report. Overall we can conclude from the results of our work on these risks that they are being satisfactorily managed by COPFS.

Risks associated with corporate objectives:	Risks for the audit of the financial statements:
<ul style="list-style-type: none">• Timely, efficient & effective prosecution• Prioritising prosecution of serious crime• Servicing information needs• Investigating deaths	<ul style="list-style-type: none">• New Financial Reporting Manual• Queen's & Lord Treasurer's Remembrancer• Payments to witnesses• Future Office System



Financial Statements

Our Responsibilities

6. We audit the financial statements and give an opinion on whether:

- the financial statements give a true and fair view, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers, on the state of affairs of the Crown Office and Procurator Fiscal Service as at 31 March 2006 and of its the net resource outturn, resources applied to aims, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Financial Reporting Manual (FReM) and directions made thereunder by the Scottish Ministers; and
- in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

7. We also review the Statement on Internal Control by:

- considering compliance with Scottish Executive guidance;
- considering the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control; and
- assessing whether disclosures in the Statement are inconsistent with the information emerging from our normal audit work.

Overall Conclusion

8. We have given an unqualified opinion on the financial statements of COPFS for 2005-06. We are able to conclude that the financial statements of COPFS give a true and fair view of the financial position for the period from 1 April 2005 to 31 March 2006 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance.
9. Following discussion with COPFS, it was agreed to revise the planned timetable to allow completion of the audit to be reported to the September Audit Committee (rather than November). The revised timetable for the completion of the audit of the financial statements was met.



Financial Performance

10. The COPFS Operating Cost Statement for the year records a total cost for the financial year of £88 million (2004-05: £84 million). The main element of the increase is staff costs, which are £3 million higher at £50 million. Non-staff operating costs have increased by £1 million net. There are some compensating increases and reductions. This element of operating costs includes non-cash costs of £5 million, an increase of £1 million, largely related to a write-off of fixed assets.
11. The total outturn (resource and capital) was £91 million against a budget of £93 million. In relative terms the capital underspend of £1 million against a budget of £4 million is the more significant component; this arose from late changes to the profile of expenditure of the refurbishment of the Glasgow PF office and the Future Office System project.

Statement on Internal Control

12. A Statement on Internal Control was considered by the Audit Committee on 13 September 2006 as part of their consideration of the financial statements. This set out the arrangements operated for risk identification and review, management of identified risks and assurance of effectiveness.
13. We are satisfied that the Statement complies with Scottish Executive guidance, the process put in place by the Accountable Officer to obtain assurances on systems of internal control is adequate and the contents of the Statement are not inconsistent with the information emerging from our normal audit work.

ISA 260: Communication of Audit Matters to Those Charged with Governance

14. My responsibilities in relation to the communication of audit matters to those charged with governance are covered in International Standard on Auditing 260 and outcomes against the requirements of the Standard were reported in a letter to the Accountable Officer and presented to the Audit Committee on 13 September 2006. In this context, our audit has not identified any unadjusted errors that we need to bring to your attention. Relevant significant judgements and issues arising are recorded below.

Significant Judgements

15. As recorded at the foot of note 7 to the accounts, following a review of fixed assets in March 2006, a decision was made to write off certain assets with a net book value of £1 million. This write-off relates mainly to IT assets. In 2004-05 the useful lives for these assets were reassessed at 3 years down from the 5 years previously adopted and new assets were depreciated accordingly. This adjustment



applies the revised asset life across all relevant assets. We confirm that this treatment is acceptable practice and reasonable in these circumstances. There are no other significant judgements to draw to attention.

Issues arising

16. In the final report on the audit for 2004-05 we noted that the accounting arrangements for the Queen's and Lord Treasurer's Remembrancer (QLTR) have remained the same since before devolution. The Director of Finance arranged for a review of the processes and procedures in QLTR, including the present audit and reporting arrangements covering Parliamentary accountability. A main outcome of the review has been that Scottish Ministers will issue an accounts direction for the QLTR to apply from 2006-07 onwards. This will ensure accountability arrangements are in line with the framework established for the devolved administration.

The Office of Queen's and Lord Treasurer's Remembrancer (QLTR) is held by the Crown Agent. The post of QLTR was created in 1837 by the amalgamation of two existing posts created in 1707 - the King's/Queen's Remembrancer and the Lord Treasurer's Remembrancer. Over time the Office has carried out a variety of functions, including that of a revenue collecting office, paying judicial salaries and funding the prosecution service. However, in the 1970's and 1980's the major functions were transferred, but the post of QLTR was retained for the specific purpose of his dealing, on behalf of the Crown, with matters of bona vacantia, ultimus haeres and Treasure Trove, all three of which are based on the common law principle relating to ownerless goods - Quod nullius est fit domini regis - which means - That which belongs to no one becomes the King's.

In terms of the Scotland Act 1998, the Crown's property rights in ownerless goods and the revenues raised from them were transferred to Scottish Ministers. Consequently all net receipts of the QLTR have since devolution been paid into the Scottish Consolidated Fund, rather than being transferred to the Treasury in London as used to be the case.



Governance

Introduction

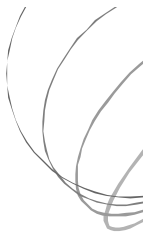
17. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of an organisation. This section sets out the main findings arising from our review of COPFS corporate governance as it relates to:
- systems of internal control; and
 - review of internal audit.

Overall Governance Arrangements

18. During our audit we updated and confirmed our understanding of the governance systems operating at COPFS. Our understanding of arrangements was based on our reviews of systems and controls in previous years, the findings of internal audit and our current year work, including elements of our baseline review of Best Value arrangements, which is reported in the section of this report covering Performance. In general, we are content that the governance arrangements are soundly based.

Systems of Internal Control

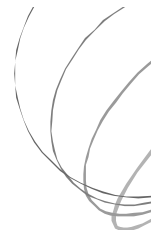
19. Our audit plan identified payments to witnesses from local Procurator Fiscal (PF) Offices as having a degree of inherent risk of misstatement (because payments are based on claims covering a range of entitlements and evidence requirements), with cash payments carrying a higher inherent risk. Also, there was evidence of error/ potential mis-statement during 2004-05. During 2004-05 and 2005-06 management undertook a number of initiatives to reduce the levels of cash held at PF Offices and to ensure that the required management checks and controls were working effectively, including training, improved guidance and reviewing the results of “best practice” visits by Finance Division and compliance visits by internal audit. COPFS also reviewed guidance to witnesses and revised as appropriate. We reviewed the outcome of the initiatives and the best practice & compliance visits that had taken place and tested a sample of witness payments. This review confirmed that improved arrangements and procedures have been implemented. Our testing did not identify any errors.
20. In our audit plan we indicated that we intended to undertake a high level overview of developments on COPFS IT systems. We met with COPFS staff, reviewed papers and discussed progress on the Future Office System (FOS) at various points in the year. The review provided assurance that



developments are progressing satisfactorily and that, in relation to FOS in particular, management have monitored the project closely and FOS is progressing satisfactorily in line with the revised arrangements.

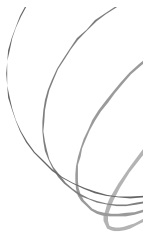
Review of Internal Audit

21. COPFS recognises that internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system established. To maximise the reliance that external audit can place on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.
22. Internal audit is provided by the Scottish Executive's Audit and Accountancy Services (Branch 3). Colleagues within Audit Scotland reviewed the Executive's overall internal audit arrangements and we reviewed files and reports relating to COPFS. As a result of these reviews we are pleased to confirm that we are placing reliance on the work of internal audit over the period, as was anticipated in our audit plans. We also confirm that the results of audits are accurately reported to the Audit Committee in the summary reports submitted to the Committee.
23. The outcome of the following audits were presented to the Audit Committee meetings up to the meeting on 13 September 2006:
 - Compliance audit visits to 15 Procurator Fiscal offices, including Edinburgh, Glasgow and Hamilton, the 3 largest offices
 - Review of Procurement and contract management, covering managing risk, policy & procedures, joint working, etc
 - Compliance with Central Controls in Key Systems, a judgemental approach, including sampling, covering payments to witnesses, administration expense payments, payroll, travel & subsistence and receipts
 - Central controls over IT, covering strategy, information security, purchasing and custody & control arrangements
 - Follow up audits of Corporate Governance arrangements and Personnel (attendance management).
24. We planned to place formal reliance on the work of internal audit, in terms of International Standard on Auditing 610 on the reviews of controls operating at local offices, local office income and expenditure and financial and budgetary controls. We reviewed these reports. None of the observations and related risks precluded planned assurance from being taken for our financial



statements audit. The other areas examined by internal audit provided assurance in relation to our assessment of corporate governance arrangements.

25. On 13 September 2006 the Head of IAU provided the Chief Executive with **substantial assurance** on the adequacy and effectiveness of the system of internal control within COPFS.



Performance Management

Introduction

26. This section covers our assessment of the way in which COPFS secures value for money in the use of its resources. We have reviewed COPFS achievement of targets and examined:

- Efficient Government; and
- Best Value.

Achievement of targets

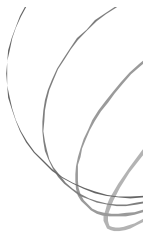
27. As identified in Appendix A, the Management Board monitor the achievement of their key business targets via periodic reports. We note that COPFS met its Spending Review 2002 targets (covering the period April 2003 to March 2006) and is making satisfactory progress against the targets set for Spending Review 2004 covering April 2005 to March 2008.

Efficient Government

28. The Efficient Government initiative is a 5 year programme with the aim of reducing waste, bureaucracy and duplication in Scotland's public sector. The primary objective is to deliver the same services with less money or to enable frontline services to deliver more or better services with the same money. The Efficient Government Plan sets targets to achieve £745 million (rising to £900 million) of cash-releasing savings and £300 million (rising to £600 million) of time-releasing savings, by 2007-08.

29. Against a baseline position of 2004-05, COPFS has committed to cash releasing savings of £2.8 million each year over the 3 year period from 2005-06 to 2007-08, with additional time releasing savings of £0.3 million per annum in the latter 2 years. These savings will be generated from closer working with police and Scottish Court Service, the introduction of both the Driver Improvement Scheme and fixed penalties for certain offences, and staff savings from investment a new IT system and improvements in case handling procedures.

30. During 2005-06 Audit Scotland completed a diagnostic questionnaire on the management arrangements for Efficient Government activities at a number of Central Government organisations, including COPFS. The questionnaire aimed to provide baseline information on arrangements across a range of Efficient Government related topics.



31. At COPFS, the review noted that for some categories of saving, for example the use of accommodation, the savings were readily identifiable. For others, such as streamlining procedures through the introduction of court reforms or the development of IT, the quantification of savings would involve an element of judgement. Overall therefore the review concluded that COPFS had adequate arrangements for monitoring the Efficient Government Initiative. However, we recognise there is scope to further develop the bases for the judgements that underpin the quantification of savings for the more complex efficiency programmes/ targets.
32. A position statement reflecting the findings across the sample of public sector organisations examined is being produced by Audit Scotland and we will keep COPFS informed of developments.

Best Value

33. There is a statutory duty of Best Value for local authorities but not in the wider public sector in Scotland (the Scottish Executive and its Executive Agencies, Executive NDPBs, and the NHS). Instead, the Scottish Executive issued high level guidance in May 2003, followed by more detailed draft secondary guidance in August 2003. This duty can be described as:
 - to make arrangements to secure continuous improvement in performance (while maintaining an appropriate balance between quality and cost);
 - to have regard to economy, efficiency and effectiveness, and the equal opportunity requirements; and
 - to contribute to the achievement of sustainable development.
34. In May 2005, Ministers decided that they would not bring forward legislation which extends Best Value in the wider public sector. However, Ministers do wish to encourage and embed the principles of Best Value across the wider public sector and revised guidance was issued in May 2006.
35. For 2005-06 Audit Scotland reviewed the arrangements in place to demonstrate Best Value across a sample of Central Government organisations, to identify how well-advanced they were and any areas of good practice that could be disseminated. As part of this review we completed a diagnostic questionnaire to establish baseline information on the management arrangements in place within COPFS. The analysis was split into 10 sections. The introductory section covered the overall arrangements in place. This was followed by individual sections on each of the nine characteristics that are considered to underpin the achievement of best value. These are:
 - Commitment and Leadership
 - Sound Governance at a Strategic and Operational Level



- Accountability
- Sound Management of Resources and Contractual Relationships
- Responsiveness and Consultation
- Use of Review and Options Appraisal
- A Contribution to Sustainable Development
- Equal Opportunities Arrangements
- Joint Working.

36. Overall, we assessed the COPFS arrangements to secure Best Value as being well developed. We noted that the COPFS had not carried out a Best Value self assessment in terms of the Best Value characteristics. However, COPFS had built on the process of Departmental Improvement Plans that included Best Value Service Reviews and as a result was able to demonstrate well developed arrangements for the majority of characteristics. It is the nature of the Best Value that there is an expectation of continuous improvement across all characteristics. For COPFS, the following characteristics were assessed as under development indicating particular areas for attention: Responsiveness and Consultation, A Contribution to Sustainable Development, Equal Opportunities Arrangements and Joint Working.
37. The results of the review across the wider public sector are currently under evaluation and will be published by Audit Scotland during 2006. We will keep COPFS informed of developments.

Appendix A: Outcome on Risks Identified in Audit Plan

Risks associated with corporate objectives

Risk	Management assurances	Planned audit action	Outcome
<p>Timely, efficient & effective prosecution</p> <p>COPFS fails to meet objectives in this area, in particular performance targets:</p> <ul style="list-style-type: none"> 60% of Sheriff Summary and District Court cases disposed of within 26 weeks of the date of caution and charge by March 2008. [Joint target with Justice portfolio]. To implement agreed recommendations of COPFS Inspectorate's review of the prosecution of racial crime by March 2006 and other agreed recommendations of COPFS Inspectorate's reviews within two years of such agreement. 	<p>Management review and monitoring arrangements, including reporting to Management Board and monitoring of progress against targets.</p>	<p>External audit will review outcome, including outturn on progress against performance targets.</p> <p>[Spending Review 2002 set targets for the 3 year period 2003-04 to 2005-06; and Spending Review 2004 set targets for the 3 year period 2005-06 to 2007-08. 2005-06 is therefore the transitional year between the two Spending Reviews.</p> <p>Targets identified in the risk column relate to the 2004 Spending Review, but we comment, as appropriate, on the outcome of 2002 Spending review.]</p>	<p>Cases: 2002 Spending Review targets were met, including establishing the joint target with Justice partners on disposing of cases within 26 weeks of caution and charge.</p> <p>For year end 31.3.06, 87% of crime reports were actioned within 5 weeks (target 75%).</p> <p>The Management Board monitor the target achievements via periodic reports which detail progress across the Procurator Fiscal offices and in total.</p> <p>Inspectorate: 2002 Spending Review target was to establish the Inspectorate and for this to report on the Prosecution of racial crime. This target was met. The 2004 Spending Review target for 31.3.06 was to implement the recommendations. This target was achieved.</p>

Risk	Management assurances	Planned audit action	Outcome
<p>Prioritising the prosecution of serious crime</p> <p>COPFS fails to meet objectives in this area, in particular performance targets:</p> <ul style="list-style-type: none"> • Serve indictments in 80% of Sheriff and jury cases that involve bail within eight months (nine months for year end 2005) of first appearance on petition by March 2008. • To serve all High Court indictments that involve bail within 10 months of first appearance on petition and 80% within nine months of first appearance on petition by March 2008. • In partnership with Justice portfolio, reduce by 10% the level of High Court trial diet adjournments by March 2008. 	<p>Management review and monitoring arrangements, including reporting to Management Board and monitoring of progress against targets.</p>	<p>External audit will review outcome, including outturn on progress against performance targets.</p>	<p>For 2005-06 COPFS met targets that were set as part of the Spending Review process:</p> <ul style="list-style-type: none"> • Sheriff & jury bail cases: Achieved 91% of indictments within nine months (88% for 04-05), indicating progress towards new target • High Court bail cases: Achieved 100% indictments within 10 months and 80% within 9 months , so targets met • High Court adjournments: Early results are positive. There has been a substantial reduction in adjournments overall and in repeat adjournments. Independent evaluative research of the High Court reforms is expected to be published at the end of 2006.

Risk	Management assurances	Planned audit action	Outcome
Servicing information needs COPFS fails to meet objectives in this area, in particular performance target to communicate court bail decisions within 24 hours to 90% of victims in cases in which the accused has appeared from custody, by March 2008.	Management review and monitoring arrangements, including reporting to Management Board and monitoring of progress against targets.	External audit will review outcome, including outturn on progress against performance targets.	Target met, with 99% of court bail decisions communicated within 24 hours in 2005-06. The Victim Information & Advice Service continues to develop and monitor customer satisfaction with the service provided.
Investigating deaths COPFS fails to meet objectives in this area, in particular performance target that, in deaths which require further investigation, to conclude investigation and advise next-of-kin of outcome within 12 weeks in 80% of cases by March 2008.	Management review and monitoring arrangements, including reporting to Management Board and monitoring of progress against targets.	External audit will review outcome, including outturn on progress against performance targets.	Target met, with 80% of relevant cases concluded within 12 weeks.

Risks arising in relation to the audit of the financial statement

Risk	Management assurances	Planned audit action	Outcome
Financial Reporting Manual A new Financial Reporting Manual (FReM) replaces the Resource Accounting Manual (RAM) as the source of guidance for preparing the accounts. If new requirements are not identified in good time, there is a risk that the financial statements could be presented incorrectly, resulting in a delay in the completion of the accounts and audit process.	COPFS are aware of changes being introduced by FReM and maintain good contact with Scottish Executive in relation to changes in accounting requirements, including attending relevant update seminars.	Review of the FReM has identified some significant alterations to the format of the financial statements. These have been raised with COPFS. Audit Scotland will follow up at time of review of the draft account.	COPFS updated the format of the draft account and related papers to conform with the requirements of the FReM in line with (revised) timetable requirements. Completion processes are earlier than originally anticipated.
Queen's and Lord Treasurer's Remembrancer As raised in the final report on the audit for 2004-05, the accounting arrangements for the Queen's and Lord Treasurer's Remembrancer (QLTR) have remained the same since before devolution. There is a risk that arrangements do not properly reflect the post devolution framework/circumstances	The Crown Agent in his capacity as the QLTR in Scotland has assigned management responsibility for the QLTR Unit to the Director of Finance. The Director of Finance will arrange for a review of the processes and procedures in QLTR, including the present audit and reporting arrangements covering Parliamentary accountability.	We will consider the findings of the report and Internal Audit reviews of the QLTR Unit.	We reviewed the outcome of the COPFS review (the Internal Audit review was deferred until 2006-07 pending finalisation of the internal review). A main outcome has been the intention for Scottish Ministers to issue an accounts direction for the QLTR to apply from 2006-07 onwards. This will ensure accountability arrangements are in line with the framework established for the devolved administration.

Risk	Management assurances	Planned audit action	Outcome
<p>Payments to witnesses</p> <p>Payments to witnesses from local Procurator Fiscal (PF) Offices have a degree of inherent risk of misstatement (being claims based on a range of entitlements and evidence supplied), with cash payments carrying a higher degree of risk.</p> <p>There was evidence of error/ potential mis-statement during 2004-05.</p>	<p>Management have taken forward a number of initiatives to reduce the levels of cash held at PF Offices and to ensure that the required management checks and controls are working effectively, including training, improved guidance and reviewing the results of "best practice" visits by Finance Division and compliance visits by internal audit.</p> <p>COPFS will also review guidance to witnesses and will revise as appropriate.</p>	<p>We will review the outcome of the initiatives and best practice & compliance visits that have taken place, including considering the implications for our audit approach in this area</p>	<p>Improved arrangements and procedures have been implemented.</p> <p>We reviewed the work of Internal Audit's compliance visits. We also tested a small sample of witness payments, spread across a number of PF offices, in which there was no evidence of erroneous payments.</p>
<p>Future Office System (FOS)</p> <p>There have been delays in the planned development of the FOS, the case management system to replace the existing case management system.</p>	<p>Management are keeping this under close scrutiny with regular reports to the Management Board.</p>	<p>We will review the progress made and consider the implications.</p>	<p>We confirm that management have monitored this project closely and that the project is progressing satisfactorily in line with the revised arrangements.</p>

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