



INFRASTRUCTURE, GOVERNMENT &
HEALTHCARE

Crown Office and Procurator Fiscal Service

Annual audit report to the Crown
Office and Procurator Fiscal
Service and the Auditor General
for Scotland
2006-07

20 September 2007

AUDIT

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Executive summary

This report summarises our work for the 2006-07 year and our findings in relation to our audit of the accounts, corporate governance arrangements, and performance management arrangements.

Accounts

On 12 September 2007 we issued an audit report giving our unqualified opinion on the accounts of the Department for the year ended 31 March 2007 and on the regularity of transactions reflected in those accounts.

Corporate governance

Internal audit have completed work in accordance with the annual audit plan and concluded in their annual report that *"we are able to provide substantial assurance in respect of the Department's risk management, control and governance arrangements"*. 'Limited' assurance was provided in respect of the compliance review of Dunfermline Procurator Fiscal Office. Internal audit identified a number of relatively minor weaknesses in relation to controls over productions. A follow up review of this office is to be undertaken in 2007-08.

The annual certificate of assurance programme supports the assessment of the operation of the system of internal control. Directors and Area Procurators Fiscal provide a stewardship report and certificate of assurance to the accountable officer to assist in his preparation of the statement.

Our testing of the design and operation of controls over entity level controls and significant risk points in key financial processes confirms that, subject to the minor weaknesses reported, controls are designed appropriately and operating effectively.

The 2006-07 reportable spend, including capital and revenue, shows a net underspend against funding of £4,000.

Performance management

There are strong performance management arrangements in place and performance against the Department's five key targets is subject to ongoing monitoring. Performance is reported to the Management Board each month via a "health check" report which summarises aggregate performance against each target and highlights local offices which have missed targets or the performance of which has deteriorated significantly in recent months.

Introduction

Audit framework

This was the first year of our five-year appointment as external auditors of the Crown Office and Procurator Fiscal Service (“the Department”). This report to the Department, via the Crown Agent as chief executive and accountable, and the Auditor General for Scotland outlines our opinion and conclusions and highlights significant issues arising from our work.

In accordance with Audit Scotland’s *Code of Audit Practice* (“the *Code*”), the scope of the audit was to:

- provide an opinion on the Department’s accounts and, as required by relevant authorities, the regularity of transactions;
- review and report on (as required by relevant legislation, the *Code* and any guidance issued by Audit Scotland):
 - the Department’s corporate governance arrangements as they relate to: its review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct, and prevention and detection of corruption; and its financial position
 - the Department’s arrangements to achieve Best Value
 - other aspects of the arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources.

The framework under which we operate under appointment by Audit Scotland was outlined in the audit plan T for the year discussed with the Department’s audit committee.

Responsibilities of the Department and its auditors

External auditors do not act as a substitute for the Department’s own responsibilities, through the accountable officer, for putting in place proper arrangements to account for its stewardship of resources made available to it and its financial performance in the use of those resources, to ensure the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the effectiveness of those arrangements and, through accountable officers, to make arrangements to secure Best Value.

Acknowledgement

We wish to place on record our appreciation of the co-operation and assistance extended to us by Department staff during the first year of our work in the discharge of our responsibilities.

Accounts audit

Audit opinion

On 12 September 2007 we issued an audit report expressing an unqualified opinion on the accounts of the Department for the year ended 31 March 2007 and on the regularity of transactions reflected in those accounts.

We bring the following issues to the Department's attention.

Tangible fixed assets

All freehold properties owned by the Department were subject to a desktop revaluation by an external valuer, resulting in a net increase in value of £169,000 at 31 March 2007.

Improvements made to leasehold properties, which are capitalised and depreciated over the remaining term of the lease, are disclosed as a discrete category of asset in 2006-07, separated out from freehold land and buildings. This reflects the Department's significant investment in leasehold properties in recent years, particularly the Ballater Street, Glasgow office, and enhances compliance with the disclosure requirements of the Government Financial Reporting Manual.

Excess fares

The Department agreed a concession with staff as part of the 2003 pay settlement to bear employees' income tax and national insurance liabilities arising on reimbursement of travel expenses to a permanent duty station ("excess fares"). Human resources staff made the necessary adjustments to the payroll system so that employees' tax status has been correct in terms of the concession from 6 April 2003. However, it came to light in summer 2006 in the course of other discussions with HM Revenue and Customs ("HMRC") that the Department had not established a mechanism to pay over to HMRC the tax due from 6 April 2003.

Following further correspondence with HMRC, the Department has since calculated its obligation to make payment to HMRC for unpaid income tax and national insurance liabilities relating to excess fares dating back to 6 April 2003 and an obligation to pay a penalty to HMRC in respect of late payment. The Department has engaged external tax accountants to review this calculation.

As a result of the calculations, an adjustment of £490,000 was made to the 2006-07 accounts, increasing accruals and staff costs.

Corporate governance

Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all bodies.

Through the Crown Agent, as accountable officer, the Department is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The *Code* requires auditors to review and report on the Department's corporate governance arrangements as they relate to:

- the Department's reviews of its systems of internal control, including its reporting arrangements;
- the prevention and detection of fraud and irregularity;
- standards of conduct and arrangements for the prevention and detection of corruption; and
- its financial position.

Systems of internal control

Statement on internal control ("SIC")

The SIC provides details of the internal control environment and risk management and control frameworks. No significant weaknesses have been included in the statement of internal control. Internal audit have completed work in accordance with the annual audit plan and concluded in their annual report that "we are able to provide substantial assurance in respect of the Department's risk management, control and governance arrangements".

Management obtained evidence through its annual internal assurance programme to support the assessment of the operation of the system of internal control. Each responsible officer is required to submit signed statements of assurance to their line managers, ultimately resulting in each area office and corporate director providing a statement of assurance to the Crown Agent to assist in his preparation of the SIC. This process is formally reported to the audit committee. No significant control weaknesses were reported through this process.

Governance arrangements

The excess fares issue discussed above had not been brought to the attention of the management board during 2006-07, following first identification in summer 2006. Had this issue been brought to the attention of finance staff earlier in the financial year, appropriate budgetary control measures could have been taken to minimise the effect on the Department's final outturn.

We understand that the director of finance post is likely to be vacant for a number of months. There is a risk that strategic and high level control of the finance division may suffer in the absence of a director of finance.

Risk management

The Department has strong risk management processes. Fiscal areas and corporate divisions maintain their own risk registers which inform the Department risk register maintained by the area fiscals group. Area and directorate risk registers detail the risk priority and ownership for the risk, a risk management action plan and evidence of regular review and monitoring of the profile and action plan. 'Key risk indicators' ensure that there is an early warning mechanism to support the risk management process. The Department risk register focuses on risks relating to its reputation, the achievement of financial objectives, the ability to make successful policy and maintain operational effectiveness and the risk to technological and estates infrastructure. This is subject to regular review by the management board and audit committee.

Internal audit

Internal audit is provided by the Scottish Executive's Audit and Accountancy Services who have completed work in accordance with the annual audit plan and concluded in their annual report that *"we are able to provide substantial assurance in respect of the Department's risk management, control and governance arrangements"*.

Their programme of work included a number of compliance audit reviews of individual procurator fiscal offices. To increase our understanding of the business, we attended one of these reviews alongside internal audit to observe both the scope of the audit review and the controls in place at individual offices.

'Limited' assurance was provided in respect of the compliance review of Dunfermline Procurator Fiscal Office. Internal audit identified a number of relatively minor weaknesses in relation to controls over productions. A follow up review of this office is to be undertaken in 2007-08.

Management share internal audit's opinion that matters arising from these reviews do not have a significant impact on the overall assessment of the internal control environment.

Internal controls

In accordance with our plan we undertook detailed testing in relation to both entity-level and key financial controls. Our work in this area included consideration of the principal accounting systems to assess whether the related controls were designed appropriately and operating effectively to prevent or detect a material misstatement of the accounts and review of the IT control environment. Our findings were reported in our management report issued on 10 May 2007 which was presented to the audit committee.

We undertook a review of IT general controls around risks associated with the Kypera payment management system and the SUN accounts general ledger. We made six grade two recommendations and one grade three recommendation in respect of the IT general control environment, all of which were accepted by management.

A high level review of the Future Office System, the Department's electronic workflow and document management system, was also undertaken. This involved interviewing staff responsible for access to the system, program change and program development. No significant weaknesses were identified in the operation of the system, but it was noted that there were some issues raised by the GSI audit performed for the Department by DNS Limited which need to be addressed if the organisation is to continue to maintain its GSI membership status.

Our testing of the design and operation of controls over significant risk points suggests that, subject to some minor weaknesses reported, such controls are designed appropriately and operating effectively. We reported some areas where the control environment could be enhanced in our interim management report.

Prevention and detection of fraud and irregularity

There is a formal whistleblowing policy governing the procedures to be followed in the event of a fraud or suspected fraud. Where management are made aware of a suspected serious fraud, the internal fraud response group is convened to co-ordinate an investigation. Membership of this group includes the deputy chief executive, the head of internal audit, a senior civil servant such as an area procurator fiscal and the director of finance and/or the departmental counter fraud specialist. The group will regularly brief the Crown Agent as chief executive and accountable officer on the progress of their work. Less serious allegations of fraud are investigated by an investigating officer, who is an accredited counter fraud specialist within the internal audit unit. The investigating officer will report findings to the chief executive and deputy chief executive.

We understand that the Department intends to put in place arrangements to inform the chair of the audit committee of any allegations of fraud as they arise.

Standards of conduct

All Department staff operate under the Civil Service Code which sets out expected standards of behaviour based upon the core values of the Civil Service. The Department has its own "Staff Handbook" which is a comprehensive source of human resources policies and procedures. New employees are required to confirm that they have been introduced to the handbook as part of the induction process. The handbook is widely available to all staff via the intranet.

Financial position

The 2006-07 reportable spend, including capital and revenue, shows a net underspend against funding of £4,000 (2006: £1.7 million overall underspend). An underspend of £0.632 million against operating expenditure was used to support the capital programme, which shows a £0.628 million overspend for the year.

The balance sheet at 31 March 2007 reports net assets of £13.6 million (2006: £9.6 million). This increase is principally due to investment in tangible fixed assets, including refurbishment of Ballater Street, Glasgow, investment in new software particularly related to the Future Office System, and the purchase of new vehicles.

The allocated budget for 2007-08 is £100.6 million, of which £5.9 million relates to capital expenditure and £94.7 million for revenue expenditure and for which detailed budgets have been prepared.

Performance management

Overall arrangements

There are strong performance management arrangements in place. The Scottish Ministers set performance targets for the Department for each spending review period. As the Department's activities are demand-driven, the Department has no control over inputs and so targets are generally based on the time taken to process cases. The five targets set for 2006-07 have been exceeded and the results are published on the Department's website.

An independent inspectorate is being established from 2007-08 which will look at a range of activities across business areas, with an objective of achieving long term quality targets. This should enhance performance management arrangements for the Department.

Performance against key targets is monitored by the management board on a monthly basis through a "health check" report which summarises aggregate performance against each key target, and highlights those areas which have either missed the target or where performance has decreased by more than 10% over the previous quarter.

A quick guide to the health check report is included with management board papers to ensure that all board members have the information available to interpret the report's results.

Review of minutes of both the management board and the area fiscals group has identified that the Department's performance against its targets was considered at each meeting through review of these reports.

The monthly financial report presented to the management board by the director of finance also incorporates a narrative overview, with significant variances highlighted as "health warnings" in a similar style to the health check report.

Best Value

The Department was subject to an overview assessment of the arrangements to secure Best Value in 2005-06. Audit Scotland issued a report to the Department in November 2006, detailing the findings of their work. Six out of the 10 areas included in the review were found to be 'well developed' to secure Best Value, with the remaining four areas regarded as 'under development' (responsiveness and consultation, sustainable development, equal opportunities arrangements and joint working).

Efficient government

Targets set by the Scottish Executive for 2005-06 and 2006-07 have been met or exceeded. In 2006-07 management reported cash releasing efficiency savings of £3.35 million (target £3.25 million), and time releasing savings of £0.47 million (target £0.3 million). Similar target levels have been set for cash and time releasing savings for 2007-08. Progress towards targets is reported during the year to the management team, with an annual report to the Lord Advocate by the director of finance at the end of the year.

