



INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Crown Office and Procurator Fiscal Service

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

Year ended 31 March 2010

15 July 2010

AUDIT

Contents

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- Executive summary
- Introduction
- Annual accounts
- Use of resources
- Governance and accountability

About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of only the Crown Office and Procurator Fiscal Service and is made available to Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

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Annual accounts and financial position

Following approval of the accounts on 15 July 2010 we issued an audit report expressing an unqualified opinion on the accounts and regularity of transactions for the year ended 31 March 2010. Those accounts reported an overspend of £0.21 million and underspend of £0.75 million for revenue and capital expenditure, respectively. This has allowed the Crown Office and Procurator Fiscal service ('COPFS') to achieve the Scottish Government's aspiration for COPFS of an overall underspend of £0.5 million for the year.

COPFS has reported achieved efficiency savings of £4.7 million for 2009-10 against the Scottish Government target of £4 million. The organisation maintains continuous monitoring for its three efficiency programmes, using a combination of internal data collection processes and quality indicators, to ensure that quality of service is maintained or improved following achievement of efficiency savings.

The 2010-11 budget, based on resources approved by the Scottish Parliament, amounts to £119.9 million, comprising a revenue allocation of £112.7 million and a capital allocation of £7.2 million. This represents a marginal increase of £0.7 million in the revenue budget (from the original budget of £112 million) and 7% increase in the capital budget. Going forward there continues to be uncertainty over future financial allocations due to the current economic and political environment. As a result, management is restricted in its formation of long term strategies and it is essential that it continues to undertake scenario planning and review of cost bases for future years to mitigate against the risk of reductions in the quality of service due to potential reductions in available financial resources.

Use of resources

Management continue to implement robust reviews of performance against key business performance targets set by the Scottish Ministers. During 2009-10 all targets were achieved or exceeded. Performance management arrangements are being strengthened through the implementation of a new management information system that will increase the timeliness of up to date data and provide additional resources for benchmarking analysis between local area offices.

Management have approved the implementation of the Phoenix project to replace the current case management system. Development of the system began during 2009-10 and is anticipated that the new system will go live in 2011-12. Consequently, management have recognised that the current system will become obsolete and has accelerated amortisation of the related intangible asset to ensure that the carrying value of all non relevant systems that will not be integrated into the new Phoenix system are completely amortised by 31 March 2011.

Corporate governance and accountability

Corporate governance structures remain consistent with the prior year. During 2009-10 a compliant corporate risk register has been developed which identifies six corporate risks, supported by a number of underlying risk criteria. These have been assigned to senior risk owners responsible for ensuring effective action is taken to mitigate each risk.

Management has established procedures to consider national reports published by Audit Scotland. Following a recommendation in our interim management report, management has demonstrated good practice by completing self-assessments, where applicable, against reports issued during 2009-10.

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("The Code"). This specifies a number of objectives for our audit.

Audit framework

This year was the fourth of our five-year appointment by the Auditor General for Scotland as external auditors of the Crown Office and Procurator Fiscal Service ("COPFS"). This report to COPFS and the Auditor General provides our opinion and conclusions and highlights significant issues arising from our work. We outlined the framework under which we operate, under appointment by Audit Scotland, in the audit plan overview discussed with the audit committee earlier in the year.

The purpose of this report is to report our findings as they relate to:

- the **accounts** and our audit opinions on net operating costs and the regularity of transactions;
- **use of resources**, including the financial outturn for the year ended 31 March 2010 and financial plans for 2010-11 and beyond;
- arrangements around **governance and accountability**, including risk management, partnership working and our consideration of the work of internal audit; and
- **performance management** and COPFS's arrangements to achieve efficiency savings.

Best Value

Audit Scotland and the Scottish Government have been committed to extending the Best Value audit regime across the whole public sector for some time now, with significant amounts of development work having taken place during the last year. Using the Scottish Executive's nine best value principles as the basis for audit activity, Audit Scotland selected five areas as priority development areas (use of resources, governance and risk management, accountability, review and option appraisal, and joint working). Management intends to utilise the toolkits available from Audit Scotland to carry out a self-assessment of priority development areas during 2010-11.

International financial reporting standards

The 2007 Budget had announced that central government and health bodies would report under International Financial Reporting Standards ("IFRS"), as adapted by HM Treasury through the financial reporting manual ("FRm"). The accounts for the year ended 31 March 2010, including comparative information for 2008-09, have been prepared on the basis of the FRm.

Responsibilities of the Accountable Officer and auditors

External auditors do not act as a substitute for the Accountable Officer's responsibilities for putting in place proper arrangements to account for the stewardship of resources made available to her and COPFS's 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 to make arrangements to secure Best Value.

Action plan

This report includes an action plan containing areas for development or improvement identified during our accounts audit fieldwork. We have not repeated recommendations raised in reports issued during our earlier work in respect of our 2009-10 audit. Responsibility for taking action and monitoring progress in response to all our recommendations lies with management.

Acknowledgement

We wish to record our appreciation of the continued co-operation and assistance extended to us by your staff during our work.

Background – overview of activities

COPFS is a service of the Scottish Government, headed by the Lord Advocate, responsible for the prosecution of crime in Scotland, the investigation of sudden or suspicious death and the investigation of complaints against the police. COPFS comprises two distinct elements: the Crown Office, which comprises the operations group responsible for prosecutions in the High Court and the corporate services group that provides policy and operational support services; and 11 territorial groupings headed by an area procurator fiscal, accountable for the quality and timeliness of legal decision making in their local area. COPFS also provides a dedicated victim information and advice service which offers support to victims, bereaved relatives and vulnerable witnesses.

A strategic plan is in place covering 2009-12. This sets out the current aims and priorities of COPFS, which are set against the backdrop of a number of legal reforms in recent years, changes in patterns of criminal behaviour and developments in the organisation's business practices. The strategic plan reflects the organisation's underlying aim to serve the public interest at all times and to prosecute cases independently, fairly and effectively. However, strategic plans and future developments are reliant on funding being maintained at current levels and there may be restrictions in planned service developments if funding allocations are reduced in future years.

COPFS has seen an increase in total costs year on year of £9.6 million. The increase in costs includes overall increases of 9.8% and 8.3% in respect of on payroll costs and administration costs. The increase in payroll costs reflect the impact of pay rises and increased staff numbers during 2009-10. The increase in administration costs arises from a number of individually significant movements including; increases in accommodation costs as a result of general increases in rent and rates through inflation and the renewal of leases, and an increase in costs associated with supplies and services as a result of accelerated amortisation of intangible assets included within the future office system case management system and consultancy costs for the ongoing Phoenix project.

A continuous improvement strategy for COPFS was implemented in May 2006 which included five key actions for securing continuous improvement. Following the launch of the strategy, management have noted a large number of projects that were carried out at local level without sufficient consideration of priority which had resulted in mismanagement of resources. During 2009-10, the continuous improvement strategy has been realigned to prioritise improvement projects identified during the last three years and to allow for any future identified improvement projects to be included in a prioritised timetable. Furthermore, each area fiscal has been allocated a portfolio of services and assigned responsibility for identifying and implementing improvements in their own areas. A portfolio guidance intranet site is under development which will provide resources to ensure a streamline approach to portfolio management.

During 2009-10 COPFS was re-accredited with *Investor in people* silver status. The organisation remains committed to developing its staff and continues to provide a variety of learning resources to enhance staff training and development. These include provision of e-learning modules and sponsor run qualifications and certificates in prosecution studies. Personal development plans form a key part of annual performance management processes. There is, however, no formal process to provide linkage between learning and development and individual personal development plans. Management are considering the introduction of an area matrix which would assist in identifying and prioritise learning and development needs on an area-wide basis.

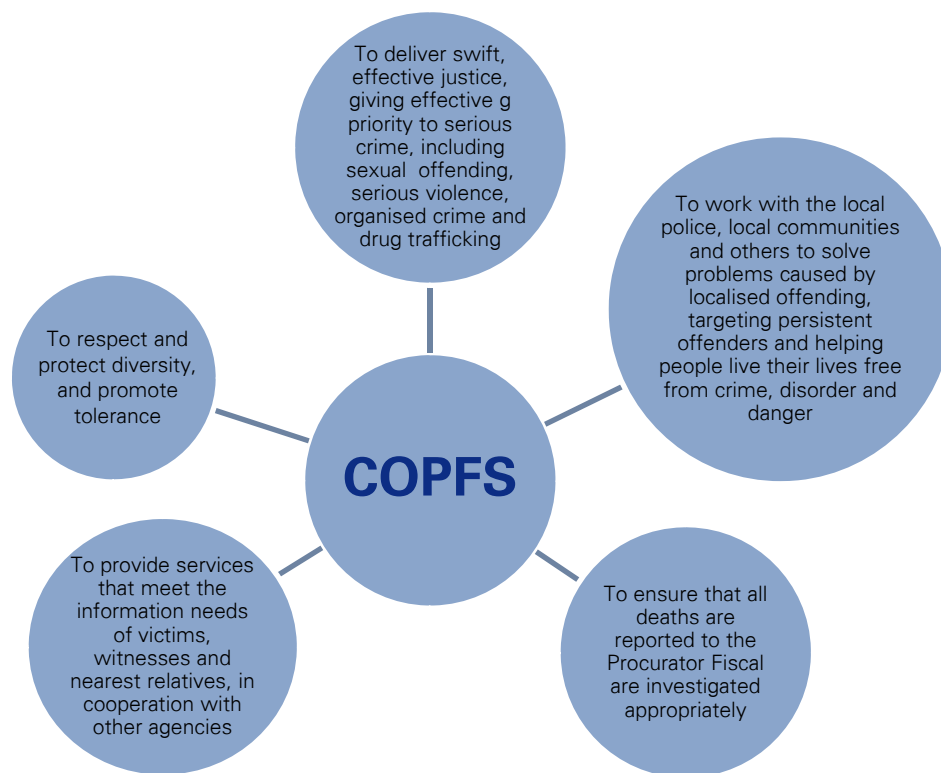
Work remains ongoing over the deployment of staff in respect of potential reductions in financial allocations by the Scottish Government and management is considering how excess costs may be absorbed within current budgets in the event of any significant reduction in available funding.

Background - overview of activities (continued)

COPFS is committed to contributing towards the National Performance Framework. Overlaying this is the Scottish Government’s purpose “To focus Government and public services on creating a more successful country with opportunities for all of Scotland to flourish, through increasingly sustainable economic growth.” The work of COPFS contributes to several of the national outcomes, in particular:

- We live our lives safe from crime, disorder and danger;
- We have improved the life chances for children, young people and families at risk;
- We have strong, resilient and supporting communities where people take responsibility for their own actions and how they affect others; and
- Our public services are high quality, continually improving, efficient and responsive to local peoples needs.

Management has approved a business plan for 2010-11 which outlines the following key objectives that will assist contribution toward these outcomes:



The key objectives are supported by 10 key priorities, as outlined at Appendix 1, for area and Crown Office divisions. The focus for 2010-11 is on ensuring that quality of all work is maintained and where necessary improved whilst ensuring that COPFS continues to deliver efficiency savings.

Management has introduced a new self-assessment programme to ensure continuous quality checking resources are available to the organisation’s various divisions. It is intended that efficiency savings achieved will be reallocated during 2010-11 to meet the increase in priorities identified as necessary to deal with serious crime and in further meeting the needs of communities across Scotland.

Achievement of the business plan in 2010-11 will be challenging due to the impact of ongoing summary justice reform; continued partnership with various organisations, including police bodies and the Scottish Court Service will be key to ensure support is available to maintain performance against these objectives in future years.

We have issued unqualified opinions on the accounts and the regularity of transactions reflected in those accounts.

We have assessed all key risk areas as documented in our audit plan overview and did not identify any significant issues that would impact our audit opinion. We did not identify any further key risk areas during our audit of the accounts.

We have considered the specific requirements of a number of financial circulars, particularly those in relation to remuneration and procurement, and did not identify any instances of non-compliance. There were no issues arising as a result of our work on regularity.

Reporting arrangements and timetable

In accordance with COPFS's timetable, draft annual accounts were available for audit on 2 June 2010, in advance of the agreed start date for audit fieldwork. This allowed for timely completion of the audit and consideration and approval of the accounts by the deadline of 12 July 2010.

Audit opinion

Following approval by the accountable officer, we issued an audit report expressing unqualified opinions on the accounts for the year ended 31 March 2010 and on the regularity of transactions reflected in those accounts.

Key issues arising during our audit of the accounts

Our audit plan overview and interim management report narrated potential key risk areas and we identified additional risk areas during our audit of the accounts. We have concluded our work in each area and summarise the results below.

Financial position

At the March 2010 meeting of the corporate issues sub group, it was reported that COPFS was forecasting underspends of £0.45 million and £0.31 million for capital costs against the Scottish Government targets of £112.79 million and £6.7 million, respectively. The finalised position is an overspend of £0.21 million for revenue costs and a £0.75 million underspend for capital expenditure. The reported overspend was unanticipated by management and was a result of under forecasting within the ISD and estates divisions. Discussions with management highlighted that there is lack of a monitoring function within the estates division over current spending levels.

Recommendation one

We considered potential lack of controls over year end expenditure and reflected this in our audit approach. We performed substantive analytical procedures and detailed testing as part of our final audit to obtain assurance over the financial position reported within the final accounts and did not identify any significant issues impacting the reported results.

Annual accounts (continued)

Application of International Financial Reporting Standards as interpreted by the International Financial Reporting Manual (FReM)

The Scottish Government announced on 25 April 2008 that all Scottish Government departments, executive agencies, non-departmental public bodies and health boards would report under IFRS from 2009-10, necessitating the restatement of comparative information under new accounting policies.

As part of the process of transition to IFRS, COPFS prepared 'shadow accounts' which we reviewed and reported on in Autumn 2009. Our review identified a number of issues which required further consideration by management. Each of these has subsequently been actioned.

The transition to reporting under IFRS has resulted in the following key changes in accounting policies and reporting:

- Accounting policies have been updated in line with the FReM;
- Short-term employee benefits – an accrual has been made for untaken holiday pay at the balance sheet dates;
- Finance leases – the terms of the leases for accommodation at Ballater Street, Glasgow and Cameronian House, Hamilton and have been assessed to be finance leases and accordingly been recognised on the balance sheet.

There have also been significant changes to the overall presentation of the accounts to reflect the disclosure requirements of the FReM.

We did not identify any further key risk areas during our audit of the accounts.

Regularity of transactions

In accordance with our responsibilities within the *Code*, we provide an opinion on COPFS's annual accounts and, as required by relevant authorities, the regularity of transactions. We reviewed appropriate guidance over the preparation and content of the annual accounts.

We have considered the specific requirements of a number of financial circulars, particularly those in relation to remuneration and procurement, and did not identify any instances of non-compliance. There were no issues arising as a result of our work on regularity.

We updated our understanding of performance management arrangements in relation to the performance targets set out in COPFS's 2009-10 business plan. The results of this review are documented within the performance section of this report.

Service organisations

The monthly payroll function of COPFS is outsourced to Logica CMG, an independent third party. A service level agreement is in place between the bodies which defines the services provided and the anticipated timing of service delivery for each month.

We have reviewed and tested the control arrangements in place for the monitoring and processing of payroll expenditure to obtain positive assurance over the controls implemented by COPFS, for ensuring the quality and integrity of the information processed by Logica CMG. We did not identify any significant areas of weakness during our audit work.

COPFS met its financial targets. The total reportable spend for 2009-10 includes revenue spend of £113.00 million and capital spend of £5.95 million. This represents a total underspend of £0.54 million when compared with funding for the year of £119.49 million. The underspend for the year reflects COPFS commitment to return £0.5 million of funding to the Scottish Government.

The approved 2010-11 budget amounts to £119.9 million, including a revenue allocation of £112.7 million and a capital allocation of £7.2 million.

Management have reported achieved efficiency savings of £4.7 million against a target of £4 million for 2009-10. COPFS has a cumulative target of £6 million efficiency savings for 2010-11. Management are confident that this target will be achieved. However, targets for each of COPFS's three efficiency programmes have still to be finalised by management.

COPFS has implemented effective arrangements for the review and reporting of key performance indicators to management. Quality control procedures are in place to assess the quality of information provided by its various offices across Scotland. COPFS exceeded all key performance indicators set out by the Scottish Ministers for 2009-10.

We have considered COPFS's IT controls, and from review of associated supporting evidence, we have concluded that the design, implementation and operating effectiveness of these controls is effective, subject to minor recommendations to be reported to the audit committee.

Financial position

Performance against financial targets was as follows:

£' million	Allocation	Original forecast spend (June 2009)	Actual spend	Underspend/ (overspend)
Revenue	112.79	111.46	113.00	(0.21)
Capital	6.70	6.33	5.95	0.75
Total	119.49	117.79	118.95	0.54

The total reportable spend for 2009-10, including capital and revenue, is £118.95 million which is a net underspend of £0.54 million when compared with funding for the year of £119.49 million.

As a result of budgeted reductions in planned capital expenditure, £0.5 million was not adjusted through the Autumn or Spring Budget revision mechanism and COPFS was requested to work towards an underspend of this amount. The tables below shows the revised allocations and movements contributing towards the overall results for the year against management's revised expectations.

Financial management

Revenue			
Movement	£'million	Movement	£'million
Forecast outturn June 2009	0.54	Revised forecast outturn (December 2009)	0.35
Decrease in forecast staffing costs	0.02	Movement in final staffing costs	1.27
Decrease in forecast office and administration costs	0.19	Movement in final office and administration costs	(0.35)
Increase in forecast case related costs	(0.19)	Movement in final case related costs	0.71
Increase in forecast centrally managed expenditure	(1.00)	Movement in final centrally managed expenditure	(1.58)
Autumn budget revision(Proceeds Of Crime Act funding/IFRS)	0.79	Movement in final operating income applied	(0.61)
Revised forecast outturn (December 2009)	0.35	Outturn per accounts	(0.21)

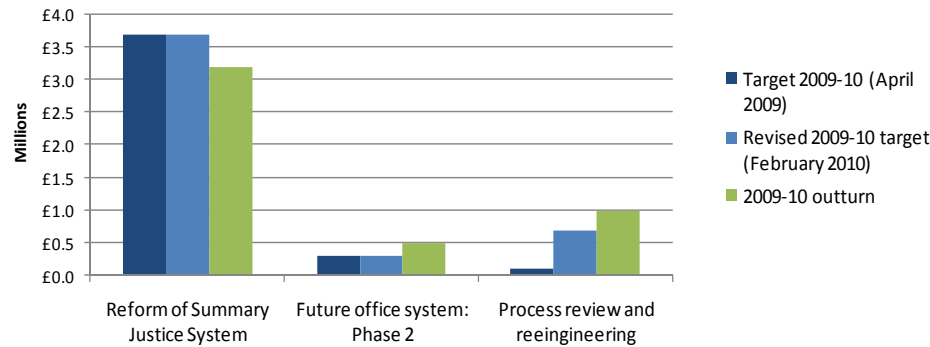
Capital			
Movement	£'million	Movement	£'million
Forecast outturn June 2009	0.37	Revised forecast outturn (December 2009)	1.10
Revision to estates planned capital expenditure	(0.49)	Movement in final estates capital expenditure	(0.35)
Revision to IT planned capital expenditure	1.22	Movement in final IT capital expenditure	-
Revised forecast outturn (December 2009)	1.10	Outturn per accounts	0.75

Efficiency savings

The Scottish Government issued the "*efficient government programme for 2008-09 – 2010-11*" which details the background to efficient government, its application in various sectors, the types of savings and the method of reporting efficiencies.

COPFS is subject to achieving continued recurring efficiency savings of 2% (£2 million) each year. Three efficiency programmes have been identified by management to contribute required savings.

For 2009-10 outturn reported to the Scottish Government is as follows.



COPFS is required to submit quarterly monitoring to the Scottish Government indicating progress against the efficient government programme and any anticipated changes to year end forecasts. As at April 2009 the forecast targeted savings for 2009-10 was £4 million. Following submission of the quarter three monitoring return the forecast was revised to £4.7 million. This followed identified an increase in forecast savings from process review and engineering of £0.7 million following additional savings identified from the procurement collaborative savings exercise. Savings from Reform of Summary Justice System were £0.5 million lower than anticipated due to the actual volume of cases during 2009-10 not resulting in as high a saving as previously anticipated by management,

An explanation of the three efficiency programmes identified by management is documented below.

Efficiency programmes ¹

Reform of Summary Justice System

More efficient disposal of cases by making increased use of alternatives to prosecution and by trying some cases in lower level courts eg. cases previously held in sheriff courts may be heard in district courts, at lower cost.

Future office system: Phase 2

The future office system project is a case management system that is designed to record the main business process of case marking, case tracking and disposal across all COPFS activities. The first phase covered initial case marking and the second phase extends to full case processing for summary cases.

Process review and reengineering

The review, and where desirable, reengineering of processes e.g. a review of the processes for delivering staff training has led to the establishment and full utilisation of the Scottish Prosecution College (leading to savings as courses are run more cost effectively) and the development of e-learning, which will further reduce travel and trainer costs. In addition, further cost savings are envisaged through greater use of video conferencing and ongoing development of other business processes.

¹ Extracts taken from COPFS efficiency delivery plan 2008-11 return submitted to the Scottish Government efficient government team

Financial management (continued)

Efficiency savings (continued)

Progress against the three efficiency programmes is reported regularly to the management board at monthly meetings. The director of finance, as delegated project manager for the three programmes, maintains ongoing dialogue with portfolio managers in order to detect any anticipated changes to targets, or obstacles that could impact the overall success of each programmes and its respective target savings.

Monitoring arrangements have been set up for each programme using internal data collection processes, such as COPFS and Scottish Court Service statistics. Quality indicators are also in place to ensure that quality of service is maintained or improved following achievement of efficiency savings.

COPFS has a cumulative target of £6 million for 2010-11. Management have still to finalise targets for each of the three efficiency programmes for 2010-11. However, management has reported to the Scottish Government that it does not anticipate any problems in achieving this target. It is recommended that targets be finalised for each of the three efficiency programmes to ensure that sufficient arrangements are in place to achieve the required Scottish Government target.

Recommendation two

Financial planning

Resources for 2010-11, as approved by the Scottish Parliament, amount to £119.9 million, including a revenue allocation of £112.7 million and a capital allocation of £7.2 million. This represents a marginal increase of £0.7 million in the revenue budget (from the original budget of £112 million) and 7% increase in the capital budget. The allocation for solemn cases (the prosecution of serious, complex and organised crime including the prosecution of terrorism, murder, serious assaults, sexual offences, drug and people trafficking, fraud and the confiscation of proceeds of crime) has increased by £7.1 million (2.4%), victim information and advice services allocation has increased by £1.3m (41.9%), non-court allocation has increased by £0.3 million (1.7%) offset by a decrease of £0.7 million (5.8%) in summary action and decrease of £0.5 million (11.6%) for investigation of deaths.

The increase in funding for victim and information advice services reflects the upward trend in the number of victims requiring support, as publicised in recent years, while the decrease for summary casework is indicative of the anticipated cumulative efficiencies arising from the implementation of summary justice reform. This reform seeks to maximise efficient usage of the courts system and reduce the number of less serious offences brought to court.

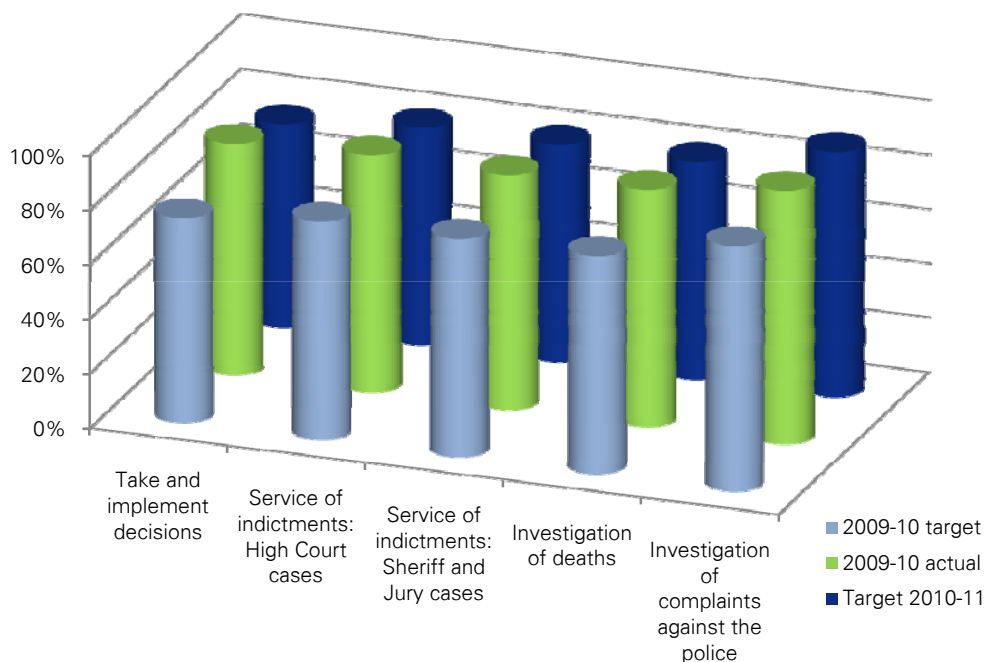
Procurement

Procurement by COPFS is required to be carried out in line with Scottish Government procurement guidance. Procurement resources within the organisation have been outsourced to the Scottish Government Procurement Directive. Consequently, there is no separate procurement officer within the organisation and all procurement is undertaken through joint services with the procurement directorate. During 2009-10 COPFS paid 98.1% of invoices within the terms of its payment policy.

Financial management (continued)

Performance against targets in 2009-10

For 2009-10, COPFS exceeded all key performance indicators set out by the Scottish Ministers as illustrated below. Definitions of these five key performance indicators are noted at appendix two.



Performance is monitored on an ongoing basis at all levels of management within COPFS. Performance statistics are collated and reported on monthly to the management board and also published quarterly on a service-wide basis. Budget reports are also submitted to the corporate issues sub-group each month and to the management board quarterly.

The management board is responsible for meeting key performance indicators. Performance against targets is reported on a monthly basis to the management board.

The information for these reports is collated on a monthly basis, with data being extracted from the monthly statistics reports from COPFS's operational offices throughout Scotland. A monthly 'Health check' report provides a 'snapshot of the position, combining work in progress and a high level summary of performance against targets as at the date of data extraction. All performance information collated throughout 2009-10 was used to summarise each office's individual performance against targets.

On a monthly basis the quality of data received from the operational offices is reviewed and evaluated. Data is graded as either 'good', 'scope for reduction' or 'work required on data quality'. Where there are issues detected with data quality, this is reported back to the operational office, which is charged with the responsibility of reviewing COPFS's 'housekeeping' manual to ensure that all data processing is being carried out in line with COPFS's underlying procedures. All operational offices are also requested to ensure staff making errors are trained properly.

During 2009-10 business intelligence for target monitoring has been enhanced to provide a 'drill down option' which allows management to consider additional commentary on any failure to achieve targets by local offices.

As part of our audit fieldwork we reviewed the data quality report for 2009-10. On a month to month basis where data quality was marked as either 'scope for reduction' or 'work required on data quality', there was evidence of a continuous reduction in the score through the year, showing continual improvement, and providing evidence that feedback on quality issues is addressed throughout the year.

Replacement of the Future Office System ('Phoenix project')

The Phoenix project was initiated by management to replace the current 'future office system' (caseload management system) as there was uncertainty over the long term suitability of the current system due to a number of its software elements becoming outdated and for which there is no longer readily available technical support. It was also recognised that the organisation would benefit from a single system with improved performance that could provide analysis over a number of key areas including solemn, deaths and appeals using a consistent approach. Management identified that this could not be achieved from further development of the existing system.

Development of the replacement system ('Phoenix') has remained largely in line with management's expectations and the new system is expected to be ready for launch across the organisation during 2011-12, at which point the future office system will become obsolete. Consequently in line with International Accounting Standard 8 'Accounting Policies, Changes in Accounting Estimates and Errors' management have amended the useful life of the future office system to allow the carrying value to be fully amortised by 31 March 2011.

The total anticipated budget for the Phoenix project is £9.4 million, of which £5.1 million is expected to be incurred during 2010-11. This will be funded from COPFS's capital allocation from the Scottish Government. No other significant capital expenditure is planned for 2010-11 and, therefore, management does not anticipate any issues with affordability for the project.

Management anticipates that, following the launch of the new system, that there will be scope for delivering further efficiency savings. However, once the system is brought into use there is anticipated to be a significant annual amortisation charge that will be required to be absorbed within funding allocations which may present a risk to achievement of future spend against revenue allocations.

Key risks

As a result of the current economic and political environment there is inevitably ongoing uncertainty over the scale of future funding allocations. The nature of COPFS's services and uncertainty over annual case numbers means that overall funding requirements are, to some extent, unpredictable and the organisation must react to current levels of service and balance spending against cases put forward for prosecution.

Consequently, management are restricted to short term financial strategies and there is a risk that there may be restrictions in planned service developments if funding allocations are reduced in future years. To mitigate against reduced funding, budget holders are already being encouraged to routinely seek out further cost reduction opportunities and to identify additional efficiency savings. Management has undertaken discussions over long term financial strategy scenarios and analysis of cost bases for the next three years. However, these are at too early a stage to provide significant assurance over how the organisation will address future business and financial planning issues.

Management arrangements

As the external auditors of COPFS, we review those systems of internal control that may be considered to be material in relation to the opinion on the accounts. We therefore conducted an IT general controls review of key financial systems in April 2009 in order to evaluate whether these IT controls were appropriately designed and were operating effectively. The results of the review provided an assessment of the general IT control environment underpinning the key financial systems, the risks associated to any deficiencies identified and recommendations on how these can be mitigated by management going forward.

Where required or appropriate, as a result of these findings, we have amended the extent of audit procedures required as part of our substantive audit work on the accounts.

General IT controls reviews were undertaken for the following in-scope systems:

- SUN Accounts; and
- Kypera payment management system.

As part of the approach, a general IT controls review was performed across the key financial systems covering the following specific areas:

- access to programs and data;
- program changes;
- program development; and
- computer operations

Based on our consideration of IT controls, the above areas, and associated supporting evidence, the design, implementation and operating effectiveness of these controls is effective, subject to minor recommendations to be addressed by management.

Partnership working

COPFS works closely with a number of partner organisations – including councils, police bodies, prisons and the Scottish Courts Service – to ensure effective and efficient service delivery. Key partnership arrangements are run through a variety of bodies including the National Criminal Justice Board and Information Systems Criminal Justice in Scotland.

COPFS and police activities are complementary and regular dialogue and co-operation enables problems and issues to be dealt with efficiently and effectively. The Procurator Fiscal has an investigative role and is able to provide instructions and directions to the police in connection with their investigations. This is relevant to serious cases, where the police work very closely with the Procurator Fiscal. In cases of sudden, suspicious and unexplained deaths, the Procurator Fiscal has responsibility during the early stages of the investigation to arrange a post mortem examination by forensic pathologists.

A number of working groups are run in conjunction with partners to review the progress and outcome of legal cases and to identify and mitigate against key risks with current working practices

Key developments during 2009-10 include the establishment of an expert group comprising COPFS, the police, general practitioners and voluntary organisations to consider issues relating to sexual health and sexual offences.

Corporate governance arrangements

We considered the corporate governance arrangements and, combined with the work of internal audit, have concluded that the framework has been designed and implemented appropriately.

Our testing, combined with that of internal audit, of the design and operation of controls over significant risk points confirms that, with the exception of some weaknesses noted, controls are designed appropriately and operating effectively.

The statement on internal control provides details of the purpose of the system of internal control, the risk and control framework and the effectiveness of this framework. The statement complies with the Scottish Government's guidance.

Management has established procedures to consider individual national reports published by Audit Scotland and demonstrated good practice by completing self-assessments, where applicable, against reports issued during 2009-10.

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.

The Crown Agent, as accountable officer, 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 corporate governance arrangements as they relate to:

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

Governance framework

COPFS governance framework includes three main governance groups: management board; area fiscals group; and the corporate issues sub-group ("CISG"). The terms of reference for each group/committee detail decision-making powers and delegated responsibility. These are as follows:

- management board: primary responsibility for the organisation, management and leadership and for setting the strategic direction;
- area fiscals group: responsibility for operational policy and business issues; and
- corporate issues sub-group: responsibility for ensuring that COPFS is organised and managed in the most effective way ensuring that corporate service policies and ways of working best meet the business needs of the organisation.

The work of the governance groups are supported by meetings of the audit committee which provides an oversight of the organisation's activities in terms of internal control and audit arrangements.

Corporate governance arrangements (internal audit)

Governance framework (continued)

COPFS is committed to a risk management strategy that utilises a system of internal controls aimed at minimising risk to, whilst maximising opportunities for, the delivery of its objectives. During 2009-10 a compliant corporate risk register has been developed which identifies six corporate risks, supported by a number of underlying risk criteria, which have been assigned to senior risk owners responsible for ensuring effective action is taken to mitigate each risk.

Going forward, the corporate risk register will be subject to review by the area fiscals group, management board and audit committee on a rolling quarterly programme. Local fiscal offices will be expected to develop local risk register using the same framework and work is underway to develop a risk management sheet for individual cases which management hope will be adopted across the organisation.

Internal audit

Internal audit's annual plan for 2009-10 consisted of 14 main risk-based audits and five follow up reviews. Seventeen of the 19 internal audits were carried out in 2009-10, with the remaining deferred until 2010-11. There were no significant factors contributing to the delay in these planned audits and their deferral was a result of revised schedules agreed with management.

As part of their professional consultancy and advisory role, internal audit also carried out two reviews during 2009-10 over COPFS's 'pool car policy' and finance compliance processes. We have not placed any reliance on work carried out as part of this consultancy and advisory role. While this additional work has been undertaken in 2009-10, the internal audit plan does not routinely cover Best Value considerations.

As in 2008-09, we have concluded that we are able to place formal reliance on the findings of internal audit, in particular in relation to the programme of area office visits which are undertaken to provide assurance over the operation of controls across individual offices. As part of our audit approach we attended a compliance visit by internal audit to the Glasgow area office.

On 12 July 2010 the audit committee received internal audit's annual report, which concluded that *"on the basis of the work undertaken, the results of the work undertaken and the action taken in response to our findings, we are able to provide substantial assurance in respect of COPFS's risk management, control and governance arrangements."*

Internal controls

Since our appointment as COPFS's external auditors in 2006 we have reported identified weaknesses in the operation of key organisation wide and financial controls, some of these have been reported in more than one year. In previous years, management accepted most of our recommendations to enhance controls, but instances where controls do not operate on a consistent basis continue to arise. Areas where we have consistently identified weaknesses include controls recording and checking of cash payments made for witness expenses and authorised signatories.

Our testing, combined with that of internal audit, of the design and operation of controls over significant risk points confirms that, with the exception of some weaknesses noted, controls are designed appropriately and operating effectively.

The statement on internal control provides details of the purpose of the system of internal control, the risk and control framework and the effectiveness of this framework. In our view, the statement complies with the Scottish Government's guidance.

Prevention and detection of fraud and irregularity; Audit Scotland national reports

Prevention and detection of fraud and irregularity

During 2009-10 COPFS replaced its anti-fraud and corruption strategy with a revised fraud policy. This policy includes reference to a number of internal rules and procedures designed to ensure that financial, operational and organisational procedures are properly controlled. The policy also makes reference to seven principles of public life: selflessness; integrity; objectivity; accountability; openness; honesty and leadership, that should aid staff in mitigating against the risk of fraud. Guidance is included on the definitions of fraud and the policy details how allegations of fraud and corruption will be dealt with.

Where large or serious allegations of fraud or corruption are raised, the policy provides for the establishment of a 'fraud response group'. Membership of this group will include 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 chief executive as accountable officer on the progress of their work. The group may carry out a preliminary investigation to confirm the accuracy of the allegation made or may authorise internal audit to conduct such an investigation on their behalf. The policy states that the investigating officer for a fraud investigation should be an accredited counter fraud specialist within the internal audit unit. This will ensure compliance with the legislative framework and possession of the necessary planning, organisational, surveillance and interviewing skills. The officer is also required to declare that they have no personal relationship with the person being investigated to ensure that they are fully impartial.

Upon conclusion of the investigation, it is the responsibility of the group to decide what further action is necessary, e.g. disciplinary action, making a report to the police. The group is also responsible for ensuring that all agreed actions are implemented.

Audit Scotland national reports

Audit Scotland undertakes national studies on topics relevant to the performance of central government bodies. While the recommendations from some of the studies may have a national application, elements of the recommendations are also capable of implementation at individual organisation level, as appropriate.

In February 2010 consideration of Audit Scotland national studies was introduced as a standing agenda item for the audit committee. Review of meeting minutes provided evidence of discussion of these national studies, and where applicable performance of a self assessment.

During 2009-10 management considered reports on *Improving public sector purchasing* (July 2009), *Improving civil contingencies planning* (August 2009), *Scotland's public finances: preparing for the future* (November 2009), *Protecting and improving Scotland's environment* (January 2010) and *Improving public sector efficiency* (February 2010). Each of these reports was also considered by the audit committee, but only the report on *Improving public sector efficiency* was supported by a self-assessment paper and with plans for further reporting back to the audit committee on action being taken.

Appendix one – Priorities supporting corporate objectives

Objective	Priorities ¹
1	<ul style="list-style-type: none"> • To implement the provisions of the Sexual Offences Act and continue to improve the expertise available to the National and Area Sexual Crimes Units; • To meet disclosure obligations fully in respect of cases set for trial; and • To indict Sheriff and Jury Report cases within 6 months of first appearance on Petition whenever possible.
2	<ul style="list-style-type: none"> • To engage further with local communities, and to work with and influence local partners, in order to increase understanding of the role of the public prosecutor and improve public perception of COPFS.
3	<ul style="list-style-type: none"> • To improve the quality and timeliness of deaths investigations, ensuring cases are dealt with by appropriately trained staff.
4	<ul style="list-style-type: none"> • To meet Vulnerable Witnesses Act obligations fully in cases set for trial; • To notify victims of the outcome of cases to include cases which are disposed of by Direct Measure or No Action decisions (including No Action Meantime); and • To proactively explore eligibility and discuss proactively the use of special measures with victims or witnesses who have been identified by use of the vulnerability flag by the police or otherwise highlighted by the Fiscal when taking the initial decision.
5	<ul style="list-style-type: none"> • To respect staff: recruiting a diverse workforce that reflects the communities we serve, developing their potential to the fullest extent, valuing their contribution, fostering team work and rewarding good performance; and • To support staff in delivering a high quality, efficient and responsive service and develop enhanced roles which realise the potential of individuals more fully.

¹ Extracts taken from COPFS's business plan 2010-11

Appendix two – 2009-10 performance against targets

Target	2009-10 Actual	2009-10 target	Achieved
<p>Take and implement decisions</p> <p>Take a decision on the appropriate course of action and implement that decision in at least 75% of cases within four weeks of the date on which the report is received from the reporting agency. (NB: This target applies to all cases except those which are likely to be dealt with under solemn procedure i.e. the more serious cases, where the case is likely to be dealt with in the High Court or in the Sheriff Court before a Jury.)</p>	85% within 4 weeks	75% within 4 weeks	✓
<p>Service of indictments: High Court cases</p> <p>For High Court cases where the accused is on bail, 80% of indictments are to be served within 9 months of the accused's first appearance on petition.</p>	87% within 9 months	80% within 9 months	✓
<p>Service of indictments: Sheriff and Jury cases</p> <p>For Sheriff and Jury cases where the accused is on bail, 80% of indictments are to be served within eight months of the accused's first appearance on petition.</p>	86% within 8 months	80% within 8 months	✓
<p>Investigation of deaths</p> <p>For deaths which require further investigation, investigations should be conducted with next of kin advised of the outcome within 12 weeks in at least 80% of cases.</p>	87% within 12 weeks	80% within 12 weeks	✓
<p>Investigation of complaints against the Police</p> <p>The Investigation of complaints of criminal conduct by police officers and advise the complainer of the outcome is to be completed within 12 weeks of the date on which the report is received in at least 90% of cases.</p>	93% within 12 weeks	90% within 12 weeks	✓

Source: COPFS performance management system (unaudited)

Appendix two – action plan

Priority rating for recommendations

Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weakness may therefore give rise to loss or error.

Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.

No.	Issue and recommendation	Management response	Officer and due date
1	<p>It was noted from our discussions with management that there is lack of a monitoring function within the estates division to monitor current spending levels.</p> <p>It is recommended that management review internal procedures to ensure that regular review of spending levels within estates is maintained to mitigate against the risk of unanticipated variances in budgeted expenditure.</p> <p><i>(Grade two)</i></p>	<p>Agreed. The finance director and management accounts team are actively reviewing financial controls within the estates division to ensure robust internal processes are in place.</p>	<p>Corinne Wilson (October 2010)</p>
2	<p>COPFS has agreed to achieve £6 million of cumulative savings by 31 March 2011 as part of the "efficient government programme for 2008-09 – 2010-11". Three efficiency programmes are currently in place to achieve this target. However management are still to finalise targets for each of the three efficiency programmes for 2010-11.</p> <p>It is recommended that targets be finalised for each of the three efficiency programmes to ensure that sufficient arrangements are in place to achieve the required Scottish Government target.</p> <p><i>(Grade two)</i></p>	<p>Agreed. As part of the 2009-10 reporting, planned efficient government targets have now been set for each of the three efficient government streams in 2010-11. We have recognised a need to generate further savings under efficient government programme three, process reengineering, and have agreed to discuss further with the head of strategic delivery division to identify more specific way in which these savings can be generated.</p>	<p>David Weir (October 2010)</p>