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Crown Office and Procurator Fiscal Service

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

Year ended 31 March 2011

4 July 2011

Contents

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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 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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Overview

The Crown Office and Procurator Fiscal Service ("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 activities comprise three main groups: the operations group which prepares cases for the High Court and Court of Appeal and also contains the National Casework Division and the International Co-operation Unit; the corporate services group which has responsibility for prosecution policy and practice, business development, finance, human resources, estates, communications and IT and the strategic delivery division which has responsibility for leading on management of change in the organisation.

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. This is supported by an annual business plan which sets out the organisation's contribution to the Scottish Government's National Performance Framework.

In the present financial climate, management has identified that COPFS must look carefully at all proposed change projects ensuring that assessment is made of both the benefits to service delivery and overall value for money. To ensure sufficient scrutiny of current and future projects, senior management will, on a quarterly basis, constitute a 'change' board to consider and monitor key change projects. Furthermore, management has identified the importance of securing further efficiency savings to support longer term financial strategies, allowing COPFS to deliver core services against diminishing resources without a detrimental impact on service delivery.

The importance of continuous monitoring of change projects has been highlighted in 2010-11 with management's decision to cancel the 'Phoenix' project, a proposed replacement of the Future Office System. Through internal monitoring, management identified significant delays in project completion and escalating costs, which, in light of likely reductions in future funding, resulted in management concluding that the project was no longer viable.

COPFS met its financial targets for 2010-11, achieving an underspend of £0.98 million against a total revised funding allocation of £118.5 million. Management has continued to focus on the achievement of recurring savings required under the Scottish Government's efficient government programme for 2008-09 – 2010-11. While management is still finalising reported savings for 2010-11, they are confident that the cumulative £6 million savings target has been achieved.

COPFS continues to report achievement against key performance indicators set by the Scottish Ministers.

COPFS's governance structure was revised with the dissolution of the area fiscals and corporate issues sub-groups. The management board was revised to comprise three components: change board; strategy; and performance board; which will be rotated on a monthly basis. The purpose of this revised structure is to drive COPFS's change agenda and assist in identifying and sustaining efficiencies. The new management board will be supported by an information strategy group and people strategy group.

We have evaluated management's assessment of arrangements for achieving Best Value in relation to risk management, utilising Audit Scotland's Best Value toolkit, and found that COPFS demonstrated 'better practice' or 'advanced practice' in most of the areas assessed. Further work requires to be undertaken, specifically in demonstrating adequate monitoring of partnership risks, and in demonstrating how risk management contributes to the specific achievement of certain corporate objectives.

Headlines

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.

This report summarises our work for the year ended 31 March 2011.

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

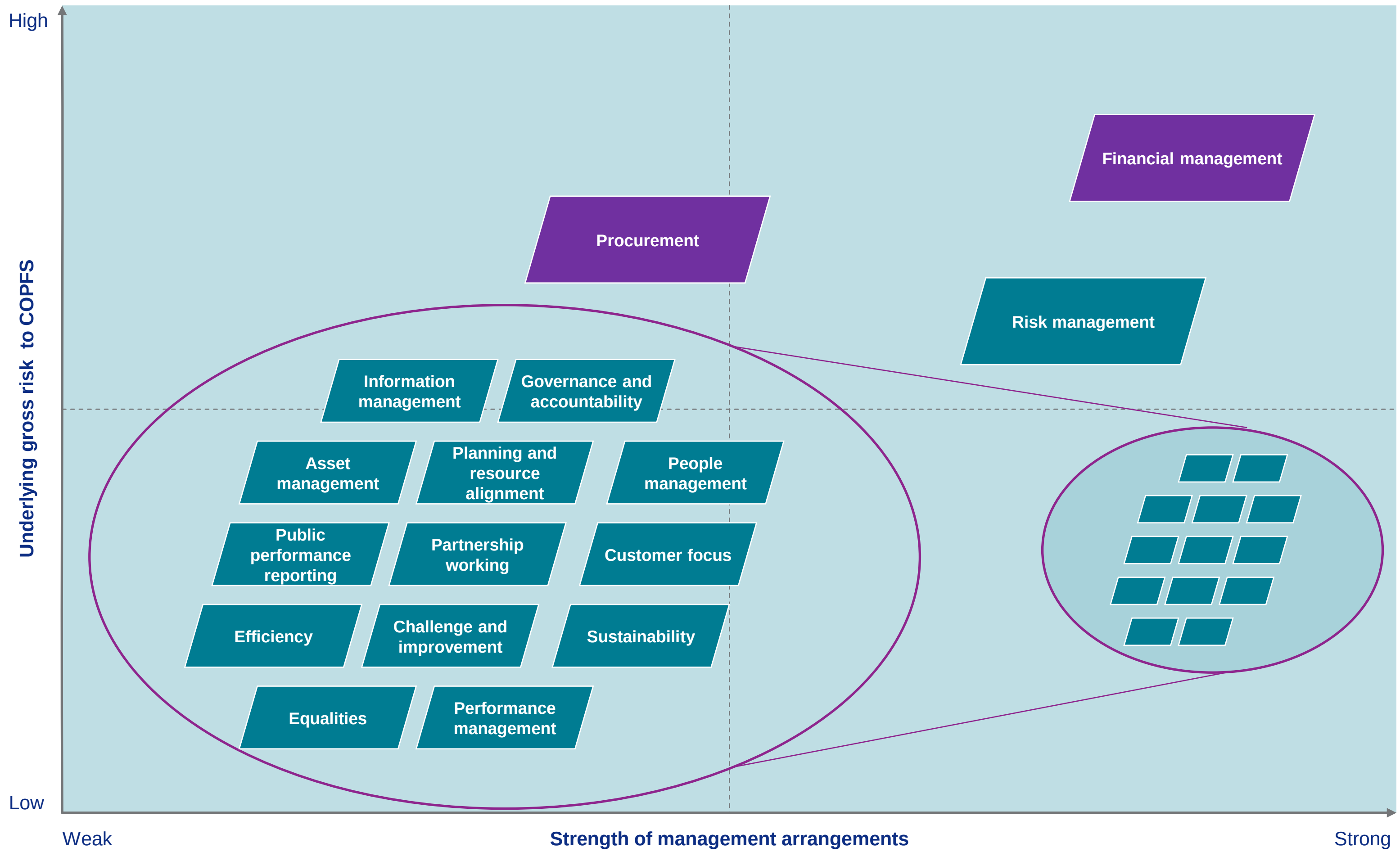
We have reported one 'high' risk recommendation within our action plan at appendix three in relation to the 'Phoenix' project.

Priorities and risks	
We have reported risks in respect of financial management as a result of uncertainty over future funding allocations. However, internal processes for preparing and monitoring financial plans should assist in reducing the likelihood and potential impact to the organisation.	Page 5
Risks continue to exist around procurement as a result of the need to allocate responsibility and accountability within COPFS for procurement performance. Management is developing a procurement strategy and action plan to assist in reducing the likelihood and potential impact to the organisation.	Page 6
Financial statements	
We have issued unqualified audit opinions on the 2010-11 accounts and the regularity of transactions reflected in those accounts.	-
No unexpected technical accounting matters were considered during the audit process. Overall, management provided good quality analysis and audit adjustments were identified with a net downward impact on the reported outturn of £72,000.	Page 8
Use of resources	
COPFS met its financial targets achieving an underspend of £0.98 million against a total revised funding allocation of £118.5 million. The underspend for the year reflects COPFS's commitment to return £0.9 million of funding to the Scottish Government.	Page 9
We validated management's completion of Audit Scotland's risk management Best Value toolkit. We agreed that arrangements were generally 'better practice', with some demonstration of 'advanced practice', matched by some areas which are still `basic' and 'under development'.	Page 12
We assessed management's response to Audit Scotland's national reports, including *Scotland's public finances, responding to the challenge* and *Improving public sector purchasing.* In the majority of areas, management is undertaking reasonable action to mitigate risks and improve processes at a local level.	Page 13
Governance	
There have been no significant changes and the statement on internal control continues to confirm the existence of a comprehensive framework of internal control.	Page 14
Internal audit concluded for 2010-11 that they were able to provide substantial assurance in respect of COPFS's risk management, control and governance arrangements.	Page 14
Arrangements to prevent and detect fraud are embedded in internal controls.	Page 14

Summary of arrangements

Competing risks and pressures continue to present new and recurring challenges. Overall, the impact of sector priorities present a high risk to COPFS.

The diagram summarises the potential underlying risks to achievement of strategic objectives, compared to the strength of management arrangements to mitigate these risks. The following pages summarises those areas where we believe that risks exist, but where management arrangements are likely to mitigate or eliminate these risks to a greater or lesser extent.



Assessment of significant risks

Continued uncertainty over future funding allocations may present a risk to service sustainability.

Developing arrangements in respect of procurement are likely to mitigate the impact of risks.

Financial management	COPFS has received formal notification of its budget allocation for 2011-12. In management's opinion, illustrative figures from the Scottish Government suggest that the budget will be fixed in cash terms up to 2014. The finance department has carried out financial modelling for 2012 and beyond. There is a risk that the organisation is unable to accommodate further reductions in future budget allocations as a result of the current financial environment. During 2010-11, in response to expected reductions in future budgets, management's pre-business planning procedures included scenario planning which was incorporated into the 2011-12 business planning process. Furthermore, business planning for 2011-12 was also brought forward to September 2010 to allow results to be agreed by November 2010. This aligned with publication of the UK Government spending review. Management intends to adopt a similar process once allocations for 2012-13 are announced by the Scottish Government.	The uncertainty over budgets for 2011-12 onwards presents an ongoing risk to COPFS and future service delivery. However, we recognise management's arrangements for monitoring budgets and achieving required savings during 2010-11.
	■ In our view, risks exist as a result of uncertainty over the levels of available future funding. However, to date, management has demonstrated past success in aligning business plans with reductions in funding allocations and achieving savings targets identified by the Scottish Government.	

Assessment of significant risks (continued)

Procurement	Procurement by COPFS requires to be carried out in line with Scottish Government procurement guidance. Procurement resources within the organisation are outsourced to the Scottish Government procurement directorate. An informal assessment was carried out in 2010 by the Scottish Government over COPFS procurement function. Following this assessment, management identified the lack of an effective corporate approach to considering, managing and reporting procurement activities and performance. Furthermore, there was no evidence of present or future planned actions to support continual improvement in purchasing practices. Responsibility for developing a response to these areas was delegated to the director of finance and a procurement strategy is being developed, which was considered by management in April 2011.	As part of their planned programme of work for 2010-11, internal audit completed a review of COPFS procurement and contract management. This included a review of current processes, procedures and guidance. Internal audit made a number of recommendations for management action. As part of our follow up of management's response to the joint Accounts Commission / Auditor General for Scotland report, Improving Public Sector Purchasing, published in July 2009, we have considered current procurement arrangements. We have issued a separate report on our findings which are summarised later in this report.
	■ In our view risks exist, but actions have been identified to address those risks.	

Accounts preparation and audit process

Management anticipated risks around the carrying value of intangible assets; no audit adjustments were required and matters were concluded in a timely manner.

A 'moderate' priority recommendation has been reported separately to management.

Areas of HIGH audit risk

Area	Value (£'000) 2010	Value (£'000) 2011	KPMG comment
Intangible assets	5,874	4,892	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, with a number of its software elements becoming outdated and with no readily available technical support. It was also recognised that the organisation would benefit from a single system with improved performance that could provide analysis, using a consistent approach, over a number of key areas including solemn, deaths and appeals. Management identified that this could not be achieved from further development of the existing 'Future Office System'. During our planning discussions, management indicated that the 'Phoenix' project had not progressed in line with plans identified during 2009-10, and, as a result of public spending restrictions, the project would be implemented on a more gradual basis. Management subsequently took the decision to cancel the 'Phoenix' project in October 2010. Management has reviewed all capitalised expenditure from the 'Phoenix' project and concluded that it is not possible to quantify the value of any enhancement to the current system arising from this expenditure. Consequently, the carrying value at 31 March 2011 of £2.3 million has been fully impaired and this impairment charge recognised within the statement of comprehensive net expenditure. Having reviewed the supporting documentation provided by management to support this treatment, we have concluded that: ■ no adjustment to the accounts was necessary as part of the audit process; and ■ financial statement disclosures in this respect are materially complete and accurate. Further commentary on the 'Phoenix' project, and the subsequent decision to cancel this programme is noted in appendix one.

Accounts preparation and audit process (continued)

Systems and controls
Preparation of the accounts: ■ Fully complete draft accounts were not available at the agreed start of the audit on 6 June 2011. This was a result of the unforeseen absence, due to illness, of the head of finance who is responsible for overall preparation of the accounts. We agreed with management to review those schedules available as the audit progressed and a completed set of accounts was made available, including incorporation of adjustments agreed with management, on 23 June 2011. The draft annual report and management commentary was presented for our consideration at the start of the audit fieldwork, in line with previous years.
Control environment: ■ Overall, management's approach to gathering data for the accounts is efficient. While there were delays in receipt of draft accounts, there is sufficient delegation of responsibilities within the finance department to ensure that financial ledger year end procedures are completed in a timely and efficient manner.

Financial position

COPFS achieved all financial targets for 2010-11.

The 2011-12 budget anticipates break even position at 31 March 2012.

Management anticipates that COPFS's targets under the efficient government programme for 2008-09 to 2010-11 will be achieved.

COPFS continues to meet key performance indicators set out by the Scottish Ministers.

Achievement of targets

COPFS achieved all financial targets for 2010-11. Management maintained its continuing commitment to the financial plan and this was evidenced by regular review of financial results. Performance against financial targets for 2010-11 was:

	Final budget allocation (£'000)	Outturn (£'000)	Variance (£'000)
Revenue	112,105	111,765	340
Capital	6,400	5,760	640
Total	118,505	117,525	980

Following completion of the 2010-11 quarter one results (June 2010), management reported a forecast total underspend of £0.9 million against the original budget allocation for 2010-11. Appendix two illustrates movements during the year in the forecast and final outturn at 31 March 2011.

Following a request from the Scottish Government, £0.8 million of the capital budget was surrendered through the Spring Budget revision mechanism and COPFS was requested to work towards an overall underspend of £0.9 million. This was subsequently achieved.

The overall result also includes the impact of impairment of £2.3 million recognised by management following cancellation of the 'Phoenix' project.

Financial planning

Resources for 2011-12, as approved by the Scottish Parliament, amount to £108.2 million, including a revenue allocation of £105.5 million and a capital allocation of £2.7 million. This represents decreases of 6% and 63% in the revenue and capital budgets, respectively.

Business planning submissions for 2011-12 indicate planned operational expenditure of £106.4 million and capital expenditure of £2.7 million. The budget reflects additional Proceeds of Crime funding above the 2010 spending review settlement. The 2011-12 budget also includes contingency elements of £0.5 million resulting in an overall break even position projected for 2011-12.

As part of budget planning for 2011-12, management has identified operational areas where there are potential staff savings. These areas have been highlighted to budget managers in advance of 2012-13 and budget managers are being encouraged to identify plans to deliver savings.

Key risks

Due to the current economic environment there is ongoing uncertainty over the scale of future funding allocations. The nature of COPFS's services, with the inherent uncertainty over annual case numbers, means that overall funding requirements are, to some extent, unpredictable and the organisation must react to the required levels of service.

Consequently, management is 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. As in 2009-10, to mitigate against reduced funding, budget holders are encouraged to routinely seek out further cost reduction opportunities and to identify additional efficiency savings.

During 2009-10 management undertook an analysis over spending levels within the organisation allocated to key categories. This analysis is being used by management to identify future areas where savings in expenditure may be achieved. Within the COPFS 2011-12 business plan, targets have been set for reducing overall spend on administration and case management costs.

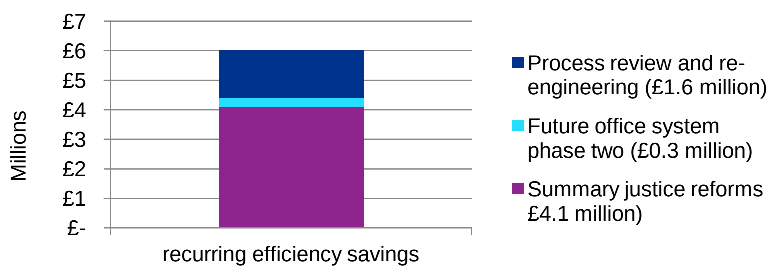
Financial position (continued)

Efficient Government

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 was subject to achieving continued recurring efficiency savings of 2% (£2 million) each year. Three efficiency programmes were identified by management to contribute the required savings. Progress against the three efficiency programmes is reported regularly to the management board. The director of finance, as delegated project manager for the three programmes, maintains periodic dialogue with portfolio managers in order to detect any anticipated changes to targets, or obstacles that could impact the overall success of each programme and its respective target savings.

COPFS submits quarterly monitoring returns to the Scottish Government indicating progress against the efficient government programme and any anticipated changes to year end forecasts. As at June 2011 management is still to confirm the final performance for 2010-11. However, management is confident that the in year target reported in March 2011 of £1.5 million has been achieved. As a result, management anticipates that the three year cumulative target of £6 million has been achieved. We have summarised savings for each efficiency programme below.



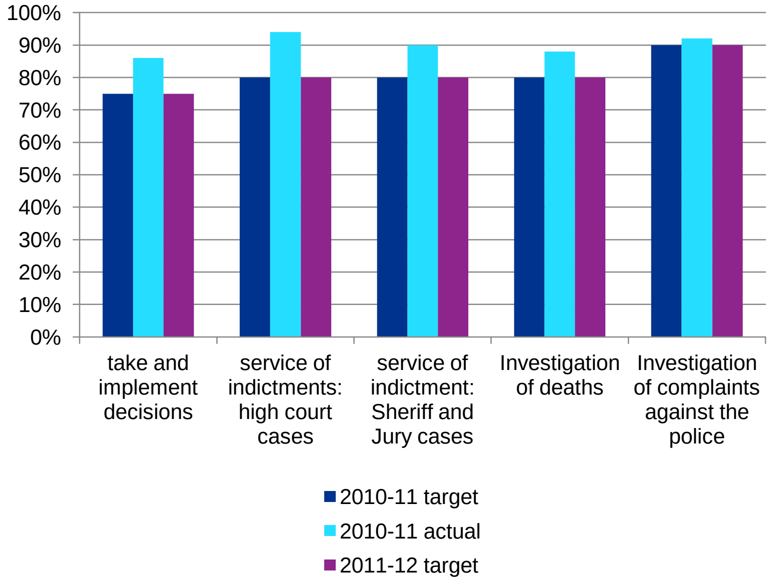
An explanation of the three efficiency programmes identified by management, as outlined in COPFS efficiency delivery plan 2008-11 return submitted to the Scottish Government efficient government team, is documented below.

Process review and re-engineering	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.
Future office system phase two	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.
Summary justice reforms	More efficient disposal of cases by making increased use of alternatives to prosecution and by trying some cases in lower level courts e.g. cases previously held in sheriff courts may be heard in district courts, at lower cost.

Financial position (continued)

Performance against key performance indicators in 2010-11

For 2010-11, COPFS exceeded all key performance indicators set by the Scottish Ministers as illustrated below.



Performance is monitored on an ongoing basis at all levels of management within COPFS. The management board is responsible for meeting key performance indicators and arrangements for monitoring and taking corrective action against failings remained consistent with 2009-10.

Indicator	Definition
Take and implement decisions	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.) **2010-11 Target: 75% within 4 weeks** **2010-11 Actual: 86% within 4 weeks**
Service of indictments: High court cases	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. **2010-11 Target: 80% within 9 months** **2010-11 Actual: 94% within 9 months**
Service of indictments: Sheriff and Jury cases	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. **2010-11 Target: 80% within 8 months** **2010-11 Actual: 90% within 8 months**
Investigation of deaths	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. **2010-11 Target: 80% within 12 weeks** **2010-11 Actual: 88% within 12 weeks**
Investigations of complaints against the police	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. **2010-11 Target: 90% within 12 weeks** **2010-11 Actual: 92% within 12 weeks**

Best Value

Arrangements within COPFS in relation to risk management demonstrated 'better practice' or 'advanced practice' in most of the areas assessed.

Further work requires to be undertaken, specifically in demonstrating adequate monitoring of partnership risks, and in demonstrating how risk management contributes to the specific achievement of certain corporate objectives.

COPFS's approved risk management framework sets out the main policy and practice followed within the organisation. Following further review of arrangements during 2010-11, COPFS demonstrates `advanced' practice through the visibility now given to risk management within the organisation.

The management board meets on a three-monthly cycle, with risk management an element of the `strategy' cycle meeting. The renamed audit and risk committee also has risk management as a standing agenda item to oversee the processes established by COPFS. A risk management workshop is being held on 11 July to provide further focus on the current risks to the organisation.

Risk registers are now in place across 18 of the 25 cost centres, and so there remains some work to fully embed arrangements through all levels of the organisation.

More work needs to be done to use risk management to help recognise opportunities to the organisation as `positive risks', and to mitigate potentially `over-cautious' behaviour.

The business planning round considers assessment of risks at each stage. Major projects, or capital spend, requires detailed risk analysis submissions. The quality of risk details can be further improved in order to demonstrate consistent `advanced' practice.

Through financial awareness seminars, provided throughout the business, all staff who expressed an interest in risk management training have now been provided with that training.

The risk management framework evaluates risk through consideration of financial impact, service quality and the impact on COPFS' reputation, with senior risk owners identified against each risk. The risk registers will be part of the management board's quarterly review of risk within the strategy meeting.

More work needs to be done to establish contingency arrangements for residual risk as, while the process is in place, there is the opportunity for more reliable contingency arrangements to be established where there is a residual risk to service delivery.

At this time, there is limited evidence that the development of enhanced risk management arrangements contributes specifically to achievement of corporate objectives. Management consider that the demonstration of this will be through the continued delivery of principal activities and achievement of operational targets, while financial resources are under significant pressure.

A clear mechanism needs to be established to evaluate the cost effectiveness of risk management and to demonstrate that risk management arrangements have contributed to the delivery of corporate priorities, in order to bring COPFS' arrangements up to `better' or even `advanced' practice.

Monitoring reports are prepared on the identified key risks, and actions are being taken to mitigate these risks. `Advanced' practice would involve more explicit consideration of the overall risk appetite of the organisation, that is, in respect of `how many key risks is acceptable', carrying what cumulative residual risk to service delivery.

There is a limited awareness of the extent to which partners are successfully managing partnership risks which they can influence. More work could be done to establish agreements which detail each individual partnership organisation's responsibilities in respect of risk management.

Audit Scotland national reports

Management has established procedures to consider and respond, where applicable, to individual national reports issued by Audit Scotland.

Audit Scotland national reports

Audit Scotland periodically 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.

Audit Scotland's corporate plan 2009-12 reinforces a commitment to maximising the impact of their work and demonstrating this impact. As part of this process, external auditors are required to provide information on how bodies respond to national performance audit reports.

Consideration of Audit Scotland national studies remains a standing agenda item for the audit committee. Review of meeting minutes provided evidence of discussion of national studies.

We have been requested to consider one study published during 2010-11, *Improving energy efficiency: a follow-up report* and will submit a brief return, in July 2011, to Audit Scotland on COPFS's response.

Scotland's public finances: responding to the challenge

Audit Scotland published *Scotland's public finances: preparing for the future* in November 2009 and commenced a follow-up review, *Scotland's public finances: responding to the challenge* in December 2010.

We met with management to discuss the information requested and submitted a return on 17 January 2011. This included details of the projected budget for the next three years, the estimated savings required and the areas where those savings would be most significant.

Improving public sector purchasing

In 2010-11 a more targeted follow-up was required in respect of the COPFS's actions following publication of the joint Accounts Commission / Auditor General for Scotland report, *Improving Public Sector Purchasing* published in July 2009.

The aim of this follow-up work is to assess how well public bodies are doing to ensure that they can demonstrate value for money when purchasing goods and services.

We have considered COPFS's current arrangements in relation to procurement and management's response to recommendations. We have issued a separate report to management with our findings. We have recommended that management consider the following areas where there is scope for further efficiency or improvement:

- finalisation of the procurement strategy and risk assessment of identified action plans;
- identification, implementation and monitoring of key performance indicators in relation to procurement;
- formal allocation of responsibility and accountability for procurement functions to responsible officers; and
- formal allocation of responsibility and accountability to those charged with governance for monitoring procurement performance.

Corporate governance framework and supporting arrangements

Over-arching and supporting corporate governance arrangements have been revised to ensure continued provision of a sound framework for organisational decision-making.

Corporate governance framework	Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of good corporate governance – openness, integrity and accountability – apply to all bodies. Through its chief executive, COPFS 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. In March 2011 COPFS's governance structure was revised with the planned dissolution of the area fiscals and corporate issues sub-groups. The management board was revised to comprise three components: change board; strategy; and performance board; which will be rotated on a monthly basis. The purpose of this revised structure is to drive COPFS's change agenda and assist in identifying and sustaining efficiencies. The new management board will be supported by an information strategy group and people strategy group. Internal audit's work plan for 2011-12 includes a review of COPFS's revised corporate governance arrangements.
Statement on internal control	The statement on internal control provides details of the purpose of the framework of internal control, along with an analysis of its effectiveness. This statement is in compliance with guidance issued by the Scottish Government.
Internal controls	Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls are designed appropriately and operating effectively. However, as part of our interim management report we highlighted some areas for improvement in order to strengthen controls over ledger reconciliations, authorised signatory lists, journal documentation and amendments to payroll data.
Internal audit	Internal audit's annual plan for 2010-11 consisted of ten main risk-based audits and five follow up reviews. Ten of the 15 planned internal audits were carried out in 2010-11, with the remaining deferred until 2011-12. 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. On 4 July 2011 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.*"
Fraud and irregularity	We evaluated the procedures and controls related to fraud as being designed and implemented effectively. COPFS has a fraud policy which includes reference to a number of internal procedures designed to ensure that financial, operational and organisational procedures are properly controlled. We have obtained representations from the accountable officer that all known or suspected instances of fraud were disclosed to us during the audit. There were no material instances of fraud reported during 2010-11.

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Appendices

'Phoenix' project

In August 2009 the management board approved an outline business case to develop a replacement system for the Future Office System ("FOS"). FOS is supported under a service contract with an external third party. In September 2009, management requested the new system using a change request. The third party's project methodology would deliver project 'Phoenix' in three stages: 'inception'; 'elaboration'; and 'construction'.

Following 'inception', an estimated price of £4 million was agreed for system development: £2.1 million fixed price for 'elaboration' and an estimated £1.9 million for 'construction'. Payments would be made as nine key milestones were achieved. Management projected total spend of around £10 million, including data migration, learning and development, data licences and system archiving, of which £6.9 million would be capitalised.

Responsibility for monitoring progress was delegated to the COPFS transition board which considered progress monthly, against agreed milestones, by the third party. COPFS commissioned an independent technical review of the 'inception' stage which concluded that the project was 'sound'.

The third party's estimated timetable anticipated that 'elaboration' (milestones one to four) would be completed by 11 June 2010. However, milestone two was completed around one month behind schedule and the fourth milestone in the 'elaboration' stage was approved by management on 18 August 2010, two months behind the planned timetable.

Using the gateway process management highlighted ongoing project issues, including some dissatisfaction with the third party's performance. Management reports that assurances were obtained from the third party over the 'soundness' of the project, but there is little evidence of formal assurances being requested or received.

In July 2010 management identified that system requirements would be around 40% greater than originally estimated. This was expected to delay completion until May 2011, at the earliest. In light of this, and earlier delays, management recognised the project's increasing and unanticipated complexity. At that time, management requested that the third party revise the project plan.

The third party undertook additional work to re-assess project costs and timing and to identify solutions. In October 2010, the third party's cost estimate totalled around £11 million (including £9 million for 'construction', compared to the initial estimate of £1.9 million), phased over a longer four year timeframe. Management identified a risk that actual costs may exceed the £11 million estimate.

In September 2010 management anticipated that the UK Government comprehensive spending review would reduce capital allocations in 2011-12, and in subsequent years. COPFS's capital allocation for 2011-12 is £2.7 million which represents a £4.5 million reduction in the initial capital allocation available to COPFS in 2010-11. Indicative future annual capital funding may be around £2 million. In this context, management considered the revised project cost estimate to be unaffordable, and, taking into account significant revisions to the timetable, management decided to cancel the project. Consequently, £2.3 million of previously capitalised expenditure was impaired and charged to revenue in addition to a total of £355,000 charged to revenue during 2009-10 and 2010-11.

Management recognises that, as the 'Phoenix' project progressed, a number of issues contributed to significant potential increases in cost and estimated delays in project delivery.

It is important that, despite the lack of completion of the 'Phoenix' project, a formal detailed post project analysis to identify both project specific and general areas for improvement, together with areas of good practice is undertaken. This should build on the independent gateway health check that was undertaken, following management's decision to cancel the project.

‘Phoenix’ project (continued)

In our view management should ensure that the review covers the following:

- procurement arrangements, including the extent to which underlying assumptions and third party methodologies were tested and assessed prior to implementation;
- project management, including the role of, and relationship with, the third party, timeliness of communication and reporting, existence and robustness of quality control arrangements and the extent to which the project was owned by COPFS and / or the third party; and
- governance arrangements, particularly in respect of value for money and the role of COPFS operational staff and senior management.

Recommendation one

August 2009
Approval of business case for ‘Phoenix’ project by management board

November - December 2009
Completion of ‘inception’ phase of project by third party. Total cost £600,000 (excl VAT).
Agreement of ‘elaboration’ and ‘construction’ phase timetable, anticipated completion of project - March 2011

January - April 2010
Payment of milestones 1-3 totalling £1.4 million (excl VAT). Management noted progress overall to be good.
Completion of milestone 3 past due date by 18 days. ‘Construction’ stage plan published

May 2010 –
‘Big picture session’ held to run through programme business processes. In anticipation of potential budget cuts, management emphasised importance of project being completed by early 2011. Completion date revised to September 2010 from June 2010.

June - July 2010
Demonstration of use case functionality by third party. Project progressing, but behind planned timescales. Expected project completion date revised by third party to May 2011. Management express disappointment at revisions to timescale.

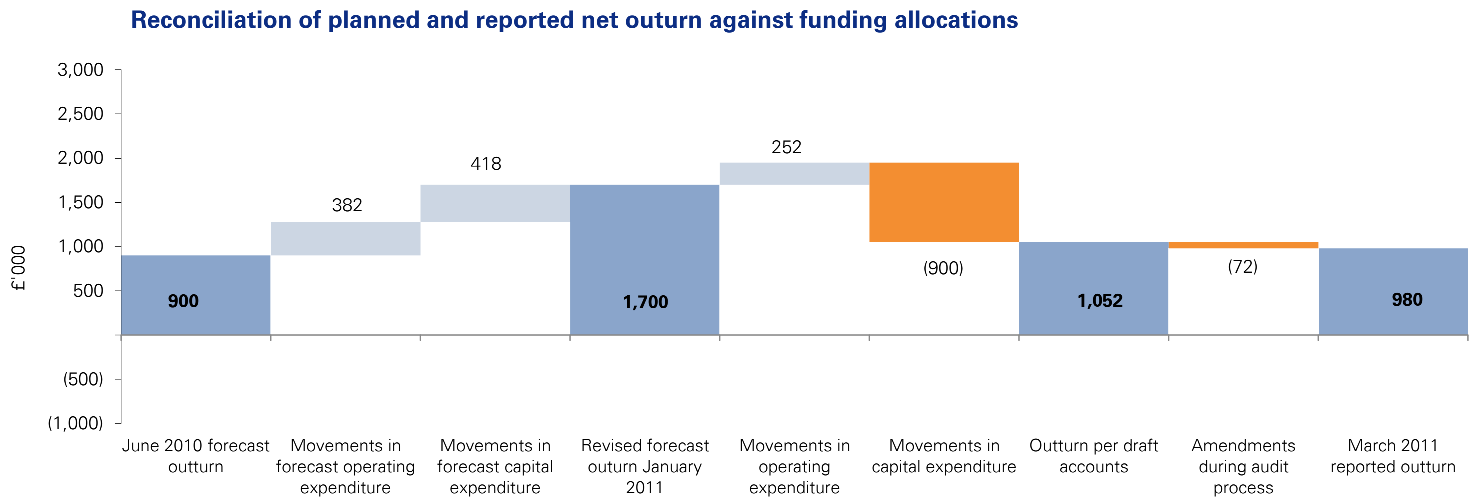
August 2010
Management discuss potential issues arising from complexity of project.
Completion of ‘elaboration’ stage by third party. Milestone payment 4 of £650,000 (excl VAT).

September 2010
Management note concerns over quality of delivered project.
Consultation period to decide whether to proceed with ‘construction’ extended from five days to six weeks.

October 2010
Third party present revised estimated costs for ‘construction’ stage. Two options presented £9 million for full go-live or £10.8 million for phased introduction. Anticipated completion date extended to 2013.

October 2010
Cancellation of ‘Phoenix’ project through change request to third party.

Analysis of movements in forecast and reported outturn for 2010-11



Note: movements in capital expenditure between January 2011and March 2011 include a required surrender to the Scottish Government of £0.8 million capital funding giving an actual movement against forecast of £0.1 million.

Action plan

The action plan summarises specific recommendations, together with related risks and management's responses.

- **High risk issues are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.**
- **Moderate risk issues have an important effect on internal controls, but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately, but the weakness remains in the system.**
- **Low risk issues would, if corrected, improve the internal control in general, but are not vital to the overall system. These are generally issues of best practice that we feel would be of benefit to you if introduced.**

Ref	Issue and risk	Recommendation and risk	Management response
1	During 2010-11, management decided to cancel the 'Phoenix' project. Consequently, £2.3 million of previously capitalised expenditure was impaired and charged to revenue. There is a risk that both project specific and general areas for improvement, together with areas of good practice, are not identified.	It is important that, despite the lack of completion of the 'Phoenix' project, management undertakes a formal detailed post project analysis to identify both project specific and general areas for improvement, together with areas of good practice. In our view, such a review should include: ■ procurement arrangements, including the extent to which underlying assumptions and third party methodologies were tested and assessed prior to implementation; ■ project management, including the role of, and relationship with, the third party, timeliness of communication and reporting, existence and robustness of quality control arrangements and the extent to which the project was owned by COPFS and / or the third party; and ■ governance arrangements, particularly in respect of value for money and the role of COPFS operational staff and senior management. **High risk**	Agreed. Management will commission a further review to cover the three points identified. **Responsible officer**: deputy chief executive **Implementation deadline**: 31 December 2011

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