

Crown Office and Procurator Fiscal Service & the Queen's and Lord Treasurer's Remembrancer

Annual report on the 2011/12 audits



Prepared for the COPFS, QLTR and the Auditor General for Scotland
November 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Key messages	5
Crown Office and Procurator Fiscal Service 2011/12	5
Queen's and Lord Treasurer's Remembrancer 2011/12	6
Outlook.....	6
Introduction	7
Financial statements	8
Audit opinion	8
Accounting issues	9
Outlook.....	9
Financial position	10
Financial results	10
Financial planning to support priority setting and cost reductions	12
Outlook.....	13
Governance and accountability	15
Corporate governance.....	15
Prevention and detection of fraud and irregularities.....	17
Standards of conduct and arrangements for the prevention/ detection of bribery and corruption	17
Outlook.....	17
Best Value, use of resources and performance	18
Management arrangements	18
Overview of reported performance in 2011/12.....	19
National performance reports	20
Outlook.....	21
Queen's and Lord Treasurer's Remembrancer (QLTR)	23
Introduction	23
Financial statements	23
Financial position	24
Governance and accountability	24
Appendix A: audit reports	26

Key messages

Crown Office and Procurator Fiscal Service 2011/12

The financial challenges facing the Scottish public sector are well documented, with public bodies facing deep and prolonged cuts in funding. In 2011/12 we assessed the key strategic and financial risks being faced by the Crown Office and Procurator Fiscal Service (the COPFS) and the Queen's and Lord Treasurer's Remembrancer (QLTR). We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

The COPFS is a service of the Scottish Government, headed by the Lord Advocate, responsible for the prosecution of crime in Scotland, investigation of sudden death or suspicious death and the investigation of complaints against the police. The COPFS also provides a dedicated victim information and advice service which offers support to victims, bereaved relatives and vulnerable witnesses.

Financial statements

We have given an unqualified opinion on the financial statements of the COPFS for 2011/12. We have also concluded that in all material respects, the expenditure and income shown in the financial statements were incurred and applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.

The COPFS had an obligation to make payments to a number of individuals in respect of injury benefits. The estimated cost associated with this class of obligation has been recognised as a provision of £770,000 as at 31 March 2012. On the basis that such an obligation existed as at 31 March 2011 and that this had not been recognised in the accounts in previous years, a prior year adjustment has been made to opening balances. We were content that this was appropriate.

Financial position and use of resources

The COPFS's net operating costs during 2011/12 were £105.6 million and capital expenditure was £2.7 million, an underspend of £1 million against the total budget of £109.3 million. We found the COPFS budget setting and monitoring arrangements to be satisfactory.

The COPFS anticipates that spending in 2012/13 will remain within budget which has been set at £104.5 million for revenue and £3.6 million for capital.

Governance and accountability

In 2011/12 we concluded that the COPFS had sound corporate governance structures in place. We examined the organisation's key financial systems underpinning the organisation's

control environment and concluded that they operated sufficiently well for us to place reliance on them.

The COPFS has recently undertaken a significant restructuring of its organisation moving from an area based structure to one organised around Federations and functions. It is recognised that this will take some time to bed-in and the effectiveness of the revised structure should be kept under review.

Performance and best value

The COPFS has reported that it has met all of its performance targets set for 2011/12. Absolute performance levels were down on those reported in previous years in four of five key measures. This may be an early indication that the financial environment may be beginning to have an impact on aspects of overall performance.

The COPFS aims to foster a culture of continuous improvement with a number of arrangements in place to secure best value.

Queen's and Lord Treasurer's Remembrancer 2011/12

We have given an unqualified opinion on the financial statements of the QLTR for 2011/12.

Due to the increased number of claims in relation to older *Ullitmaes Haraes* estates (where a person has died without making a will) outgoings have been at a much higher level than in previous years. The management of the associated funds has been adjusted accordingly.

Outlook

Future budgets are reducing in real terms, presenting continuing challenges for the organisation as it works to maintain and improve performance from fewer resources. It has made good progress in reducing costs and reshaping the organisation, but further significant cost reduction is likely to become increasingly difficult.

The Scottish Government is consulting on proposals to reform and modernise the system for the investigation and prosecution of crime in Scotland, implementing the recommendations of the Carloway review. At this stage there is some uncertainty as to how this will ultimately impact on the COPFS, in particular in terms of the costs of implementing the planned reforms and the extent to which these will require to be met from current budgets.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audits of the Crown Office and Procurator Fiscal Service (the COPFS) and the Queen's and Lord Treasurer's Remembrancer (QLTR). The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model. The findings from our QLTR audit are reported in a separate section.
2. A number of reports have been issued in the course of the year, some of which include recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of the COPFS and the QLTR.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the COPFS and the QLTR understand their risks and have arrangements in place to manage these risks. The Accountable Officers, and other members of the board, should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to the COPFS, the QLTR and the Auditor General and should form a key part of discussions with the Audit and Risk Committee, as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the Audit and Risk Committee.
6. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
7. The assistance and co-operation given to us during the course of our audit work is gratefully acknowledged.

Financial statements

8. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
9. We are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income.
10. We review and report on, as appropriate, other information published with the financial statements, including the management commentary, governance statement and the remuneration report (the COPFS only). We also review and report on the Scottish Government Consolidation Pack incorporating the Whole of Government Accounts return for the COPFS. This section summarises the results of our audit on the financial statements.
11. The following comments relate to our audit of the Crown Office and Procurator Fiscal Service. We comment on the performance of the Queen's and Lord Treasurer's Remembrancer in a separate section.

Audit opinion

12. We have given an unqualified opinion that the financial statements of the COPFS for 2011/12 give a true and fair view of the state of the body's affairs and its net operating cost for the year.
13. The COPFS is required to follow the 2011/12 Government Financial Reporting Manual (the FReM) and we confirmed that the financial statements have been properly prepared in accordance with the FReM. We also confirmed that relevant parts of the remuneration report had been properly prepared and that information given in the management commentary was consistent with the financial statements.
14. We also reviewed the governance statement and concluded that this complied with Scottish Government guidance.

Regularity

15. We confirmed that the expenditure and income in the financial statements was in accordance with applicable legislation and Ministerial guidance, the Budget Act for 2011/12 and legislation governing sums paid out of the Scottish Consolidated Fund.

Accounting issues

Accounts submission

16. The COPFS's financial statements were submitted for audit on 18 May 2012, in accordance with a pre-agreed timetable. The on-site fieldwork was completed on 15 June 2012. Issues arising from the audit were reported to the Director of Finance on 8 June 2012 and discussed at a clearance meeting on 13 June 2012. Minor issues have been discussed and agreed with finance staff throughout the audit. Our ISA 260 report was presented to the Audit and Risk Committee on 27 June 2012. There were no unadjusted errors.

Prior year adjustments

17. The COPFS's financial statements required a prior year adjustment in relation to the creation of a provision for injury benefits. The COPFS identified in 2011/12 that they have an obligation to make payments to a number of individuals in respect of injury benefits. The estimated cost has been recognised as a provision of £770,000 in the 2011/12 financial statements. On the basis that the obligation existed as at 31 March 2011 a prior year adjustment has been made to opening balances. We were content that this was appropriate.

Consolidation templates

18. A draft consolidation pack, including supporting notes workbook and Whole of Government Accounts submissions, which was prepared in accordance with the financial statements was received on 10 July 2012. The entity certificate was signed by the Director of Finance on 20 July 2012. The completed templates, together with our assurance statement, were submitted to the Scottish Government on the same date, a few days later than the Scottish Government's agreed timetable.
19. We noted in our assurance statement to the Scottish Government that we did not have an opportunity to audit counter-party information due to the late inclusion of this information in the consolidation pack. The COPFS should ensure that all information is included in the return prior to submission for audit.

Refer Action Plan No. 1

Outlook

20. There are no significant changes to the 2012/13 FReM that are expected to have an impact on the COPFS's 2012/13 annual financial statements.

Financial position

21. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
22. We consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
23. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

Annual outturn

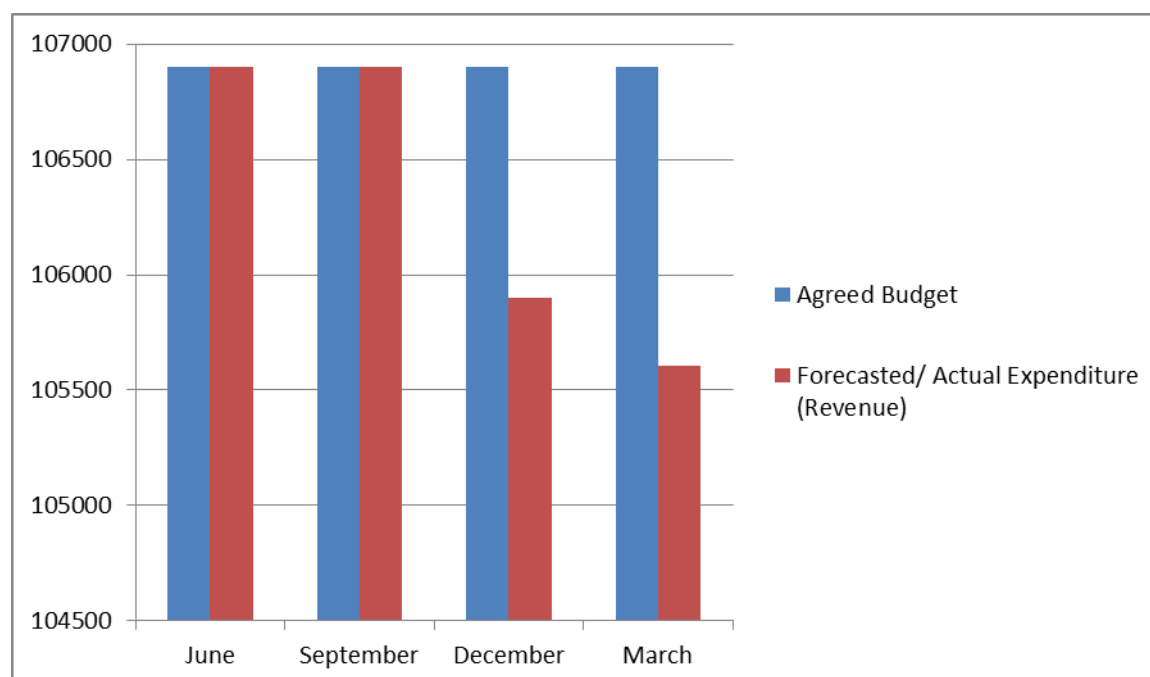
24. The COPFS's net operating costs during 2011/12 were £105.6 million and capital expenditure was £2.7 million. Cash funding of £102 million was received from the Scottish Consolidated Fund and cash balances decreased by £2.1 million.
25. Net operating costs have decreased by £7 million (6.2%) since 2010/11. Staff costs decreased by £1.8 million (2.5%) and other administrative costs decreased by £5.2 million (12.4%). Spending on operating costs was within the final budget set of £106.6 million, an underspend of £1 million.

Budgetary control

26. The COPFS reported a net underspend of £1 million (1%) against the statutory budget of £109.3 million. The latter comprised operating costs of £105.5 million and capital expenditure of £2.7 million. In addition to the running cost allocation, the COPFS received £1.1 million from the Scottish Government specifically for Proceeds of Crime Act related activities. The Scottish Government has confirmed that £0.7 million could be carried forward to fund work on double jeopardy and cold cases with the balance of £0.3 million being held as a contingency.
27. The COPFS's capital budget for 2011/12 was reduced by £4.5 million (62.5%), compared to the previous year, to £2.7 million. The capital budget was spent in full, of which £2.5 million was on IT equipment and related software.
28. We have reviewed the COPFS's budget setting and monitoring arrangements, which were found to be satisfactory. Senior management receive budget monitoring reports (finance reports) on a regular basis with adequate explanation of key variances against budget. During

the financial year, the COPFS has taken a number of steps in seeking to ensure continued operational delivery with reduced funding, including a fundamental restructuring of the organisation. Actual expenditure against anticipated outturn position throughout the year is shown in Exhibit 1 below. This shows that the final outturn position was in line with that anticipated earlier in the year.

Exhibit 1: The COPFS revenue budget against forecasted/ actual expenditure



Source: *The COPFS finance reports and audited financial statements 2011/12*

Financial position

29. The statement of financial position shows a net asset position of £15.1 million as at 31 March 2012. This compares to a net asset position of £17.2 million the previous year, reflecting the reduced level of capital expenditure in 2011/12 and the disposal of old IT equipment. Exhibit 2 shows how the reduction in net assets in the statement of financial position is represented in the movement on reserves.

Exhibit 2: The COPFS reserves as at 31 March

Description	31 March 2012 £ million	31 March 2011 (restated) £ million	2011/12 Reserves Movement £ million
General Fund	7.353	9.141	(1.788)
Revaluation Reserve	7.702	8.028	(0.326)
Total Reserves	15.055	17.169	(2.114)

Source: The COPFS audited financial statements 2011/12

Public reporting

30. Some commentary on the underlying financial picture is summarised in the annual report sections of the annual report and accounts document. This is available on the COPFS' website at www.copfs.gov.uk. There is scope to expand financial commentary in future years to explain more fully the financial pressures facing the organisation and how these have been managed during the year.

Financial planning to support priority setting and cost reductions

31. The Scottish Government publication *Spending Review 2011* sets out the COPFS's spending plans for 2012-15. The COPFS undertook scenario planning exercises in anticipation of a challenging Spending Review settlement. This exercise helped the COPFS to identify various options for working within the reduced funding made available to them. The allocation of funding to the COPFS as part of the Spending Review is shown in Exhibit 3 below.

Exhibit 3: The COPFS funding allocations 2012-2015

	2012/13 £ million	2013/14 £ million	2014/15 £ million
Running costs	104.5	104.5	105.1
Capital	3.6	3.6	3.6
Total	108.1	108.1	108.7

Source: The COPFS audited financial statements 2011/12

Workforce reduction

32. The COPFS's Workforce Strategy Group has been in place since the start of 2010/11 and has had responsibility for managing the total headcount and associated costs in order to help meet budgetary pressures. The group focuses on providing a strategic framework rather than management of individual business cases. This approach aims to allow federation management teams to respond to operational and budgetary pressures as appropriate.
33. Forty three members of staff successfully applied for the civil service compensation scheme during 2011/12 at a net cost of £2.5 million to the COPFS (forty employees left in 2010/11 at a cost of £1.7 million).
34. There has also been a significant reduction in the number of agency, temporary/ contract staff and trainees employed during 2011/12 in comparison to 2010/11, resulting in a reduction of expenditure of £2 million (62%). Balancing the need for further reduction in staffing costs with the requirement to ensure that the required capacity is retained is a major challenge.

Other change management programmes

35. The COPFS has recently undertaken a fundamental restructuring of the organisation. The COPFS's structure previously operated on an area basis and this has moved to a Federation and function based structure. Three Federations - North, East and West - are divided into four functions covering core operational work. In addition, there is a National Federation which consists of the Serious and Organised Crime Group, and the Corporate Services Group. It is intended that this new management structure will enable more effective monitoring of staff and other costs associated with the main functions of initial case processing, summary business, sheriff and jury, high court and deaths. It is recognised that this will take some time to bed-in.

Partnership working

36. A shared service agreement with the Scottish Court Service (SCS) is estimated to generate savings of approximately £1 million over a five year period. SCS provides a full range of estate services to the COPFS. Sixty-five percent of the COPFS's accommodation is located within SCS owned property and the savings made will be shared between the two organisations.
37. From 1 October 2011, the range of shared services was extended to include health & safety services for the COPFS estate. The agreement extends to approximately 100 SCS properties as well as some separate sites of the COPFS. Capital and revenue estates budgets will be managed separately and each organisation will retain its statutory responsibilities.

Outlook

2012/13 budget

38. The COPFS has been allocated a revenue budget of £104.5 million and a capital budget of £3.6 million for 2012/13. This represents a decrease of £1 million in the operating budget and an increase in the capital budget of £0.9 million compared to 2011/12. As at September 2012, the COPFS's expenditure is forecast to remain within budget. Although currently projecting an underspend of £1.5 million, the COPFS intends to fully utilise this underspend through the recruitment of front-line legal staff, the possibility of an early severance scheme during 2011/12 and identification of any invest to save opportunities in the Federations.

Significant financial risks

39. The Scottish Government is bringing forward legislation, the Criminal Justice (Scotland) Bill, to reform and modernise the system for the investigation and prosecution of crime in Scotland. The Bill will implement the recommendations arising from the review by Lord Carloway, in relation to criminal law and practice, and by Sheriff Principle Bowen, in relation to sheriff and jury procedures.
40. The Scottish Government's consultation exercise on the Carloway reforms ended on 5 October 2012. At this stage there is some uncertainty as to how this will impact on the

COPFS, in particular in terms of the financial implications of implementing the planned reforms.

Governance and accountability

41. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
42. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
43. Consistent with the wider scope of public audit, we have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
44. In this part of the report we comment on key areas of governance.

Corporate governance

Overall effectiveness

45. We found that, overall, corporate governance arrangements operated effectively during 2011/12.

Processes and committees

46. The *Role of boards* was published by the Auditor General in September 2010. This report examined the system of accountability of Scottish public bodies and the performance of boards in the central government sector. During the 2011/12 audit, we undertook follow-up work to assess progress made by the COPFS against key recommendations in the report.
47. We found that:
 - the Management Board reporting structure was reviewed in May 2012, taking into account the COPFS's new Federation structure. A monthly Operational Board has since been created to help improve the lines of communication with Federations and ultimately the information reported to the Management Board.
 - at the time of our audit, the Board had met only twice since this new structure was introduced. The Board considers strategic, performance and change matters on a six-

weekly basis, rather than these issues being alternated and discussed quarterly under the previous arrangements.

- the balance of skills is considered appropriate by the COPFS, with the Crown Agent as the Chair of the Management Board. The position of Vice Chair has not been formalised.
 - there is no formal review of the Board's performance and governance arrangements.
 - only the Chair has had a performance appraisal undertaken during 2011/12.
48. Once the new structure has had an opportunity to bed in, formal assessment of the Board's performance and governance arrangements should be undertaken.

Internal control

49. While we concentrate on significant systems and key controls in support of the opinion on the financial statements, our wider responsibilities require us to consider the financial systems and controls of audited bodies as a whole. The extent of this work is informed by our assessment of risk and the activities of internal audit.
50. Overall the systems of internal control were operating effectively during 2011/12. This enabled us to take the planned assurance on these systems for the audit of the financial statements. There were no major findings from our review of internal control systems, however, we identified a small number of control weaknesses where improvements could be made to existing arrangements.
51. As part of our risk assessment and planning process, the Scottish Government external audit team assessed the Scottish Government's Internal Audit Division who also acts as the COPFS's internal auditors. They concluded that internal audit operates in accordance with the Government's Internal Audit Manual. In their annual report for 2011/12, internal audit were able to provide substantial assurance in respect of the COPFS's risk management, control and governance arrangements.

Governance statement

52. In 2011/12, the COPFS included a governance statement in its annual accounts for the first time. In accordance with Scottish Government guidance, this included description and assessment of the essential components of corporate governance and details of any significant risk-related matters arising during the period.
53. Arrangements to prepare the statement are generally satisfactory and include budget holders submitting a certificate of assurance, supported by a completed checklist, to the Accountable Officer covering the key systems for which they are responsible. This provides management assurances to the Accountable Officer that there are no significant control weaknesses that should be reported in the statement. In 2011/12, only 19 of the 20 checklists were completed by budget holders, as one certificate was not prepared due to staff departures. There are no significant exceptions reported in the governance statement.

Prevention and detection of fraud and irregularities

54. The COPFS is responsible for establishing arrangements to prevent and detect fraud and other irregularity. We review and report on these arrangements.
55. The COPFS has adequate arrangements in place to prevent and detect fraud and irregularities. A Fraud Policy is included in the Finance Manual, which is available to all staff via the intranet. The COPFS's Staff Handbook contains a Standards and Conduct section outlining expected behaviour of staff and a Disciplinary Policy to address instances of staff member non-compliance. All matters relating to criminal charges, malpractice, unethical behaviour and security breaches are considered by the Professional Standards Committee. This Committee is chaired by the Director of Serious Casework on behalf of the Crown Agent.

Standards of conduct and arrangements for the prevention/ detection of bribery and corruption

56. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We consider whether bodies have adequate arrangements in place.
57. The COPFS has adequate arrangements in place to help ensure appropriate standards of conduct and to help prevent and detect bribery and corruption, including the work of the Professional Standards Committee as outlined above. The COPFS also has a Whistle Blowing Policy, included in the Finance Manual, which is available to all staff via the intranet. In addition, the COPFS maintains an up-to-date Register of Interests. We are not aware of any specific issues that we need to identify in this report.

Outlook

58. The current environment of reducing resources and increasing expectations is one in which the organisation's governance and accountability arrangements will be tested.
59. The COPFS has recently undertaken a fundamental restructuring of their organisation and it now operates on a Federation basis. The management reporting structure has subsequently been revised to reflect the new organisational structure with an Operational Board created to assist the decision making of the Board. Once this new structure has had an opportunity to bed in, the COPFS should undertake a formal review of their performance and governance arrangements.

Refer Action Plan No.2

Best Value, use of resources and performance

60. Audited bodies have responsibility to ensure that arrangements have been made to secure best value. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. Where such requirements are not specified we may, in conjunction with audited bodies, agree to undertake local work in this area.
61. As part of her statutory responsibilities, the Auditor General may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. We may be requested from time to time to participate in:
- a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
62. During the course of our audit appointment we also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years. We may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
63. This section includes a commentary on the best value and performance management arrangements within the COPFS. We also summarise headline performance measures used by the COPFS, highlight any relevant national reports and comment on the body's response to these.

Management arrangements

Best Value

64. Scottish Government guidance for accountable officers on best value in public services requires a systematic approach to self-evaluation and continuous improvement. The guidance identifies the themes an organisation needs to focus on in order to deliver the duty of best value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.
65. The COPFS has stated its aim to foster a culture of continuous improvement and as a result, directors and managers are encouraged to review, identify and improve the economic, efficient and effective use of resources. Arrangements in place to secure best value include:
- restructuring the organisation on a Federation and function basis

- scenario planning to identify whether the COPFS can manage within reduced funding levels
- appointment of an interim procurement manager to ensure compliance, control and value for money from external expenditure
- utilisation of the Strategy and Delivery Division to project manage a number of business process re-engineering projects.

66. An assessment of best value arrangements was reported in the governance statement. The Accountable Officer concluded that arrangements had been made to secure best value as set out in the Scottish Public Finance Manual.

Overview of reported performance in 2011/12

67. The COPFS's operational performance is formally reviewed by the Management Board on a regular basis. Reported performance against key targets is shown in Exhibit 4 below.

Exhibit 4: The COPFS's reported performance 2011/12 & 2010/11

Business Area	Target	Performance	
		2011/12	2010/11
Bail cases: serve indictment	High court: serve 80% in 9 months	89%	94%
	Sheriff and jury: serve 80% in 8 months	86%	90%
Take/ implement decision	Process 75% within 4 weeks	83%	86%
Investigation of deaths	Investigate 80% within 12 weeks	87%	88%
Complaints against the police (CAPs)	Close in 12 weeks - 90% of cases	95%	92%

Source: the COPFS audited financial statements 2011/12

68. The COPFS has reported that it has met all of its performance targets. However, absolute performance levels in 2011/12 were down on those reported in 2010/11 in four of five key measures. This may be an early indication that the financial environment may be beginning to have an impact on aspects of overall performance, apart from complaints against the police where performance levels have exceeded those in 2010/11.

National performance reports

69. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed in Exhibit 5.

Exhibit 5: A selection of national performance reports 2011/12

- | | |
|--|--|
| <ul style="list-style-type: none">• Managing ICT Contracts: an audit of three public sector programmes | <ul style="list-style-type: none">• Overview of Scotland's justice system• Scotland's Public Finances - addressing the challenges |
|--|--|

Source: www.audit-scotland.gov.uk

Scotland's public finances - addressing the challenges

70. The report highlights that all parts of the public sector have less to spend in 2011/12 than in 2010/11, although the level of budget varies significantly with central government funding experiencing the biggest reduction of 12%. Although most bodies were not able to agree a balanced budget for 2011/12, the report highlights the risk that savings may not be realised and that unforeseen pressures may emerge which reduce the ability to generate future savings.
71. The report also notes that public bodies are finding it difficult to plan beyond 2011/12 as they do not have a clear view of their future budgets. It highlights the importance of long term sustainability when looking to reduce costs, including consideration of key areas such as reducing workforce levels and identifying opportunities to share services.
72. The COPFS operated within their stated budget for 2011/12. In recent years they have also taken steps to reduce their workforce level and seek opportunities to share services where appropriate, for example with the Scottish Courts Service.

Overview of Scotland's justice system

73. *An overview of Scotland's justice system* was published in September 2011. This report focussed on the adult criminal justice system and the processes involved from when police identify someone they consider has committed some criminal activity until that person leaves the criminal justice system.
74. This report delivered 4 key messages, as follows:
- there have been significant changes to the criminal justice system since devolution, which have delivered major reform but have also contributed to its complexity.
 - the operation of Scotland's criminal justice system cost an estimated £857 million in 2009/10. The revenue budget for the 6 main criminal justice bodies (excluding police) reduced by 7 per cent in real terms in 2011/12; and the capital budget by 64 per cent.

- there are significant inefficiencies in the criminal justice system. Inefficiencies in processing cases cost the criminal justice system at least £10 million in 2009/10.
- reoffending is a continuing problem in Scotland. The report estimates that in 2009/10, around £81 million was spent by criminal justice bodies (excluding the police) directly on services to reduce reoffending.

75. The report was intended to provide an overview of the criminal justice system in Scotland. Individual parts of the system were not looked at in sufficient detail to enable specific evidence based recommendations to be made. However, a number of areas were identified where there is a potential to improve the efficiency and effectiveness of the system.
76. Following publication of the report, the Scottish Parliament's Public Audit Committee took evidence on the findings and published its own report in February 2012.

Managing ICT contracts: an audit of three public sector programmes

77. Audit Scotland found significant weaknesses in the management of three public sector information and communication technology (ICT) programmes costing a combined £133 million so far. The report considers the management of important ICT programmes that were delayed, cancelled or overran on costs - including the Phoenix project at the COPFS (£2 million spent on project before termination).
78. The report says many of the problems stemmed from a lack of specialised information technology skills and experience. But there were also weaknesses in basic project management and control, and the 'Gateway' system that the Scottish Government uses to provide assurance on the management of projects was not always effective. We recommended that the Scottish Government should consider the benefits that could be achieved by providing a central resource of specialised ICT expertise and advice for public bodies undertaking such programmes. The government also needs to comprehensively review how it can best support and oversee public bodies undertaking significant ICT programmes.
79. The COPFS has undertaken a number of internal reviews to learn the lessons from its experience and has acted on them.

Arrangements to consider national performance audit reports

80. The COPFS has good arrangements in place to consider the findings of national performance audit reports. The Director of Finance reports to the Audit and Risk Committee on any national Audit Scotland reports that have been published since the previous meeting.

Outlook

81. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. Following on from this the Scottish Government consulted on a set of 'Specific Duties' which came into force in May

2012. There are nine specific duties listed which aim to support public bodies to better perform against the 'General Duty,' including the duty to assess the impact of equalities in all policies and decisions as well as the requirement to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013.

Queen's and Lord Treasurer's Remembrancer (QLTR)

Introduction

82. The Accountable Office of the QLTR is responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
- the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed
 - the QLTR's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests
 - the QLTR has adequate corporate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability
 - the systems of internal control provide an appropriate means of preventing or detecting material misstatement, error, fraud or corruption.

Financial statements

Audit opinion

83. We have given an unqualified opinion that the financial statements of the QLTR for 2011/12 properly present the receipts and payments as at 31 March 2012 and the balance held at that date.
84. The QLTR is required to follow the 2011/12 Government Financial Reporting Manual (the FReM) and we confirmed that the financial statements have been properly prepared in accordance with the FReM. We also confirmed that information given in the management commentary was consistent with the financial statements. The remuneration report is included in the COPFS financial statements and this has been audited as part of the COPFS financial statements audit.

Regularity

85. We confirmed that the expenditure and income in the financial statements was in accordance with applicable enactments and guidance issued by Ministers.

Accounting issues

86. The QLTR financial statements were submitted for audit on 18 May 2012 and on-site fieldwork was undertaken the week commencing 25 June 2012. The issues arising from the audit were reported to the COPFS's Deputy Finance Manager on 31 July 2012 (copied to the COPFS Director of Finance). Minor issues were discussed and agreed throughout the audit. Our ISA 260 was presented to the Audit and Risk Committee on 23 August 2012 containing no unadjusted errors.
87. Due to the increased number of claims in relation to older *Ultimus Haraes* estates (where a person has died without making a will), the previous policy whereby estates were classified as "Crown Share" after 2 years has been amended to 5 years. The resulting impact has been a reduction in the "Crown Share" by £1.6 million and an increase in "Sundry Estate" by £1.6 million for 2011/12.
88. There are no significant changes to the 2012/13 FReM that are expected to have an impact on the QLTR financial statements.

Financial position

Annual outturn

89. The QLTR has net receipts from operations of £0.3 million, net payments after all payments and administration costs were £0.1 million in 2011/12. £1.36 million was paid to the Scottish Consolidated Fund during 2011/12.

Financial position

90. There has been a considerable increase in activity by individuals to locate next of kin, and from companies which charge a fee for this service. This has led to a significant increase in the number of estates that have been claimed in 2011/12, including old estates which the QLTR had thought were unlikely to be claimed and therefore the receipt has already been paid into the Scottish Consolidated Fund. In addition, relatives are now being identified before an estate has been accepted as *Ultimus Haeres* thereby significantly reducing the number of new estates being administered by the QLTR. Consequently, outgoings on *Ultimus Haeres* estates have been at a much higher level than in previous years and receipts much lower.
91. The impact of this has been a reduction in receipts and a large increase in payments in this financial year. The management of the associated funds has been adjusted accordingly.

Governance and accountability

Corporate governance

92. The QLTR reports to the COPFS & QLTR Audit and Risk Committee and we found that, overall, the corporate governance arrangements operated effectively during 2011/12.

93. Financial transactions are processed through the COPFS's financial systems. It is the responsibility of the COPFS's management to maintain adequate financial systems and associated internal controls, both for the purpose of giving an opinion on the statement of accounts, and in order to report on the adequacy of such systems and controls. Our review of the COPFS's financial systems revealed that these are adequate for the purpose of producing the financial statements, and no significant areas of concern were identified relating to the transactions. Internal audit were able to provide substantial assurance.
94. The extent of our work is also informed by an assessment of risk and activities of internal audit. The Scottish Government's Internal Audit Division are also the internal auditors of the QLTR. In their 'Queen's and Lord Treasurer's Remembrancer and National Ultimus Haeres' report for 2011/12, internal audit provided substantial assurance in respect of QLTR's:
- governance and risk management arrangements
 - case management and processes and related controls
 - financial control framework.
95. Overall the systems of internal control were operating effectively during 2011/12. This enabled us to take planned assurance on these systems for the audit of the financial statements.

Governance statement

96. In 2011/12, the QLTR included a governance statement in its annual accounts for the first time. This is the first year the governance statement has been prepared and further development is required on this statement for 2012/13 to better articulate overall assessment.

Refer Action Plan No.3

Prevention and detection of fraud and irregularities

97. The QLTR recognises the risk of external fraud, particularly in relation to *Ultimus Haeres* claims. Overall arrangements are adequate, and the QLTR has strengthened its checks on the legitimacy of claims.

Outlook

98. As noted above, payments are increasing and receipts are reducing in relation to the QLTR's activities. The QLTR should continue to monitor this situation carefully to ensure that sufficient funds are available to meet future liabilities.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Audit and Risk Committee
Combined COPFS/ QLTR report:		
Annual audit plan	February 2012	16 February 2012
COPFS reports:		
Review of internal controls	May 2012	
Role of boards follow up	TBD	TBD
Report on financial statements to those charged with governance	21 June 2012	27 June 2012
Audit opinion on the 2011/12 financial statements	21 June 2012	27 June 2012
QLTR reports:		
Report on financial statements to those charged with governance	August 2012	23 August 2012
Audit opinion on the 2011/12 financial statements	August 2012	23 August 2012

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	19	<p>Consolidation templates</p> <p>We noted in our assurance statement to the Scottish Government that we did not have an opportunity to audit counter-party information due to the late inclusion of this information in the consolidation pack. The COPFS should ensure that all information is included in the return prior to submission for audit.</p> <p>Risk. <i>Incorrect figures may be included in the consolidated accounts if these have not been subject to audit.</i></p>	<p>Agreed. Early identification of counter-party information is needed. The delay was due to staff shortages and it is expected that the Finance Division will be fully staffed when the 2012/13 accounts are being produced.</p>	MH	April 2013
2	59	<p>Organisation restructure</p> <p>A fundamental restructuring of the organisation, including the management reporting structure, was undertaken during 2011/12.</p> <p>Once the new structure has had an opportunity to bed in, the COPFS should undertake a formal review of their performance and governance arrangements to assess whether these are</p>	<p>Agreed. Formal review to be undertaken immediately following the end of the 2012/13 financial year.</p>	Crown Agent	First Management Board meeting of 2013/14.

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		operating satisfactorily. <i>Risk. The revised structure may not achieve its intended impact.</i>			
3	97	QLTR governance statement This was the first year the QLTR had to prepare a governance statement . There is scope to improve the assessment of the adequacy of governance arrangements and documentary evidence to support this. <i>Risk. The QLTR governance statement may not fully reflect the requirements of Scottish Government Guidance.</i>	Agreed. 2011/12 was the first year that governance statements were required and there was limited opportunity to refine the first draft. This was due to staff shortages and it is expected that the Finance Division will be fully staffed when the 2012/13 accounts are being produced.	MH	April 2013