



# **Crown Office and Procurator Fiscal Service & The Queen's and Lord Treasurer's Remembrancer**

## **Annual report on the 2012/13 audits**



Prepared for the COPFS, the QLTR and the Auditor General for Scotland  
August 2013

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.

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# Key messages

## Crown Office and Procurator Fiscal Service 2012/13

### Auditors' report on accounts

We have given an unqualified opinion on the financial statements of the Crown Office and Procurator Fiscal Service (COPFS) for 2012/13. 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.

### Financial position

The Annual Accounts record total outturn (resource and capital) of £109.0m against the statutory budget of £108.5m. COPFS was given authority by the Scottish Government to overspend its capital budget by up to £0.62m together with a commitment to allocate additional ring fenced Departmental Expenditure Limit (DEL) in subsequent years to cover the resulting depreciation charges. This additional funding was used for capital projects. The overspend of £0.56m was within the authorised limit.

The Scottish public sector is experiencing deep and prolonged cuts in funding. This brings immediate challenges for the COPFS to reduce expenditure and ensure long-term, sustainable public services.

### Governance and accountability

In 2012/13 we concluded that the COPFS's systems of internal controls for the systems tested operated effectively and this allows us to take the planned assurance on these systems for the audit of the financial statements.

The COPFS undertook a significant restructuring of its organisation moving from an area based structure to one organised around Federations and functions during 2012/13. It is anticipated that a formal review of the structure will take place in 2013/14.

### Performance and best value

The COPFS has reported that it has met all of its performance targets set for 2012/13. However, performance reduced across all measures from 2011/12 with the more significant reductions in performance relating to 'High Court Bail Cases: serve 80% indictments in 9 months' and 'Investigation of Deaths: investigate 80% within 12 weeks'. The COPFS management has adopted self-assessment means to demonstrate best value.

## The Queen's and Lord Treasurer's Remembrancer 2012/13

We have given an unqualified opinion on the financial statements of the QLTR for 2012/13.

## Outlook

We have considered the financial sustainability of the COPFS on the basis of its financial position and budget over the remainder of the current spending review period. The financial position going forward will be more challenging with decreases in baseline budgets coupled with increasing cost pressures. This represents a major challenge for the COPFS and expenditure during the year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage.

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.

# Introduction

1. This report is the summary of our findings arising from the 2012/13 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 understands 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. We would like to express our thanks to the staff of the COPFS and QLTR for their help and assistance during the audit of this year's financial statements which has enabled us to provide and audit report within the agreed timescale.

# 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 2012/13 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 2012/13 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 2012/13 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 28 May 2013, in line with the pre-agreed timetable. Working papers and responses provided by staff in Finance were of a good standard and we completed our audit within the agreed timeframe. Matters arising from the audit were reported to the Audit and Risk committee on 2 July 2013 and we issued our audit opinion on 17 July 2013.

### Non current asset register

17. We found significant differences between the values included in the unaudited accounts for the valuation of land and buildings and the values included in the non-current asset register. Staff in Finance spent a significant amount of time resolving legacy issues and we have confirmed the figures in the audited financial statements now agree to those in the non-current asset register.

### Governance statement

18. 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.
19. Arrangements to prepare the statement are broadly satisfactory and include budget holders submitting a certificate of assurance, supported by a completed checklist, to the Accountable Officer covering the key governance areas 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. All checklists were completed by budget holders in 2012/13. The fundamental restructure of the organisation was reported in the governance statement.
20. Internal Audit also provide assurances to the Accountable Officer through their annual reporting process. Their annual report, which included a summary of findings in relation to the audit of corporate governance arrangements, had not been brought to members' attention prior to the meeting. As the meeting was convened to discuss the annual accounts, members felt it was not appropriate to table the results of this audit for the first time. The COPFS and Internal Audit should have a clear understanding of their expectations in relation to the reporting of these assurances.

**Refer Action Plan No. 1**

### Finance staffing

21. We included details of the number of staff changes within Finance during the year in our 2012/13 Review of Internal Controls Report. Since the report was issued at the end of May,

we have been advised of further staff changes and there is now only one experienced permanent senior Finance officer within the division although we note that a new Head of Financial Accounting has recently been appointed. High staff turnover and a temporary nature of staffing can lead to risks of continuity and capacity in the Finance division. The Finance Director has previously reported his decision to restructure the Finance division to meet the needs of the organisation. Although a recent appointment has been made, the restructuring is not yet complete.

**Refer Action Plan No. 2**

### Consolidation templates

22. 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 11 July 2013. There were a small number of adjustments required to the draft submission.
23. Arrangements are in hand to provide the entity certificate before the end of August 2013.

### Outlook

24. There are no significant changes to the 2013/14 FReM that are expected to have an impact on the COPFS's 2013/14 annual financial statements.
25. The COPFS faces challenges to maintain current performance levels with reduced funding in the longer term.

# Financial position

26. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
27. 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.
28. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

## Financial results

### Annual outturn

29. The COPFS's net operating costs during 2012/13 were £104.5 million and capital expenditure was £4.6 million.
30. Net operating costs have decreased by £1.1 million (1%) since 2012/13. Staff costs decreased by £3 million (4.3%) whilst other administrative costs increased by £1.8 million (5%). Spending on operating costs was within the final budget set of £105.4 million, an underspend of £0.9 million. The underspend was used to fund capital projects.

### Budgetary control

31. The year end position was a net overspend of £0.6 million (0.5%) against the statutory budget of £108.5 million. The statutory budget comprised operating costs of £105.4 million and capital expenditure of £3.1 million. In March 2013, the Scottish Government provided approved additional funding of £0.6 million for capital expenditure. This budget was managed within the revised target.
32. We have reviewed the COPFS's budget setting and monitoring arrangements, which were found to be broadly satisfactory. Senior management receive budget monitoring reports (finance reports) on a regular basis with adequate explanation of key variances against budget. Capital expenditure is also monitored against budgets on a regular basis.

## Scotland's public finances - addressing the challenges

33. *Scotland's public finances: addressing the challenges* was published by the Auditor General in August 2011. The report provided an overview of the scale of budget cuts expected to be faced by the Scottish public sector in the period 2010/11 to 2014/15, and how public bodies were beginning to respond to the challenges of reducing expenditure. In particular, the report highlighted some of the main costs pressures facing public bodies and emphasised the importance of them achieving long-term financial sustainability. Our follow up work scheduled for October 2013 will consider whether:
- the COPFS has sustainable financial plans which reflect a strategic approach to cost reductions
  - senior officials and non-executive directors are able to demonstrate ownership of financial plans and are they subject to sufficient scrutiny before approval.
34. We will report our findings to the audit and risk committee to be held in November 2013.

## Public reporting

35. COPFS provide detailed reporting in the annual report and accounts which is published on the COPFS's website at [www.copfs.gov.uk](http://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

36. 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

## Workforce reduction

37. There were 8 exit packages at a cost of £0.5 million disclosed in the 2012/13 accounts (2011/12: 43 packages at a cost of £2.5 million). The decrease in the number of packages is due to the fact that a reduced number of staff met the eligibility criteria of the 2012/13 scheme.
38. There has been a significant increase in the number of agency and temporary/ contract staff employed during 2012/13 in comparison to 2011/12, resulting in an increase in expenditure of £0.9 million (73%). There was a freeze on the use of temporary staff during 2011/12 which was lifted in 2012/13 resulting in this increase. Balancing the need for further reduction in staffing costs with the requirement to ensure that the required capacity is retained will remain a major challenge..

## Partnership working

39. A shared service agreement with the Scottish Court Service (SCS) is estimated to generate savings of approximately £1 million over a five year period (2011-16). 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.
40. From 1 October 2011, the range of shared services was extended to include health & safety services for the COPFS estate. The agreement extended to approximately 100 SCS properties as well as some separate sites of the COPFS. Capital and revenue estates budgets are managed separately and each organisation retains its statutory responsibilities.
41. The SCS undertook a review of the number and location of courts across Scotland during 2012/13, resulting in recommending a number of court closures. This will have an impact on the COPFS. The Scottish Parliament has now approved the recommended closures.

## Outlook

### 2013/14 budget

42. The COPFS has been allocated a revenue budget of £104.5 million and a capital budget of £3.6 million for 2013/14. This represents a decrease of £0.9 million in the operating budget and an increase in the capital budget of £0.5 million, compared to 2012/13.

### Financial forecasts beyond 2013/14

43. The COPFS had been allocated a provisional revenue budget of £105.1 million and a capital budget of £3.6 million for 2014/15. This would be an increase of £0.6 million in the revenue budget and no change to the capital budget, compared to 2013/14. However, the Spending Review 2013 has reopened funding for 2014/15, and funding figures remain to be confirmed.
44. In a period of reducing resources across the public sector as a whole, the challenge facing the organisation is to continue to maintain performance levels within available resources.

**Refer Action Plan No.3**

## Significant financial risks

45. As reported in our 2012/13 Annual Audit Plan, the Criminal Justice (Scotland) Bill, is intended 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.
46. The Scottish Government's consultation exercise on the Carloway reforms has ended and there is some uncertainty as to how this will impact on the COPFS. The COPFS has

established a project team to review the potential operational and financial impact of the new legislation on the COPFS.

# Governance and accountability

47. 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.
48. 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.
49. 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.
50. In this part of the report we comment on key areas of governance.

## Corporate governance

### Overall effectiveness

51. We found that, overall, corporate governance arrangements operated effectively during 2012/13.

### Processes and committees

52. The COPFS undertook a fundamental restructuring of the organisation from April 2012. The COPFS's structure previously operated on an area basis and this has moved to a federation and function based structure. It was intended that the new management structure would 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.
53. In 2011/12 we recommended that 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 operating satisfactorily. The structure has now been in place for over a year and the COPFS has not yet undertaken a formal review of the revised arrangements. It is anticipated that this review will take place towards the end of 2013.

54. The Audit and Risk Committee plays an important role in the governance of COPFS. The committee has introduced private pre-meetings, which includes some discussion with officials. While these may be helpful in supporting members' understanding of business issues and risks, it is important that the purpose and nature of such discussion is clearly understood.

**Refer Action Plan No. 4**

## Internal control

55. 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.
56. Overall the systems of internal control were operating effectively during 2012/13. 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.
57. 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. As a result of their assessment we were able to take assurance from the work of internal audit. We placed reliance on internal audit and carried out a comprehensive review of their working papers in the following areas:
- Manpower Planning and Recruitment
  - Security and Information Assurance.
58. In their annual report for 2012/13, internal audit were able to provide reasonable assurance in respect of the COPFS's risk management, control and governance arrangements. We note that internal audit gave substantial assurance in their 2011/12 annual report, however, the results of their findings from the 'Security and Information Assurance' and 'IT Systems Strategy, Network Management and IT Security Arrangements' audit affected the overall assurance provided to the COPFS audit and risk committee in 2012/13.

## Prevention and detection of fraud and irregularities

59. The COPFS is responsible for establishing arrangements to prevent and detect fraud and other irregularity. We review and report on these arrangements.
60. In our opinion the COPFS's overall arrangements for the prevention of fraud are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.



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## NFI in Scotland

61. The COPFS participates in the National Fraud Initiative (NFI). This is a counter-fraud exercise that used computerised techniques to compare information about individuals held by different public bodies to identify circumstances that might suggest the existence of fraud or error (matches). Where matches are identified, public sector bodies are expected to investigate these and if fraud and error has taken place, to stop payments and attempt to recover the amounts involved. The exercise also provides assurance on the effectiveness of arrangements and helps deter fraud.
62. Data has been submitted for the current NFI round, a number of matches have been identified and work has been on-going to review these. As a result of staff changes overall progress has been slower than planned.

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

63. 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.
64. We are satisfied that the COPFS has adequate arrangements in place (based on the Scottish Public Finance Manual) to help meet its responsibilities in this regard.

## Outlook

65. The current environment of reducing resources and increasing expectations is one in which the organisation's governance and accountability arrangements will be tested.

# Best Value, use of resources and performance

66. 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.
67. 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.
68. 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.
69. 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

70. 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.
71. 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 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.
72. 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.
73. The COPFS management has adopted self-assessment means to demonstrate best value. They agreed to utilise Audit Scotland best value toolkits, and adopted the following approach:
- toolkits have been prioritised in terms of importance and relevance to COPFS
  - a lead officer has been identified for each toolkit to assess the relevance and if relevant, they will complete the self assessment checklist and recommend to the Finance Management Group any action required
  - completed checklists will then be submitted to the Executive Meeting to take a view of the markings and authorise any further action that has been recommended
  - a programme of reviews and a timetable for submission to the Executive Meeting has been prepared and is due for review imminently.

## Overview of reported performance in 2012/13

74. 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 1 below.

**Exhibit 1: The COPFS's reported performance 2012/13 & 2011/12**

Business Area	Target	Performance	
		2012/13	2011/12
Bail cases: serve indictment	High court: serve 80% in 9 months	85%	89%
	Sheriff and jury: serve 80% in 8 months	85%	86%
Take/ implement decision	Process 75% within 4 weeks	82%	83%
Investigation of deaths	Investigate 80% within 12 weeks	83%	87%
Complaints against the	Close in 12 weeks -	94%	95%

Business Area	Target	Performance	
		2012/13	2011/12
police (CAPs)	90% of cases		

Source: the COPFS audited financial statements 2012/13

75. The COPFS has reported that it has met all of its performance targets. However, absolute performance levels in 2012/13 were down on those reported in 2011/12 in all key measures. This represents a drop in performance two years in a row. This may be a result of the impact of the challenging financial environment faced by the COPFS.

### Continuous improvement

76. The Inspectorate of Prosecution in Scotland (IPS) reported that the COPFS was undertaking an in-house review of a number of cases but this has been suspended during the year pending a new system compatible with the changes in the Federation structure. That had left the Inspectorate as the sole monitoring system on the quality of work. We have been advised that revised self-assessment arrangements, known as 'continuous improvement', are being introduced in 2013/14.

### National performance reports

77. 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 1.

#### Exhibit 1: A selection of national performance reports

- The National Fraud Initiative in Scotland (May 2012)
- Reducing reoffending in Scotland (November 2012)
- Managing early departures from the Scottish public sector (May 2013)

Source: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

### Reducing Reoffending in Scotland

78. *Reducing reoffending in Scotland* was published in November 2012. This report looked at the efficiency and effectiveness of approaches taken to reduce reoffending in Scotland. It focused on adult offenders sentenced in court.
79. This report delivered the following key messages:
- reoffending is a continuing problem in Scotland
  - £128 million was spent on reducing reoffending in 2010/11
  - there is a mismatch between what is currently being delivered and what is known to work

- access and availability to service vary across the country.
80. Although not directly impacting on the COPFS, a number of areas were identified in this report where there is potential to reduce reoffending in Scotland.

### Managing early departures from the Scottish Public Sector

81. *Managing early departure from the Scottish public sector* was published in May 2013 and aims to remind public organisations of the principles of good practice in managing early departures. Key messages delivered in this report include:
- Scotland's public bodies need to be more consistent in how they manage schemes allowing staff to take early retirements and redundancies, and be clearer about the costs and benefits
  - early release schemes can provide significant savings, and most public bodies generally follow good practice but there are striking differences between the schemes and a marked inconsistency in how much bodies tell the public about the costs and expected savings. The report makes a number of recommendations to help public bodies improve this
  - almost 14,000 employees took such packages between 2010 and 2012 – around one in 40 of all public sector staff – at a cost of more than £500 million.
82. The COPFS has put voluntary severance schemes in place in each of the past three years with forty employees leaving in 2010/11, forty three in 2011/12 and only eight in 2012/13. However, the COPFS should ensure that they consider the findings of this report should they offer another voluntary severance scheme in 2013/14.

### Arrangements to consider national performance audit reports

83. The COPFS has 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

84. Ensuring the COPFS performs well and meets its key business objectives within a changing internal and external environment and increasing expectations will be a challenge going forward. The Board needs to ensure that its management and governance structures are operating successfully to monitor and scrutinise performance effectively.

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

## Introduction

85. 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

86. We have given an unqualified opinion that the financial statements of the QLTR for 2012/13 properly present the receipts and payments as at 31 March 2012 and the balance held at that date.
87. The QLTR is required to follow a Direction made by Ministers made under the Public Finance and Accountability (Scotland) Act 2000 in preparing its accounts. We confirmed that the financial statements have been properly prepared in accordance with the Direction. 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

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

## Accounting issues

89. The QLTR financial statements were submitted for audit on 13 June 2013 and on-site fieldwork was undertaken the week commencing 01 July 2013. The issues arising from the audit were reported to the COPFS's Deputy Finance Manager on 11 August 2013. Minor issues were discussed and agreed throughout the audit. Our ISA 260 is being presented to the Audit and Risk Committee on 21 August 2013 containing no unadjusted errors.
90. The accounts include a restatement of prior year audited figures. The restatement relates to a change in accounting treatment for National Ultimus Haeres Unit (NUHU) staff and administration costs. The NUHU costs have been shown separately in the accounts for the first time to provide a distinction between NUHU and other QLTR activities. We are satisfied with the change in disclosure of these costs
91. There are no significant changes to the 2013/14 accounting requirements that are expected to have an impact on the QLTR financial statements.

## Financial position

### 2012/13 outturn

92. The QLTR has net receipts from operations of £1.5 million, net payments after all payments and administration costs were £1 million in 2012/13. £3.4 million was paid to the Scottish Consolidated Fund during 2012/13 (£1.36 million paid during 2011/12). This subsequently reduced the bank balance by £2.4 million.

## Governance and accountability

### Corporate governance

93. The QLTR reports to the COPFS & QLTR audit and risk committee and we found that, overall, the corporate governance arrangements operated effectively during 2012/13.
94. 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.
95. 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. Our review established that the work of internal audit is of good quality allowing us to place reliance on their follow up audit on the QLTR and NUHU activities.

## Prevention and detection of fraud and irregularities

96. In our Annual Audit Plan 2012/13 we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. The QLTR recognises the risk of external fraud, particularly in relation to Ultimus Haeres claims.

## Standards of conduct and arrangements for the prevention and detection of corruption

97. 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. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in the report

## 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 2012/13

Title of report or opinion	Date of issue	Date presented to Audit and Risk Committee
<b>Combined COPFS/ QLTR report:</b>		
Annual audit plan	February 2013	20 February 2013 (draft)
<b>COPFS reports:</b>		
Review of internal controls	May 2013	22 May 2013
Scotland's Public Finances	TBD	TBD
Report on financial statements to those charged with governance	28 June 2013	02 July 2013
Audit opinion on the 2012/13 financial statements	28 June 2013	02 July 2013
<b>QLTR reports:</b>		
Report on financial statements to those charged with governance	August 2013	21 August 2013
Audit opinion on the 2012/13 financial statements	August 2013	21 August 2013

# 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	20	<p><b>Internal Audit Annual Assurance Statement</b></p> <p>Internal Audit's annual report, which included a summary of findings in relation to the audit of corporate governance arrangements, had not been brought to members' attention prior to the meeting to discuss the annual accounts. Members felt it was not appropriate to table the results of this audit for the first time at this point.</p> <p><b><i>Risk - An expectations gap between members of the ARC and those providing reports limits its effectiveness.</i></b></p> <p><b>Low risk</b></p>	<p>Early discussion will be co-ordinated between members of the ARC, Finance staff, and the Internal Auditors to agree expectations and schedule relevant ARC meetings in line with planned delivery of the financial statements.</p>	Mark Howells	November 2014
2	21	<p><b>Finance staff</b></p> <p>There have been further staffing changes in the Finance division. The Finance Director has previously reported his decision to restructure the Finance division to meet the needs of the organisation. Although a recent appointment has been made, the restructuring is not yet complete.</p>	<p>Further changes to Finance Division staff occurred immediately following production of the annual accounts. Whilst not ideal, we have used temporary agency staff to cover 4 of the 7 management grade posts. We plan to recruit permanent staff for 3 of these posts in due course (subject to</p>	Mark Howells	January 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p><b>Risk - High staff turnover and a temporary nature of staffing can lead to risk of continuity and capacity in the Finance division.</b></p> <p><b>High risk</b></p>	the necessary permissions).		
3	44	<p><b>Long term funding reductions</b></p> <p>In a period of reducing resources across the public sector, the COPFS financial position will be more challenging with decreases in baseline budgets coupled with increasing costs pressures.</p> <p><b>Risk - there is a risk that the COPFS cannot operate effectively within available funding.</b></p> <p><b>Medium risk</b></p>	COPFS has started to scenario plan/model funding and expenditure out to 2020. This will become more sophisticated and will include detailed analysis of the core activities that we will need to continue to deliver, the size, shape and skills of our workforce, our IT and Accommodation strategy etc	Management Board	On-going
4	54	<p><b>Audit and Risk Committee</b></p> <p>The committee has introduced private pre-meetings, which includes some discussion with officials. It is important that the purpose and nature of these meetings is clearly understood.</p> <p><b>Risk - the extent and nature of discussion outwith the formal meeting of the committee has a negative impact on its overall effectiveness and transparency.</b></p>	The terms of reference of the ARC will be updated to define the purpose and nature of pre-meetings. An outline of any private discussion with officials will be noted at the start of each ARC meeting.	Secretariat	September 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		Low risk			