



CROWN OFFICE AND PROCURATOR FISCAL SERVICE

QUEEN'S AND LORD TREASURER'S REMEMBRANCER

Annual report on the
2013/14 audits

Prepared for COPFS, QLTR and the Auditor
General for Scotland

September 2014

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Key messages

Financial statements

- Unqualified auditor's reports on the 2013/14 financial statements for COPFS and QLTR.
- Four unadjusted misstatements identified in the COPFS financial statements. If adjusted, these would have the net effect of increasing operating costs by £182,000, reducing the underspend to £23,000.

Financial position

- COPFS had a net underspend £0.205 million.
- QLTR had net receipt of operations of £8.8 million with £7.6 million paid to the Scottish Consolidated Fund.
- Budget management arrangements were satisfactory.

Governance & accountability

- COPFS and QLTR had good governance and internal control arrangements in place.
- Arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.

Best Value, use of resources & performance

- COPFS has a framework in place for monitoring and reporting performance.
- COPFS reported that performance targets were met in 2013/14.

Outlook

- The impact of justice reforms and Scottish Court Service restructuring continues to be monitored by COPFS.
- The 2014/15 COPFS budget is challenging and in-year monitoring is crucial to enable the COPFS to achieve a balanced budget.
- QLTR receipts and payments are difficult to predict and QLTR continues to monitor its financial position.

Introduction

This report is a summary of our findings arising from the 2013/14 audits of Crown Office and Procurator Fiscal Service (COPFS) and Queen's and Lord Treasurer's Remembrancer (QLTR). The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model. The findings from our COPFS and QLTR audits are reported in separate sections.

Our responsibility, as the external auditor of COPFS and QLTR, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

The management of COPFS and QLTR are responsible for:

- preparing financial statements which give a true and fair view
- implementing appropriate internal control systems
- putting in place proper arrangements for the conduct of its affairs
- ensuring that the financial position is soundly based.

This report is addressed to COPFS, QLTR and the Auditor General for Scotland and should form the basis of discussions with the Audit and Risk Committee as soon as possible after it has been

issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.

This report will be published on our website after it has been considered by COPFS and QLTR.

A number of reports, both local and national, have been issued during the course of the year. The local reports issued during the year have been listed in Appendix I. 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 COPFS and QLTR.

The concept of audit risk is of key importance to the audit process. During the planning stage of our audits we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements. We set out in our annual audit plans the related source of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix II sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Appendix III is an action plan setting out the high level risks we have identified from the audits. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response".

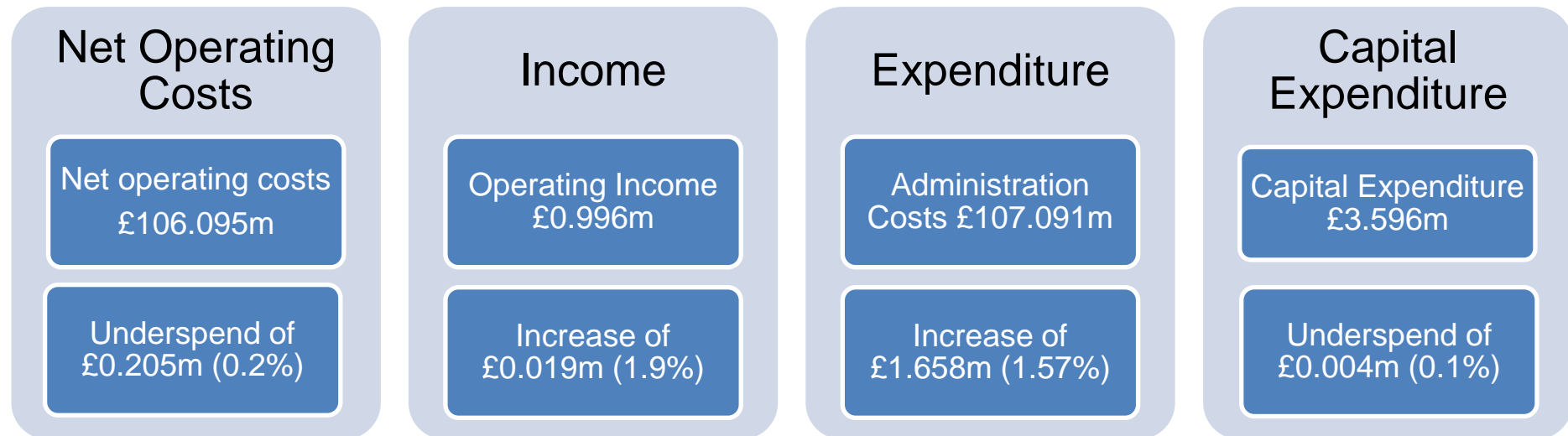
We recognise that not all risks can be eliminated or even

minimised. What is important is that COPFS and QLTR understand their risks and have arrangements in place to manage these risks. COPFS, QLTR and the Accountable Officers should ensure that they are satisfied with proposed management action and have a mechanism in place to assess progress and monitor outcomes.

We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

The cooperation and assistance afforded to the audit team during the course of these audits is gratefully acknowledged.

COPFS Financial statements



Audit opinion

We have given an unqualified opinion that the financial statements of COPFS for 2013/14 give a true and fair view of the state of its affairs and of its net operating expenditure for the year.

Other information published with the financial statements

Auditors review and report on other information published with the financial statements, including the Management Commentary (Strategic and Directors' Report), Statement of Resources by Service's Aims and Objectives, Governance Statement and the

Remuneration Report. No issues required to be reported.

Regularity

The Public Finance and Accountability (Scotland) Act 2000 requires auditors to certify that, in all material respects, the income and expenditure shown in the accounts was incurred or applied in accordance with relevant legislation and guidance issued by Scottish Ministers. We addressed the requirements of the Act through a range of procedures, including obtaining written assurances from the Accountable Officer. No issues required to be reported.

Accounts submission

We received the unaudited financial statements on 23 May 2014, in accordance with the agreed timetable. The financial statements were supported largely by a comprehensive set of working papers and schedules and audit testing was substantively complete by the end of June 2014.

In common with other Scottish Government departments there was a delay in the receipt of figures and documentation from the Civil Service Pension Scheme, MyCSP.

Action Point 1

The accounts were finalised on 11 July 2014, and the Accountable Officer signed them on 15 July 2014.

Accounting issues arising

We presented our report to those charged with governance (ISA 260) to the Audit and Risk Committee on 26 June 2014. The primary purpose of this report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. The main points were:

Presentational and monetary errors

A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with management who agreed to amend the unaudited financial statements. Four monetary misstatements identified were not processed through the financial statements by management. If adjusted these would have the net effect of increasing operating costs by £182,000, and reducing the underspend to £23,000. The net assets would have decreased by

£182,000. We were content that this was not material in relation to the overall financial position.

Non-Current Asset Register (NCAR)

A number of balances in the draft financial statements did not agree to the non current asset register. A significant amount of time was spent resolving legacy issues and agreeing the treatment of revaluation and impairment adjustments. It has been agreed that a review of the non-current asset register is required in 2014/15.

Action Point 2

Finance Staffing

We have reported concerns with the number of staff changes within the Finance division in our 2012/13 and 2013/14 audit reports. At the time of our financial statements audit, the Head of Financial Accounting and the Head of Management Accounting were agency employees. We are pleased to report that permanent senior finance staff appointments have now been made.

Consolidation templates

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 01 July 2014. The Auditor's Report on the consolidation templates was issued on 16 July 2014.

Outlook

The financial statements of Crown Office and Procurator Fiscal Service are prepared in accordance with the Government Financial Reporting Manual (the FReM). The main new standards to be adopted in 2014/15 are:

- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosures of interests in other entities.

Compliance with FReM is mandatory; however, the impact of the adoption of the new standards is unlikely to be significant to the financial statements of Crown Office and Procurator Fiscal Service.

COPFS Financial position

Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

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.

These are key areas in the current economic circumstances. This section summarises the financial position and outlook for COPFS.

Financial results

Annual Outturn

COPFS reported a net underspend (revenue and capital) of £0.209m for the year ended 31 March 2014 against the statutory budget of £109.900m.

Staff costs increased by £0.334m to £67.121m (2012/13: £66.787m) and administrative costs increased by £1.324m to £39.970m (2012/13: £38.646m). COPFS incurred a non-recurring impairment charge on non current assets of £1.8m.

Budgetary Control

We reviewed COPFS budget setting and monitoring arrangements and found that senior management received budget monitoring reports throughout the year with adequate explanation of key variances against budget. A Finance Management Group was established in April 2013. This Group is comprised of Finance management, Heads of Business Management and relevant Directors and discusses current and emerging financial pressures. Overall, budget management arrangements were satisfactory.

Financial Position

The Statement of Financial Position shows a net asset position of £13.431m at 31 March 2014 (£15.545m: 2012/13). The overall decrease of £2.114m is due to a decrease £2.551m in the valuation of non current assets, mainly as the result of a non-recurring impairment charge, and an increase of £2.983m in current liabilities. These movements were offset by an increase in cash and cash equivalents of £3.054m balances to be transferred to the Scottish Consolidated Fund. There are no concerns to highlight in relation to this overall financial position.

Capital Expenditure

COPFS spent a total of £3.596m (2012/13: £4.577m) on capital projects during 2013/14, very much in line with budgeted capital expenditure of £3.6m. The majority of this spend related to capital

refurbishments and investment in ICT.

Financial sustainability

COPFS has been allocated a revenue budget of £105.1m and a capital budget of £3.6m for 2014/15. This represents a slight increase of £0.6m in the operating budget and no change in the capital budget, compared to 2013/14. Future Spending Review figures remain to be confirmed.

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. COPFS has introduced scenario planning to assess the impact of future funding reductions. It is anticipated that police reform and Scottish Courts Service restructuring will generate efficiencies for COPFS.

Workforce planning

COPFS did not offer a formal exit scheme in 2013/14.

Total staff costs increased by £0.334m to £67.121m in 2013/14. Although agency staff costs have reduced by £0.430 million (£1.715m: 2013/14; £2.145m: 2012/13), these costs are still a significant proportion of overall staff costs. Employing agency staff enabled COPFS the flexibility to manage fluctuations in service demand, but highlighted the challenge on capacity in some areas during the year.

Although investment has been made in the development of staff, COPFS's Investors in People accreditation has reduced from silver

to bronze status.

Average sickness absence rates have improved from an average of 9.2 days in 2012/13 to 8.5 days in 2013/14. COPFS's average sickness absence rate is still higher than the Scottish Government's average sickness average absence rate of 6.9 days in 2012/13. COPFS are currently revising procedures for sickness absence, including restructuring the roles of staff welfare officers to specifically address the reasons for absence.

It is crucial that an organisation has adequate workforce planning arrangements in place to ensure it has the necessary capacity to maintain service delivery, and meet business plan objectives. We note that work is underway to develop a workforce strategy to align to the vision of the organisation but until the strategy is agreed and implemented there is a risk that COPFS may have insufficient staff and skills to meet strategic plan objectives.

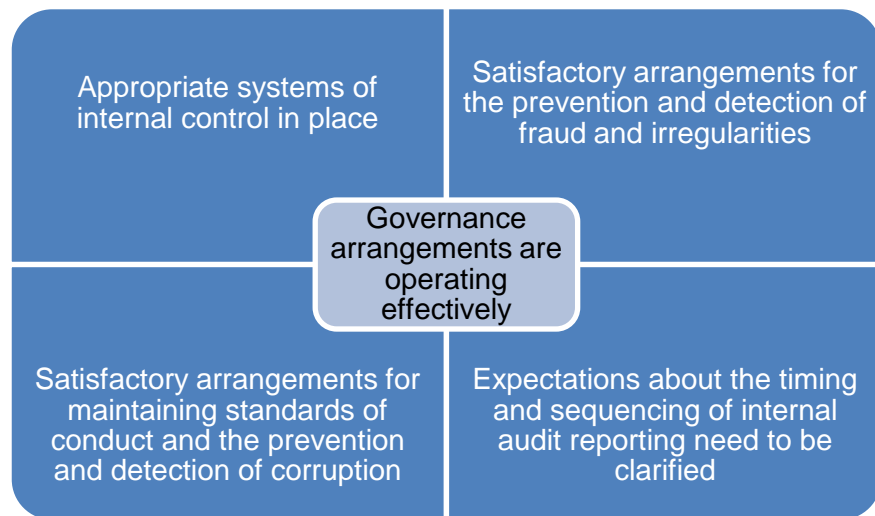
Action Point 3

Outlook

There is some uncertainty about the financial and organisational impact of the criminal justice reforms on COPFS. There is a project team in place to review the potential operational financial impact of any new legislation.

The 2014/15 budget is challenging and therefore effective in-year management will remain critical to enable COPFS to achieve their balanced budget.

COPFS Governance and accountability



The Crown Agent as Accountable Officer is responsible for establishing arrangements for ensuring the proper conduct of the affairs of COPFS and for monitoring the adequacy and effectiveness of these arrangements.

Corporate governance

The corporate governance framework within COPFS is centred on the COPFS Board which is supported by Operational Boards, ISG, Finance Management Group, the Executive Team and the Audit

and Risk Committee. As at 31 March 2014, the Board consisted of 8 Executive Directors and 1 Non-Executive Director.

In addition, COPFS has a Risk Management Group and the role of a risk champion has been introduced to ensure appropriate risk management arrangements are in place and barriers to managing risk are removed. The risk champion is a senior manager at Board level.

A fundamental restructure of the organisation took place in 2012, moving to a Federation and Function based structure. We note that further changes to the governance structure are planned for 2014/15.

Internal control

As part of our audit we reviewed the high level controls in a number of COPFS's systems that impact on the financial statements. This audit work covered the main accounting system, trade receivables/ income, trade payables/ expenditure, cash and cash equivalents (banking), and budgetary control. Our overall conclusion was that COPFS had appropriate systems of internal control in place during 2013/14.

Governance Statement

COPFS included a governance statement in its annual accounts in accordance with Scottish Government guidance. The statement included description and assessment of the essential components of corporate governance and details of any significant risk-related matters arising during the period. We confirmed that the statement

was prepared in line with guidance and that relevant risk and issues have been included.

Internal Audit

Internal audit provides COPFS and its Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes. In addition, in an effort to avoid duplication, we place reliance on internal audit work where appropriate. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work.

Our review of internal audit was carried out in March 2014 and concluded that the internal audit service provided by the Scottish Government Internal Audit Division operates in accordance with Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place.

Internal Audit provides assurance through their annual reporting process. Their annual report to the Audit and Risk Committee included a summary of findings in relation to the audit of procurement and contract management. At this time, these were still in draft and the outcome of this audit had not been formally reported. Although Internal Audit had informally highlighted difficulties with the progress of this audit, members expressed concern about the sequencing and timeliness of reporting. A similar issue was raised in 2012/13. It is important that there is a shared understanding between management, ARC members and Internal Audit of expectations in relation to internal audit reporting

and how this supports the annual assurance process.

Action Point 4

Information and Communications Technology (ICT)

In August 2012, Audit Scotland published the report Managing ICT contracts: an audit of three public sector programmes. The report highlighted significant weaknesses in the management of ICT projects, where many of the problems stemmed from a lack of specialised skills and experience. The Phoenix programme to develop a new case management system for use by COPFS was one of those considered.

COPFS management terminated the Phoenix programme when it became evident that its complexity was increasing to the point that cost overruns were likely. Our report highlighted a number of key weaknesses that contributed to that outcome, including:

- a structured governance framework was in place; however it was not always used to support decision-making
- a business case was in place; however the absence of detailed costs, benefits and milestones meant that progress reporting lacked detail on time, quality and cost
- programme staff were familiar with PRINCE2 project management principles; however they lacked experience of complex ICT programmes.

Following the termination of the Phoenix programme, the initial decision to design and build a completely new case management system was reviewed. This review led management to select the alternative approach of upgrading the existing ICT infrastructure and systems. Rather than embarking on a significant and complex system replacement, this allowed individual tasks with clear objectives and costs to be identified, presenting a lower-risk management option.

During our 2013/14 audit we have reviewed the progress made by COPFS following the termination of the Phoenix programme. Initial progress was hindered by the absence of senior leadership within the Information Systems Division (ISD). However, the appointment of a new Director of IT in June 2013 provided management stability within ISD to implement the governance and organisational changes considered necessary to develop IT systems in line with future business needs:

- a simplified organisation structure is now in place comprising two key groups reporting to the Director, one focused on Infrastructure support and the second on Information Systems provision
- a review of ISD strategic development priorities and planned tasks has been completed, with the results summarised as COPFS' Strategic Development and Delivery Framework (SDDF)
- a consistent project management approach has been introduced that requires each module or task to be planned

and monitored using the same principles, where all activity is now recorded on an over-arching ISD planning grid that allows dependencies to be identified, and any changes or delays to be managed.

The Director of IT is currently leading the development of a long term Digital Strategy for COPFS that takes account of both the COPFS Corporate Strategy (currently being developed by COPFS to set out its strategic priorities for 2015-18) and the Scottish Government Justice Digital Strategy (recently published). The Digital Strategy is expected to be published later this year.

Until the COPFS digital strategy is fully developed and agreed, it is unclear what elements COPFS will have to develop and provision funding to progress its digitising justice strategic aims.

Action Point 5

Arrangements for the prevention and detection of fraud

COPFS's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.

COPFS participated in the National Fraud Initiative (NFI) in 2012/13. The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error. Overall, we concluded that COPFS has satisfactory arrangements in place for investigating and

reporting data matches identified by the NFI.

Audit Scotland's National Fraud Initiative Report was published on 26 June 2014. Fraud and errors worth £16 million were identified as part of this study, the largest and most diverse detection exercise undertaken by Audit Scotland to date, which involved 127 public bodies across Scotland.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

The arrangements for the prevention and detection of corruption in COPFS are satisfactory and we are not aware of any specific issues that we need to record in this report. There were no instances of internal fraud or irregularity reported by COPFS in 2013/14.

Outlook

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

COPFS Best Value, use of resources and performance

Arrangements for securing Best Value

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.

COPFS stated its aim to foster continuous improvements 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:

- review and improvement of the High Court case process
- simplification of procedures for transferring paper documentation to electronic format
- introduction of tablet devices as opposed to relying on paper
- introduction of specialisms for domestic abuse and stalking incidents
- programme of application development to present data in

accordance with business requirements.

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.

COPFS management has adopted self-assessment means to demonstrate best value. An update paper, and a draft version of the completed Efficiency toolkit, was presented to the ARC in February 2014. The ARC has already been presented with the Vision and Strategic Direction; and Planning and Resource Alignment toolkits. It is anticipated that all 18 Audit Scotland toolkits will be completed by March 2015.

It is evident from this that COPFS has processes in place to monitor and assess its performance and use of resources.

Performance management

COPFS has developed its performance management framework during 2013/14, supported by an in-house management information system. Strategic objectives and KPIs are aligned to the Scottish Government's National Outcomes.

Progress and performance information is provided quarterly to COPFS Executive Board and the Audit and Risk Committee. Annual performance is reported in the COPFS annual report and accounts in line with the requirements of the FrEM.

Overview of performance targets in 2013/14

COPFS has five performance targets and reported that all targets have been exceeded in spite of reduced resources and increased caseload. There has been a reported reduction in performance against two targets (High Court Bail Cases and Complaints Against the Police); improvement in performance for two targets (Take/Implement Decisions and Investigation of Deaths) and performance against one target has remained the same (Sheriff and Jury Bail Cases).

A Strategic Planning Group has been established to develop the Strategic Plan for 2015-18.

We are satisfied that appropriate arrangements for monitoring performance were in place in COPFS for 2013/14.

National performance audit reports

Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to COPFS include:

Scotland's Public Sector Workforce (28 November 2013)

Public bodies have used a range of measures including pay restraint, redeploying staff and changing working patterns to manage staff numbers and costs.

Between March 2009 to March 2013, the Scottish public sector workforce reduced by 26,600 WTE (seven per cent) to 373,400.

These changes helped public bodies reduce their staff costs by an estimated £1 billion. However, continuing financial pressures mean current approaches are unlikely to deliver the savings needed in the future.

Central government bodies should:

- develop and use organisation-wide workforce plans, informed by a series of service or departmental plans that are consistent in their structure and content. Senior managers and boards or elected members should scrutinise and monitor these plans
- assess the impact of different terms and conditions on the likely costs and uptake of their departure schemes before they put a scheme in place
- collect information on the costs and net savings from their workforce programmes and report these details to boards and elected members
- forecast expected staff numbers, skill needs and costs on a rolling three-year basis, using scenario planning where necessary
- make better use of existing mechanisms, such as community planning partnerships, to identify opportunities to share resources.

Scotland's Public Finances follow up report (5 June 2014)

This report was aimed at supporting those leading and managing public services in making increasingly difficult choices about how to make best use of the money that is available. Alongside the report, Audit Scotland has published checklists designed to help non-executive directors with their crucial role in budget-setting and financial planning.

Public bodies should:

- implement an approach to budgeting that focuses more on priorities and links planned spending more closely with the outcomes they want to achieve
- develop a longer-term approach to financial planning that takes account of priorities, risks and liabilities and provides assurances on long-term affordability
- support effective scrutiny by ensuring that good-quality information is available and that councillors and non-executive directors have the right skills to carry out their scrutiny roles.

COPFS has arrangements in place to consider national performance reports issued by Audit Scotland, whereby local performance is assessed against national findings and improvement actions identified. These actions are monitored by the Audit and Risk Committee to confirm implementation.

Inspectorate of Prosecution in Scotland

The Inspectorate of Prosecution in Scotland (IPS) is the independent inspectorate for the Crown Office and Procurator Fiscal Service.

The IPS's Annual Report 2013/14 was published in July 2014. Three thematic reports were published during 2013/14, including Knowledge Bank; the International Co-operation Unit; and Organ Retention. The Inspectorate reported that a review of procedures and working practices that pre-date the Federation structure should be undertaken to ensure these are still valid for the new structure.

Engagement

COPFS engages with the wider community to determine their quality of service. Users can provide feedback on services by accessing the COPFS website.

Outlook

COPFS will need to ensure that there are sufficient resources in place to meet demand and that it has effective processes in place to monitor and properly scrutinise performance and delivery to ensure continuous improvement and best value. The impact of Police Reform should be monitored to ensure that efficiencies are identified and acted upon.

There are a number of legislative changes that will impact on COPFS. It is important that COPFS will need to keep implications of these changes under review.

Audit Scotland published *An overview of Scotland's criminal justice system* in September 2011. Audit Scotland is now undertaking a performance audit to assess whether sheriff court efficiency has improved since the publication of the overview report. The overall aim of the audit is to assess the efficiency of Scotland's sheriff court system in dealing with criminal cases. The report will make recommendations to the Scottish Government and criminal justice bodies.

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

Introduction

The Accountable Officer 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

We have given an unqualified opinion that the financial statements of the QLTR for 2013/14 properly present the receipts and payments as at 31 March 2014 and the balance held at that date.

Other information published within the financial statements

Auditors review and report on other information published with the financial statements, including the Management Commentary and the Governance Statement. The Remuneration Report is included in COPFS financial statements and this has been audited as part of COPFS financial statements audit. No issues require to be reported in respect of those statements.

Regularity

The Public Finance and Accountability (Scotland) Act 2000 requires auditors to certify that, in all material respects, the income and expenditure shown in the accounts was incurred or applied in accordance with relevant legislation and guidance issues by Scottish Ministers. We addressed the requirements of the Act through a range of procedures, including written assurances from the Accountable Officer. No issues require to be reported.

Accounts submission

The QLTR financial statements were submitted for audit on 16 May 2014, earlier than the agreed timetable. The financial statements were supported by a comprehensive set of working papers and schedules and audit testing was substantively complete by mid June 2014.

The accounts were finalised on 19 June 2014, and the Accountable Officer signed them on 26 June 2014.

Accounting issues

Minor presentational adjustments were identified in the financial statements during the course of our audit. These were discussed with management who agree to amend the unaudited financial statements. There were no unadjusted monetary errors.

Outlook

There are no significant changes to the 2014/15 accounting requirements that are expected to have an impact on the QLTR financial statements.

Financial position

2013/14 outturn

The QLTR had net receipts after all payments and administration costs of £8.4 million in 2013/14. £7.6 million was paid to the Scottish Consolidated Fund in 2013/14 (£3.4 million paid in 2012/13). This increased the balance held by £0.8 million to £7.002 million.

Outlook

Significant increase in bona vacantia ('ownerless goods') receipts during 2013/14 as a result of historic bank account credit balances from dissolved companies being passed to the QLTR and the Law Society requiring solicitors to submit historical balances in client accounts to the QLTR. Bona vacantia receipts are expected to return to normal levels in future years.

Governance and accountability

Corporate governance

The QLTR reports to COPFS & QLTR Audit and Risk Committee and we found that, overall, the corporate governance arrangements operated effectively during 2013/14. A new Accountable Officer was appointed on 25 March 2014.

Financial transactions are processed through COPFS's financial systems. It is the responsibility of 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 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 reasonable assurance.

Prevention and detection of fraud and irregularities

In our Annual Audit Plan 2013/14 we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. The QLTR recognise the risk of external fraud, particularly in relation to Ultimus Haeres ('last heir') claims. Ultimus Haeres estates are receipts that fall to the QLTR as a result of people who have died without a will or any relatives that are easily traced. Heirs often appear later and will receive the net assets of the estate if they can prove a relationship with the deceased.

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

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

As a result of QLTR activities, payments and receipts are difficult to predict. The QLTR should continue to monitor this situation carefully to ensure that sufficient funds are available to meet future liabilities.

Appendix I: Summary of Audit Scotland reports 2013/14

Title of report or opinion	Date of issue	Date presented to Audit and Risk Committee
COPFS Annual Audit Plan	February 2014	February 2014
QLTR Annual Audit Plan	February 2014	February 2014
COPFS Interim Management Report	May 2014	May 2014
COPFS Report on financial statements to those charged with governance	June 2014	June 2014
QLTR Report on financial statements to those charged with governance	June 2014	June 2014
COPFS Audit opinion on the 2013/14 financial statements	June 2014	June 2014
QLTR Audit opinion on the 2013/14 financial statements	June 2014	June 2014

Appendix II: Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure
COPFS Audit Risks 2013/14	
<p>Financial outturn</p> <p>COPFS is currently predicting a year end overspend of £0.228. A number of potential contingent liabilities have been highlighted which total £0.242 million should they crystallise. Currently, these potential liabilities have not been included within the running costs forecasts. An assessment will be made at the financial year end as to any requirement to include in the year end Statement of Financial Position and any impact on the Statement of Comprehensive Net Expenditure. There is a risk that COPFS cannot deliver a balanced budget at 31 March.</p>	<p>We reviewed budget monitoring arrangements and scenario planning documentation.</p> <p>Year end procedures verifying that expenditure and income were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers and that expenditure was valid and correctly classified between revenue and capital. COPFS reported a £0.2 million underspend as at 31 March 2014.</p> <p>We reviewed the minutes of the Finance Management Group (FMG) and attended the FMG meeting on 23 June 2014 as an observer.</p>

Audit Risk	Assurance procedure
<p>Legal and witness expenses</p> <p>Given the inherent nature of legal and witness expenses there is a risk that inappropriate claims are submitted and payments made.</p>	<p>We reviewed legal and witness expense procedures, including sample checking claims.</p>
<p>Changes to the Criminal Justice System</p> <p>The Criminal Justice (Scotland) Bill is intended to reform and modernise the system for investigation and prosecution of crime in Scotland. The Bill will implement recommendations arising from the review by Lord Carloway, in relation to criminal law and practice, and by Sheriff Principal Bowen, in relation to sheriff and jury procedures.</p> <p>There continues to be some uncertainty as to how this will impact on COPFS, and there is a risk that there could be a drop in COPFS's performance as a result of increased workload and a challenging financial environment.</p>	<p>We reviewed the minutes of the Finance Management Group (FMG) and attended the FMG meeting on 23 June 2014 as an observer.</p> <p>We reviewed budget monitoring arrangements and scenario planning documentation.</p> <p>COPFS Annual Report and Accounts for 2013/14 reported two areas where performance had reduced in comparison to 2012/13, two areas where performance has improved and one target where performance remained the same.</p> <p>COPFS Policy Division's project team continues to monitor the potential implications of the Criminal Justice (Scotland) Bill.</p>

Audit Risk	Assurance procedure
<p>Court restructure</p> <p>The Scottish Court Service has announced a major restructure of the court system. Some court closures and proposals for restructure impact on COPFS. There is a risk that this could impact on the ability of courts to handle to additional workload and there are cost implications of relocating COPFS staff.</p>	<p>Monitored by COPFS Court Restructuring Project Team.</p>
<p>Workforce planning</p> <p>COPFS has delivered four voluntary exit schemes to 31 March 2013 which have resulted in 91 staff leaving the organisation. There are a number of risks associated with this, including:</p> <ul style="list-style-type: none"> • loss of expertise and knowledge across the organisation • detrimental impact on staff morale with an adverse impact on performance • failure to meet key business plan objectives due to limited capacity. 	<p>COPFS's Annual Report and Accounts for 2013/14 reported two areas where performance had reduced in comparison to 2012/13, two areas where performance has improved and one target where performance remained the same.</p> <hr/> <p>Review of Strategic Human Resource Board and Strategic Human Resource Group minutes.</p>

Audit Risk	Assurance procedure
<p>Finance staff</p> <p>The Finance department is experiencing particular issues with the recruitment of permanent staff. There continues to be a significant number of temporary staff in post in the department including key staff responsible for the preparation of the financial statements.</p> <p>There is a risk that the financial statements will not be prepared in accordance with the agreed timetable. There is also an increased risk of the likelihood of weakness in the control environment and errors in the financial statements.</p>	<p>Regular meetings held with finance staff during 2013/14.</p> <p>Interim audit testing high level controls of key financial systems.</p> <p>We received the unaudited financial statements on 23 May 2014, in accordance with the agreed timetable. The financial statements were supported by a comprehensive set of working papers and schedules.</p>
<p>Caseload Management System</p> <p>The Phoenix Project was initiated by management to replace the current 'future office system' (caseload management system) and subsequently cancelled as it was no longer affordable. The rollout of the upgraded virtual desktop system is continuing, (which includes implementing new versions of the case management system compliant with the new desktop software) and there will be a need to ensure that this supports future business needs.</p> <p>There is a risk that the caseload management system does not support future business needs.</p>	<p>Meetings with the Director of IT and review of key documentation.</p> <p>Director of IT active member of the working group leading the SG Digital Strategy.</p>

Audit Risk	Assurance procedure
QLTR Audit Risks 2013/14	
<p>Change in Accountable Officer</p> <p>The appointment of the current Accountable Officer will come to an end on 31 March 2014.</p> <p>There is a risk that there may not be suitable arrangements in place on 1 April 2014 to ensure compliance with all applicable statutes and regulations, and other relevant statements of best practice.</p>	<p>New Accountable Officer appointed on 25 March 2014.</p> <p>Year end procedures verifying that there were suitable arrangements in place to ensure compliance with all applicable statutes and regulations, and other relevant statements of best practice.</p>
<p>Financial management</p> <p>The Accrued Income cash reserve is used to fund any liabilities arising from a property which is either unwanted or has been refused by the beneficiary as has vested in the Crown as bona vacantia.</p> <p>There is a risk that the liabilities relating to this property outweigh receipts generated.</p>	<p>Our financial statements audit revealed that there was a significant increase in receipts during 2013/14. This was as a result of historic bank account credit balances from dissolved companies being passed to the QLTR; and the Law Society of Scotland requiring firms of solicitors to submit historic balances in client accounts to the QLTR. This resulted in a significant increase in payments made to the Scottish Consolidated Fund during 2013/14 and, overall, the bank balance increased by £0.8 million from 2012/13.</p>
<p>Fraud</p> <p>Due to the nature of QLTR's activities, there is a risk of ineligible claims made resulting in appropriate payments.</p>	<p>No instances of fraud identified by the QLTR during 2013/14.</p>

Appendix III – Action plan

1/5	<p>My CSP information</p> <p>In common with other Scottish Government departments there was a delay in the receipt of figures and documentation from the Civil Service Pension Scheme, MyCSP.</p> <p>Risk</p> <p>Late arrival of this information adds delays to the audit process.</p> <p>Recommendation</p> <p>COPFS should liaise with the Cabinet Office and My CSP at an early stage to ensure that this information is received as early in the process as possible.</p>	<p>Agree, however, MyCSP determines the earliest possible contact time which were adhered to, but response times are out of COPFS control.</p>	<p>Head of Financial Accounting / Head of Management Accounting & Planning</p>	<p>2015/16 accounts in line with MyCSP timelines and Scottish Government EPNs</p>
2/5	<p>Non-Current Asset Register (NCAR)</p> <p>COPFS should review the NCAR to ensure that it is complete and accurate, and that it agrees to the financial ledger and financial statements.</p> <p>Risk</p> <p>There is a risk that legacy issues continue to delay the audit process in future years.</p> <p>Recommendation</p> <p>Review and amend the NCAR as appropriate.</p>	<p>Extensive review currently being undertaken.</p>	<p>Head of Financial Accounting</p>	<p>30 Sept 2014</p>

3/8	<p>Workforce Planning</p> <p>COPFS does not have a formalised workforce strategy.</p> <p>Risk</p> <p>COPFS has insufficient staff and skills to meet strategic plan objectives.</p> <p>Recommendation</p> <p>A workforce planning strategy should be developed and considered as part of the COPFS overall strategic planning process.</p>	<p>Work is currently ongoing to develop a strategic plan which has identified high level people priorities.</p>	<p>Director of Human Resources</p>	<p>30 Sept 2014</p>
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4/11	<p>Internal Audit Annual Assurance Statement</p> <p>Although Internal Audit had informally highlighted difficulties with the progress of their audit, audit and risk committee members expressed concern about the sequencing and timeliness of reporting. A similar issue was raised in 2012/13.</p> <p>Risk</p> <p>An expectations gap between members of the ARC and those providing reports limits its effectiveness.</p> <p>Recommendation</p> <p>Management, ARC members and Internal Audit should agree clear expectations in relation to internal audit reporting and how this supports the annual assurance process.</p>	<p>Internal Audit have considered and addressed this issue. Reviews in the 2014-15 Internal Audit Plan have been scheduled across the audit year. This should provide both senior management and the Audit and Risk Committee with regular reports on governance risk and control. Importantly it will ensure that work will be completed in time to feed into the Governance Statement and it will assist Audit Scotland in their preparation if the ISA 260.</p> <p>Where low assurances have been provided in previous main reports, internal audit will try to commit to early and robust follow up reviews to ensure action is being taken to address serious control weaknesses. This will however be dependent on the implementation dates attached to recommendations.</p>	<p>Director of Finance</p>	<p>Throughout 2014-15</p>
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5/12

Scottish Government Justice Digital Strategy

The Director of IT is currently leading the developing of long term Digital Strategy for COPFS that takes account of both the COPFS Corporate Strategy (currently being developed by COPFS to set out its strategic priorities for 2015-18) and the Scottish Government Justice Digital Strategy (recently published). Until there is full agreement of how fully digitising justice systems will be delivered across all business partners, it is unclear what elements COPFS will have to develop and fund.

Risk:

There is a risk that COPFS will be unable to adequately plan for the achievement of the Scottish Government's digital ambition.

Recommendation:

Continued effort is required to ensure arrangements are in place to support delivery of the Scottish Government Justice Digital Strategy.

The Digital Strategy is expected to be published later this year.

COPFS is currently consulting on its strategic priorities for 2015-18. It is also playing an active and integral role in the planning, development and implementation of the Scottish Government Justice Digital Strategy outcomes. The Director of IT is actively involved across all of these initiatives, which positions COPFS to align strategically the design and development of its internal digital strategies and solutions with the appropriate justice sector digital strategy objectives.

The appropriate outcomes and work tasks deriving from the COPFS and Scottish Government Digital Strategies will be factored to COPFS' corporate improvement portfolio and ISD's Planning Grid and project management systems. Risks will be managed via the COPFS Corporate and ISD Risk Registers, overseen by the Risk Management Group and other appropriate corporate functions.

Director of IT January
2015