



**Crown Office and
Procurator Fiscal
Service**

Annual audit report 2014/15

July 2015

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The Auditor General for Scotland appoints external auditors to central government bodies (www.audit-scotland.gov.uk/about/ags). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

This report has been prepared for the use of COPFS and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the Audit and Risk Committee (ARC). The information in this report may be used by Audit Scotland in any reporting to the Scottish Parliament.

Key contacts

Angela Cullen, Assistant Director
acullen@audit-scotland.gov.uk

Patricia Fraser, Audit Manager
pfraser@audit-scotland.gov.uk



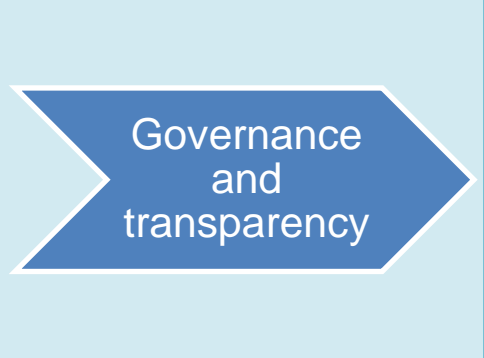
Gillian McCreadie, Senior Auditor
gmccreadie@audit-scotland.gov.uk

Audit Scotland
18 George Street
Edinburgh
EH2 2QU


Telephone: 0131 625 1500

Website: www.audit-scotland.gov.uk

Key Messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none">• Unqualified independent auditor's report on the 2014/15 financial statements.• The 2014/15 Annual Accounts included severance costs of £0.269 million and we ensured that these payments met with Scottish Government's approval process for voluntary severances.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• COPFS had a net underspend of £0.04 million against a budget of £112.5 million.• The financial position remains stable with an excess of total and current assets over liabilities and positive cashflows.• The total budget for 2015/16 has decreased by £0.4 million to £112.1 million. The capital budget is £3.6 million.• COPFS has adequate financial management arrangements in place and systems of internal control operated effectively.
 <p>Governance and transparency</p>	<ul style="list-style-type: none">• Overall we found that COPFS had sound governance arrangements.• Systems of internal control operated effectively during 2014/15.• Arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.• There is scope to improve the transparency of governance arrangements.

Key Messages



Value for money

- COPFS undertook a self-assessment of their arrangements using all of Audit Scotland's Best Value Toolkits. This is a good start and COPFS should build on this by clearly setting out the overall assessment for each toolkit. We note that an improvement plan has been developed and progress against the plan will be presented to the Executive Board on a regular basis.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of Crown Office and Procurator Fiscal Service (COPFS).
2. The management of COPFS is responsible for:
 - preparing financial statements which give a true and fair view, in accordance with the relevant financial reporting framework
 - ensuring the regularity of transactions, by putting in place systems of internal control
 - maintaining proper accounting records
 - preparing and publishing with their financial statements an annual governance statement and a remuneration report
 - preparing consolidation packs.
3. Our responsibility, as the external auditor of COPFS, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; that have been prepared by management with the oversight of those charged with governance. This does not relieve management of their responsibility for the preparation of financial statements.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. The reports relevant to COPFS are summarised at **appendices II and III**, and include recommendations for improvements where appropriate.
6. **Appendix IV** is an action plan setting out our recommendations to address 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 "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that COPFS understands its risks and has arrangements in place to manage these risks. The Audit and Risk Committee should ensure that they are satisfied with the proposed actions and have a mechanism in place to assess progress and monitor outcomes.
7. 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

Introduction

may exist or improvements that could be made.

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

Audit of the 2014/15 financial statements

Audit opinions

Financial Statements

- The financial statements of COPFS for 2014/15 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.
- We confirm that the financial statements have been properly prepared in accordance with the 2014/15 FReM and the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions.

Regularity

- In all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

Other prescribed matters

- The Remuneration Report to be audited has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions.
- The information in the Strategic Report and Directors' Report is consistent with the financial statements.

Submission of financial statements for audit

9. We received the unaudited financial statements, with the exception of the Remuneration Report, on 18 May 2015, in accordance with the agreed timetable. Finalised sections of the Strategic Report and the Governance Statement were not received until 04 June 2015. A large number of late amendments were made to the financial statements for presentational issues and the adjustment of misstatements identified during the audit before the ARC members approved the financial statements. A working papers pack was not available until the end of May although finance staff were able to provide working papers upon request. This was in part due to the finance system upgrade. The pack should be complete and available at the start of the audit. Staff provided good support to the audit team and we completed our fieldwork on 12 June 2015.

Refer Action Plan Point No.1

Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit and Audit Committee on 26 February 2015.
11. As part of the requirement to provide full and fair disclosure of

matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance.
13. **Appendix I** sets out the significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements. It is worth noting that we had planned to carry out a review of COPFS workforce planning. This work is ongoing and will be reported later in summer 2015.
14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

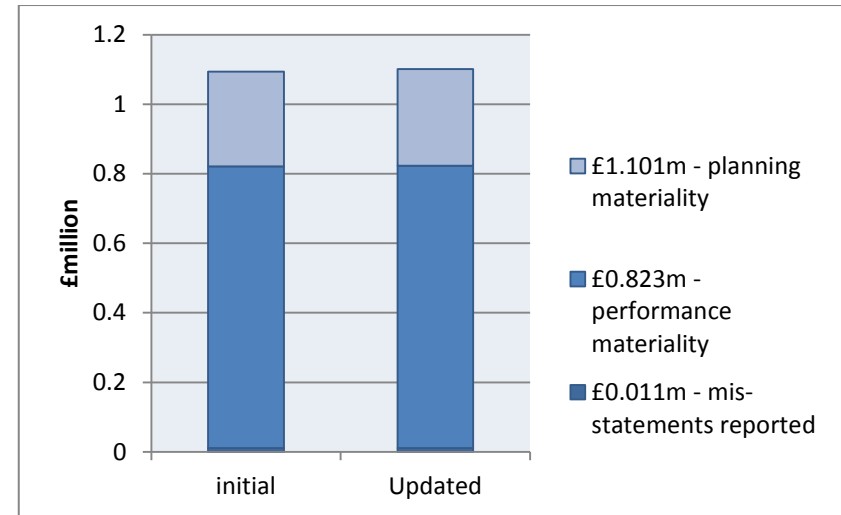
Materiality

15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated

Audit of the 2014/15 financial statements

and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other qualitative reasons (for example an item contrary to law).

16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
17. We summarised our approach to materiality in our Annual Audit Plan. Based on the financial statements, we reviewed our materiality levels and concluded that our original calculation remained appropriate (1% of gross expenditure). Initial materiality levels were based on the audited 2013/14 financial statements and updated levels are based on the unaudited 2014/15 financial statements. Performance materiality of £0.8 million is determined to ensure that uncorrected and undetected audit differences do not exceed our planning materiality level. We report all misstatements greater than £11,000.



Evaluation of misstatements

18. All misstatements identified during the audit, which exceeded our misstatement threshold, have been amended in the financial statements.

Significant findings from the audit

19. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit:
 - the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and disclosures
 - significant difficulties encountered during the audit

Audit of the 2014/15 financial statements

- significant matters arising from the audit that were discussed, or subject to correspondence with management
 - written representations requested by the auditor
 - other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
20. Three monetary adjustments and a number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who amended the unaudited financial statements. The overall effect of the adjustment made to the financial statements is to decrease total comprehensive net expenditure by £0.02 million. Net assets as recorded in the statement of financial position have increased by £0.02 million.
21. A summary of the main adjustments are contained in the following table together with significant issues that, in our view, require to be communicated to you in accordance with ISA 260.

Significant findings from the audit in accordance with ISA260

Significant findings from the audit in accordance with ISA260

22. **Non current asset register (NCAR):** The NCAR was reviewed for completeness and accuracy by COPFS finance staff during 2014/15. As a result of this review, a number of adjustments were required to the revaluation reserve and intangible asset reclassifications. The revaluation per the Statement of Taxpayer's Equity and Note 5 'Property, Plant and Equipment' do not agree in the 2014/15 financial statements as a result of these adjustments.
23. **Resolution:** The ledger and NCAR are reconciled and further work will be undertaken by COPFS staff in 2015/16 to ensure that IT categories (both tangible and intangible) can be agreed to the ledger, rather than in total.

Refer Action Plan No.2

Future accounting and auditing developments

Revisions to the Financial Reporting Manual (FReM)

24. The financial statements are prepared in accordance with the Government financial reporting manual (FReM). Two significant revisions will apply from 2015/16:

- Adoption of IFRS13 *Fair value measurement* for the first time – this also includes IAS 16 and IAS 38 adaptation
- Simplification and Streamlining Project – changes to the form and content of the annual report and accounts.

25. **International Financial Reporting Standards (IFRS)13 Fair value measurement:** sets out the requirements for assets to

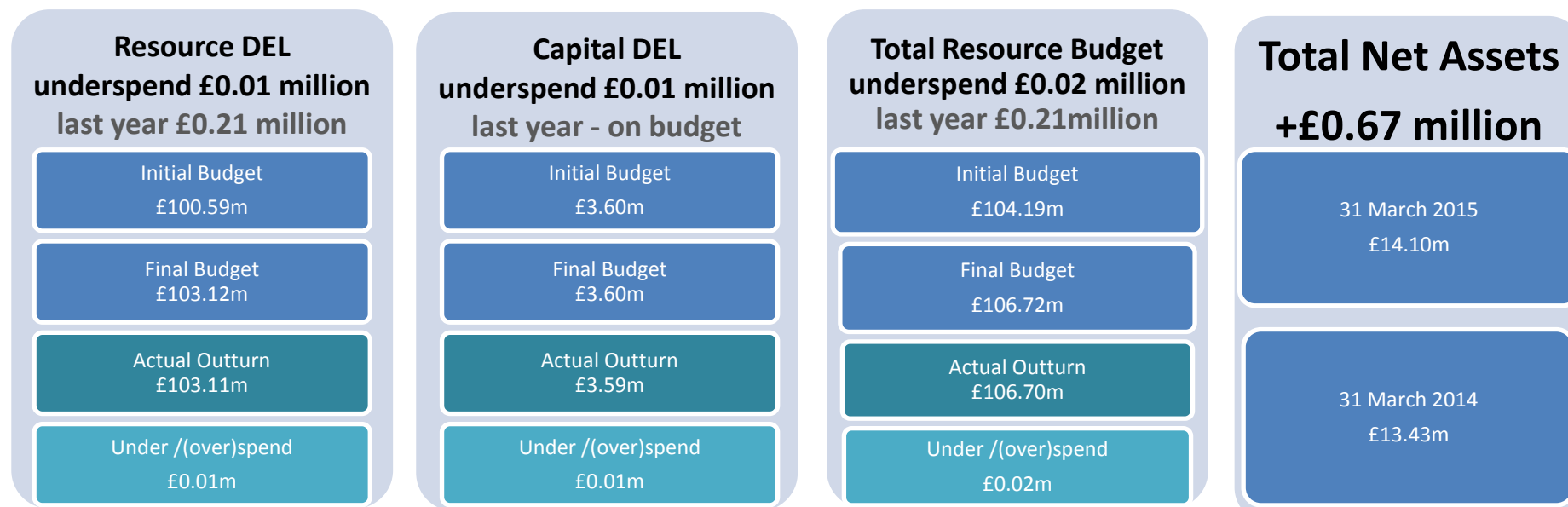
be valued at fair value and is applied in full by the FReM only to assets that are not held for their service potential (i.e. investment properties and assets held for sale). It also applies to operational assets which are surplus to requirements where there are no restrictions on disposal which would prevent access to the market.

26. IFRS 13 does not apply to operational assets that are used for delivering front line services or back office functions, and surplus assets with restrictions on their disposal. These will be valued in accordance with the adaptations to *IAS (International Accounting Standard) 16 property, plant and equipment*.
27. **Restructuring of the annual audit report:** the 2015/16 FReM has been extensively re-written to require the annual report and accounts to include:
- a performance report which will give a fair, balanced and understandable analysis of performance and will include an overview section and a performance analysis section.

Audit of the 2014/15 financial statements

- an accountability report incorporating the following three main sections:
 - corporate governance report consisting of a directors' report, a statement of the Accountable Officer's responsibilities and a governance statement
 - remuneration and staff report which will cover a number of prescribed disclosures including remuneration policy, payments to directors, staff numbers and sickness absence rates
 - Parliamentary and accountability report which will include information on the regularity of expenditure and the independent auditor's report.
28. COPFS should ensure that they fully consider the amendments to FReM when preparing their 2015/16 annual report and accounts.

Financial management and sustainability



In addition to its resource budget above, COPFS also had a non-cash DEL budget of £4.8 million and an AME budget of £0.95 million. The non-cash DEL budget was underspent by £0.03 million and the AME budget was overspent by 0.02 million.

29. The main financial objective for COPFS is to ensure that the financial outturn for the year is within the resource budget allocated by Scottish Ministers. The Scottish Government sets a resource budget for the year which is determined by the spending review settlement and is subsequently approved in the annual budget bill. During the year revisions are approved in the autumn and spring revisions.

2014/15 financial position

30. The Spending Review allocation for COPFS was £108.7 million (operating and capital) for 2014/15. During the year additional allocations were approved for additional court and casework (£2.6 million) and £0.3 million for depreciation. COPFS reported an outturn of £111.5 million, resulting in an operating

Financial position

underspend of £0.04 million.

31. Expenditure in Annually Managed Expenditure (AME) is generally less predictive and controllable than expenditure in DEL and therefore needs to be “annually managed” rather than determined on a longer term basis. The initial Spending Review did not include a budget for AME. COPFS was allocated an AME budget for impairments of £0.95 million during the year. COPFS’s expenditure on AME was £0.97 million, resulting in an overspend of £0.2 million.
32. As at 31 March 2015, COPFS’s Statement of Financial Position shows an increase in total net assets of £0.67 million which can be attributed a reduction of cash holding and reduced trade and other payables. This is due to enhanced working within the business to ensure invoices were paid prior to year end, cash seizures were passed to Scottish Consolidated Fund before year end and accruals were therefore kept to a minimum.
33. The 2015/16 budget was approved by the Scottish Parliament in February 2015. The total budget of £112.1 million comprises an operating budget of £108.5 million, and a capital budget of £3.6 million.
34. The Spending Review for 2016/17 will commence later in the year.
35. At their meeting in November 2014, the Audit and Risk Committee considered the draft COPFS financial strategy for

2015/16 – 2019/2020. The Financial Strategy is currently being reviewed.

Financial management

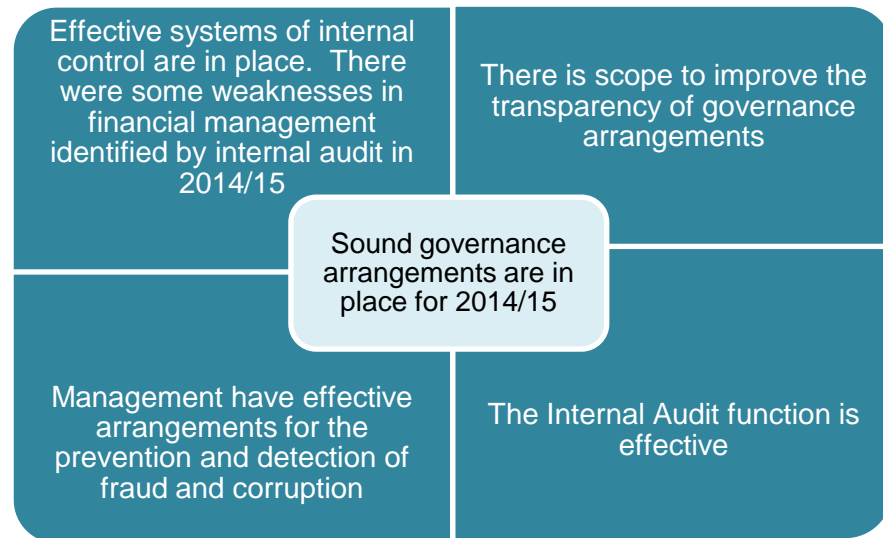
36. As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
 - the Director of Finance has sufficient status to be able to deliver good financial management
 - standing financial instructions and standing orders are comprehensive, current and promoted within the body
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance
 - members provide a good level of challenge and question budget holders on significant variances
37. We reviewed the COPFS financial management as part of our interim audit. Our findings were reported in our Report on Interim Audit presented to the Audit & Risk Committee on 13 May 2015. Our key findings included the need for the finalisation of all Money Matters Booklets, and the requirement to update the Non Current Asset Policy.
38. Based on our accumulated knowledge, our review of Executive

Financial position

Board and Finance Management Group papers, detailed review of Internal Audit's work on financial management, our audit of Financial Management and Sustainability, and through our attendance at the Audit and Risk Committee we conclude that COPFS has adequate financial management arrangements in place and that systems of internal control operated effectively.

39. An early exit scheme was in place during 2014/15. Four employees took early severance at a total cost of £268,926. We ensured that these payments met with Scottish Government's approval process for voluntary severances.

Governance and transparency



Corporate governance

40. 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.
41. The Crown Office and Procurator Fiscal Service is overseen by a Strategic Board, which meets quarterly. The Strategic Board is chaired by the Lord Advocate and attended by the Solicitor

General. Other members are the Crown Agent, the chair of the Equality Advisory Group and the chair of the Audit and Risk Committee. Both chairs are non-executive directors, one appointed by the Lord Advocate and the other appointed by the Permanent Secretary. The Strategic Board has two standing committees – the Audit and Risk Committee and Equality Advisory Group.

42. The Crown Agent chairs the Executive Board, which reports to the Strategic Board. It comprises five executives and a non executive director.
43. The Executive Board structure was reviewed in April 2014 and as a result of this review there has been a reduction in the number of Executive Directors. The Board meets on a monthly basis throughout the year to consider relevant matters. The Executive Board is supported by a number of corporate groups as illustrated below.

Governance and transparency



44. We concluded that COPFS has effective overarching and supporting governance arrangements, which provide an appropriate framework for organisational decision making.

Transparency

45. The Scottish Government's On Board guidance (<http://www.gov.scot/Publications/2015/04/9736/0>), for board members of public bodies was updated and reissued in April

2015. On Board states that boards should demonstrate high standards of corporate governance at all times including openness and transparency in decision making. It recommends boards should consider:

- holding an annual open meeting
 - holding board meetings in public unless there is a good reason not to
 - publishing summary reports and/or minutes of meetings
 - inviting evidence from members of the public in relation to matters of public concern
 - consulting stakeholders and users on a wide range of issues
 - making corporate plans and the annual report widely available.
46. Meetings of the Executive Board and Audit and Risk Committee are not open to members of the public although Executive Board minutes are available on the website. We recognise that some matters may be confidential or sensitive in nature and as a result may need to be discussed in private. This should not prevent meetings being held in public.
47. COPFS maintains a register of interests of staff which is held centrally. This register is not published. Non executive directors must declare any interests at Audit and Risk Committee meetings and this is recorded in the committee minutes. COPFS does not hold a register of interests for non

Governance and transparency

executive directors as they are appointed centrally by the Scottish Government. The Scottish Government maintains a register of interests for all of its non executive directors.

48. Overall we concluded that COPFS could improve transparency by considering holding some of its meetings in public, making Audit and Risk Committee minutes publicly available and adding the register of interests to the external website.

Refer Action Plan Point No.3

Internal control

49. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain sufficient audit evidence to support our opinion on the financial statements.
50. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the organisation's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
51. We reported our findings to the Director of Finance on 29 April 2015 and the Audit and Risk Committee on 13 May 2015.

Internal audit

52. Internal audit provides the Audit and Risk Committee and Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes. 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. To avoid duplication, we place reliance on internal audit work where possible.
53. Our review of internal audit concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.
54. We were able to place formal reliance on aspects of internal audit work on financial management, and performance management and reporting. As a result of internal audit providing reasonable assurance on financial management we carried out additional controls testing. No issues were identified from this additional testing.
55. There have been delays in internal audit undertaking their work and issuing draft reports in line with the timetable set out in their annual plan 2014/15. This has not affected the reliance we placed on internal audit work or the assurances provided to the Accountable Officer.

ICT audit

- 56. Our audit reviewed ICT arrangements, including the progress of the local digital strategy to ensure this fully supports the aims of COPFS strategic priorities and the national strategy.
- 57. Improvements continue to be made to the governance arrangements in place for the provision of ICT. The appointment of a Director of IT in June 2013 provided the stability necessary to plan and introduce the governance and organisational structure changes required to support and develop the case management system.
- 58. The Digital Strategy for Justice in Scotland informed the high-level digital priorities included in the COPFS Strategic Plan for 2015-2018. This should now be developed into the COPFS Digital Strategy that supports the national strategy.

Refer Action Plan Point No.4

- 59. We reported our findings, including recommendations for improvement, in our Report on Interim Audit presented to the Audit and Risk Committee on 13 May 2015.

Arrangements for the prevention and detection of fraud

- 60. We assessed the arrangements for the prevention and

detection of fraud during the planning phase of our audit. This involved reviewing fraud and whistle blowing guidance and reviewing high value journals.

- 61. We conclude that there are effective arrangements for the prevention and detection of fraud.

National Fraud Initiative in Scotland

- 62. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.
- 63. Auditors are required to assess the arrangements that bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.
- 64. The National Fraud Initiative does not have a particularly high profile within the COPFS. The ARC last gave consideration to NFI activities in November 2013. Data matches should be actively investigated and findings regularly reported to the Audit and Risk Committee.
- 65. As part of this year's NFI exercise, COPFS submitted payroll and creditors data and the matching process identified 960

Governance and transparency

records for investigation with 194 of these “recommended” for investigation. To date, none of the matches have been investigated however COPFS intends to investigate all matches by the deadline.

Refer Action Plan Point No.5

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

66. COPFS has in place a range of activities designed to maintain standards of conduct including a Staff Code of Conduct. There are established procedures for preventing and detecting corruption including an annual review of the Money Matters Booklet ‘Fraud and Whistleblowing’.
67. Based on our review of the evidence we concluded that there are appropriate arrangements in place for the prevention and detection of corruption and we are not aware of any specific issues that we need to record in this report.

Value for Money

Arrangements for securing Best Value

68. Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.
69. Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.
70. 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 COPFS agree to undertake local work in this area.
71. We are pleased to note that COPFS has self-assessed its arrangements against the criteria contained in all 18 Audit Scotland Best Value toolkits. This review will enable the COPFS to assess the extent to which their structures and processes help in delivering Best Value.
72. Our review of the toolkits revealed that, in some instance the overall assessment and any associated improvement actions

were not clear. An improvement action plan was developed and presented to the Executive Board in April 2015.

Refer Action Plan Point No.6

73. Audit feedback through Annual Audit Reports indicates that overall reductions in staff numbers in public bodies may be affecting the capacity of back office functions and specifically finance. Consequently as part of our 2014/15 audit, we have collected information on financial capacity in all our audited bodies. The aim is to provide the Accounts Commission and the Auditor General with a summary of key issues or themes in respect of financial capacity. This may be used to support the development of Audit Scotland's future performance audit programme.
74. COPFS has processes in place to ensure that all relevant national performance reports are considered by the Audit and Risk Committee.

National performance audit reports

75. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest. These are outlined in **appendix III**.

- 76. Scotland's public finances - a follow-up audit: Progress in meeting the challenges.** This report was published in June 2014 and commented that, in setting budgets, public bodies need to focus more on their priorities, making clearer connections between planned spending and the delivery and measurement of outcomes. It recommended that public bodies should develop long-term (5-10 year) financial strategies to direct and control their finances.
- 77. Superfast broadband for Scotland: a progress report:** assesses whether the Scottish Government and Highland and Islands Enterprise have clear plans and arrangements in place to build their superfast broadband network in Scotland.
- 78. Update on developing financial reporting:** This update report published in March 2015 reviewed the principles of public financial management and provided an update on the actions the Scottish Government is taking to further develop financial reporting. The report concludes that the Scottish Government and the public sector generally, have a good record of financial management and reporting. The Scottish Government has continued to improve and develop its financial reporting framework since we last reported. The report highlights that consolidated accounts for the whole of the Scottish public sector would help provide an overall picture of its financial position to strengthen understanding and transparency.
- 79. Managing ICT contracts in central government: an update:** The update report published in June 2015 reviewed the Scottish Government's new assurance and oversight arrangements for central government ICT programmes. The report concluded that these arrangements have not been fully effective.
- 80.** The report provides an update on the three central government bodies included in our August 2012 report including an update on the ICT arrangements in place within COPFS. The report concludes that COPFS has been through a period of change and a portfolio of ICT enabled business improvements has been identified and implementation is ongoing. It is too early to determine whether these will deliver the intended benefits.

Appendix I – Significant audit risks

The table below sets out the audit risks, how we addressed each risk and our judgement in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
<p>Additional Funding (Strategic Report and Statement of Comprehensive Net Expenditure)</p> <p>COPFS had a net underspend of £0.205M in 2013/14. An increasing workload, combined with real terms budget cuts, has resulted in COPFS securing additional funding of £4.65M for further work required on three major cases (£2M in 2014/15; £2.65M in 2015/16). <i>Although this additional funding will assist in alleviating current budget pressures, there is a risk that COPFS cannot operate within a reduced budget in future years.</i></p>	<p>Review of COPFS’s arrangements in place for financial management</p> <p>Sample testing of expenditure on major cases during 2014/15</p> <p>Review of progress in developing and agreeing financial plans for the longer term using the checklist contained in Audit Scotland’s national report; Scotland’s Public Finances</p> <p>Cut-off testing</p> <p>Testing of journal entries</p>	<p>COPFS reported a net underspend of £0.04 million. During the year it received an additional £2.6 million from the Scottish Government for additional court and 3 major cases work.</p> <p>We reviewed COPFS’s Financial Management and Financial Sustainability arrangements and reported our findings in our Report on Interim Audit to the Audit and Risk Committee on 13 May 2015.</p> <p>Our interim and financial statements audits included substantive testing of expenditure on the three major cases, a review of all journal entries during 2014/15 and cut-off testing. No errors were identified and the COPFS operated within its budget for 2014/15.</p>

Appendix I – Significant audit risks

Audit Risk	Assurance procedure	Results and conclusions
<p>Finance Division Staffing</p> <p>The Finance Division continues to experience issues with staffing as a result of departures, sickness absence, and the lack of staff on permanent contracts. The majority of staff are either agency employees or on fixed term contracts.</p> <p><i>There is a risk that this could result in a delay in the financial statements audit and weaknesses in the control environment.</i></p>	<p>Regular meetings with finance staff</p> <p>Review of Workforce Planning arrangements</p> <p>Early substantive audit testing</p> <p>Review of Finance Management Group minutes</p> <p>Testing of Monthly Finance Management Checklists</p>	<p>Finance Division staffing is now stable with the Head of Financial Management, and the Head of Management Accounting and Planning now on permanent contracts.</p> <p>We received the unaudited financial statements on 18 May 2015, in accordance with the agreed timetable. However, these accounts were incomplete with information in the remuneration report, strategic report and governance statement missing. This was in part due to the finance system upgrade. Further iterations were received on 25 May, 4 June and 11 June.</p> <p>The working paper file was not received until the end of May although working papers were provided when requested.</p> <p>Substantive audit testing during our financial statement audit and our review of Monthly Finance Management Checklists did not reveal any errors.</p>
<p>Non Current Asset Register (NCAR)</p> <p>(Notes 5 and 6 to the Financial Statements)</p> <p>The financial statements audit has been delayed in prior years as a result of issues with the NCAR's completeness and accuracy.</p> <p><i>There is a risk that these legacy issues may result in a material misstatement in the financial statements, and may delay the financial statements audit process.</i></p>	<p>Early audit testing of the NCAR including opening balances, additions and disposals</p>	<p>The financial statements audit identified a number of adjustments to the revaluation reserve and intangible asset reclassifications as a result of these legacy issues. We verified these adjustments to supporting evidence. This did not delay the 2014/15 financial statements audit.</p>

Appendix I – Significant audit risks

Audit Risk	Assurance procedure	Results and conclusions
<p>Finance System Upgrade</p> <p>An upgrade to the finance system is scheduled for 01 April 2015. The upgrade will ensure compliance with Microsoft Licensing and provide an opportunity for COPFS to review processes/ data collection and as a result improve management information. A Purchase to Pay module will also form part of this upgrade.</p> <p><i>There is a risk that changes in the system may result in errors in the financial statements.</i></p>	<p>Progress meetings with finance staff</p> <p>Ledger checks as part of the financial statements audit</p>	<p>Opening balances agreed to prior year balances. No errors were identified in the financial statements as a result of the finance system upgrade,</p>
<p>MyCSP</p> <p>(Remuneration Report)</p> <p>There is a risk that late receipt of information from MyCSP will delay the financial statements audit process in 2014/15. There is also a risk that the information provided by MyCSP is not accurate and this could lead to errors in the Remuneration Report.</p>	<p>Progress meetings with finance staff</p> <p>Audit of the Remuneration Report as part of the financial statements audit.</p>	<p>Progress meetings were held with finance staff and they had been assured by MyCSP that information would be provided on time.</p> <p>The late information from MyCSP has delayed the audit of the remuneration report and conclusion of the financial statements audit process.</p>

Appendix I – Significant audit risks

Audit Risk	Assurance procedure	Results and conclusions
<p>Management override of controls (Statement of Comprehensive Net Expenditure, Statement of Accounting Policies (1.21))</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries</p> <p>Review of accounting estimates</p> <p>Evaluation of significant transactions that are outside the normal course of business</p> <p>Testing of monthly management checklists</p>	<p>Substantive testing and testing of monthly management checklists covered assurance procedures. No outstanding issues.</p>

Appendix I – Significant audit risks

Audit Risk	Assurance procedure	Results and conclusions
Wider code risks		
<p>Performance (Strategic Report)</p> <p>COPFS's staffing establishment has reduced by 8% since 2010/11 alongside an increase in the number and profile of reports submitted to COPFS. There has been an increase in more complex cases such as sexual offences and domestic abuse cases which take longer to prosecute.</p> <p><i>There is a risk that COPFS performance suffers as a result of budget cuts, increase in workload and a reduction in workforce.</i></p>	<p>Performance Audit of the efficiency of Sheriff Courts ((not yet complete)</p> <p>Review of outcomes recorded in completed Best Value toolkits</p> <p>Audit of performance system in place including arrangements for identifying and setting performance targets and an evaluation of outcomes against targets</p> <p>Review of workforce planning arrangements (not yet complete)</p>	<p>We relied on the work of internal audit in relation to performance management and reporting. The audit concluded that substantial assurance could be provided on the management arrangements.</p> <p>The national performance audit on the efficiency of Sheriff Courts is not yet complete and will report in September 2015.</p> <p>Our work on COPFS's workforce planning arrangements is ongoing and we will report to the ARC on 6 August 2015.</p> <p>Our review of the BV toolkits revealed that, in some instances, the overall assessment was not clear. An improvement plan has been developed and presented to the Executive Board.</p> <p>We cannot conclude on whether there has been an impact on performance as a number of performance targets changed in 2014/15.</p>

Appendix I – Significant audit risks

Audit Risk	Assurance procedure	Results and conclusions
<p>Workforce Planning</p> <p>(Strategic Report and Director’s Report)</p> <p>COPFS has recently finalised its Workforce Strategy. It is crucial that adequate workforce planning arrangements are in place to ensure COPFS has the necessary capacity to maintain service delivery, and meet business plan objectives in the changing financial and legislative environment. During 2013/14 average sickness absence rates were 8.5 days and COPFS’s Investors in People accreditation reduced from silver to bronze status.</p> <p><i>There is a risk that COPFS’s workforce may not have the capacity and capability to meet its operational requirements and performance targets.</i></p>	<p>Review of Business Plans</p> <p>Detailed review of Workforce Planning arrangements</p> <p>Review of Strategic Human Resource Group minutes</p> <p>Meetings with staff in Human Resources during our interim audit</p>	<p>Our work on COPFS’s workforce planning arrangements is ongoing and we will report our findings on this to the ARC on 6 August 2015.</p>

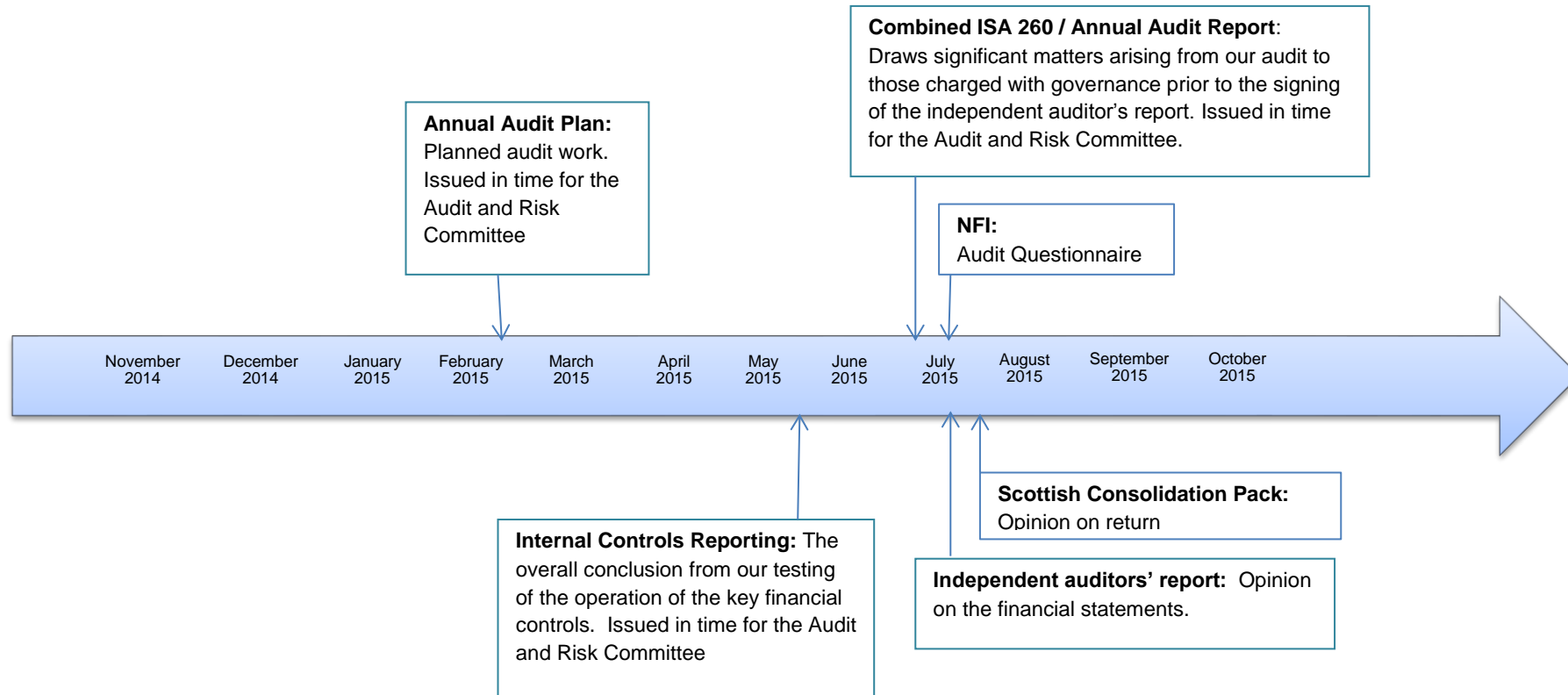
Appendix I – Significant audit risks

Audit Risk	Assurance procedure	Results and conclusions
<p>Internal Audit Annual Assurance Statement (Governance Statement)</p> <p>Although Internal Audit had informally highlighted difficulties with the progress of their audit in 2013/14, Audit and Risk Committee (ARC) members expressed concern about the sequencing and timeliness of reporting. A similar issue was raised in 2012/13. There is an expectations gap between members of the ARC and those providing reports which limits its effectiveness.</p> <p><i>There is a risk that any delays in the finalisation of internal audit reports, where we plan to place reliance, could result in additional work and impact on our audit fee.</i></p>	<p>Attendance at Audit and Risk Committee meetings</p> <p>Review of Adequacy of Internal Audit work</p> <p>Progress meetings with Internal Audit</p>	<p>There have been delays in internal audit undertaking their work and issuing draft reports in line with the timetable set out in their annual plan 2014/15.</p> <p>Our review of internal audit concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.</p> <p>We planned to place reliance on the audits of Financial Management, and Performance Management and Reporting. The reports were finalised prior to the commencement of our financial statements audit and we placed reliance on these reports where appropriate.</p>

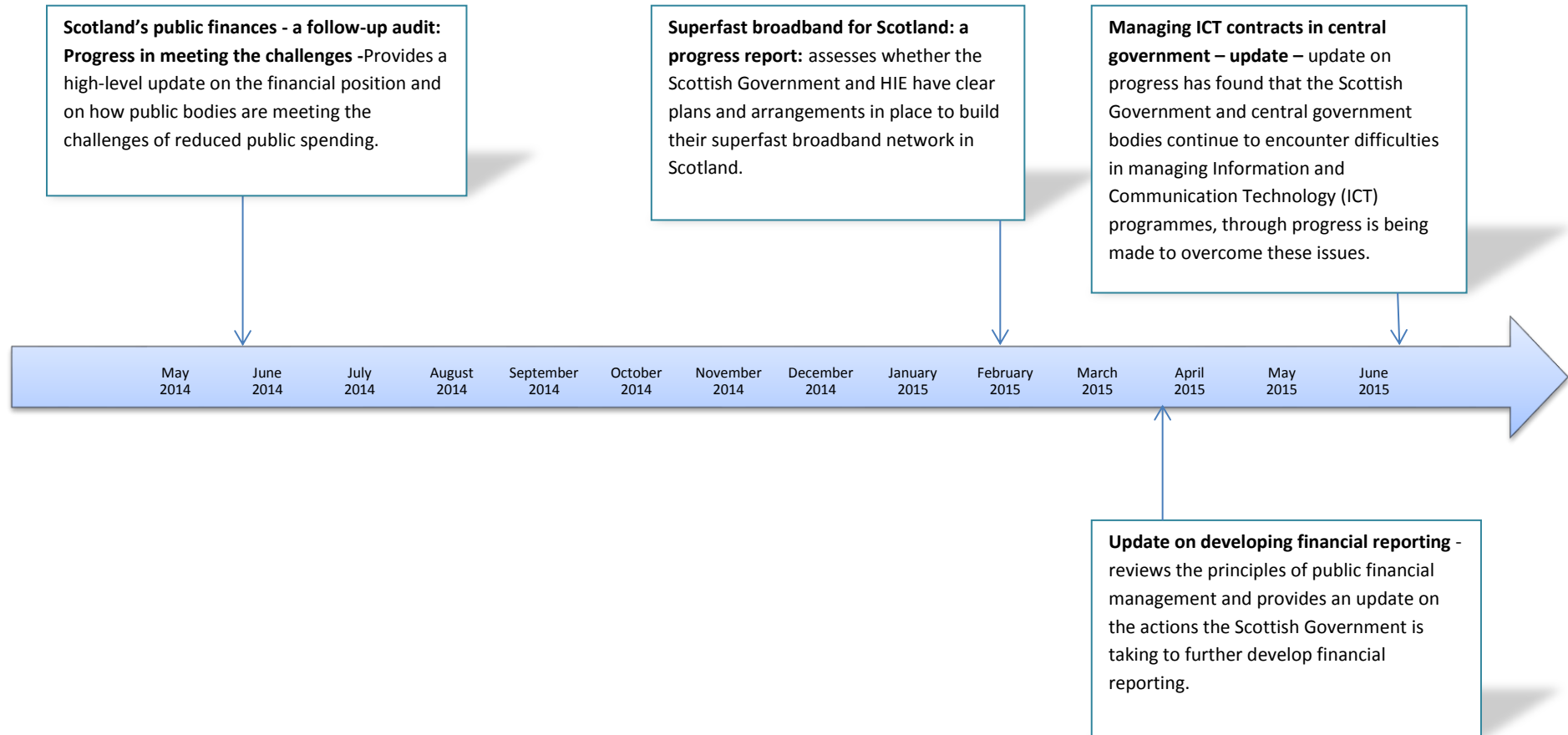
Appendix I – Significant audit risks

Audit Risk	Assurance procedure	Results and conclusions
<p>COPFS Digital Strategy</p> <p>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 for 2015-18 (now produced) and the Digital Strategy for Justice in Scotland (published in August 2014). Until the COPFS Digital Strategy is fully developed and agreed, it is unclear what elements it will have to develop and provide funding to progress its digitising justice strategy aims.</p>	<p>Review arrangements for completion and implementation of the Digital Strategy through periodic meetings with the Director of IT</p> <p>Review the arrangements in place within COPFS to ensure that the local Digital Strategy fully supports the aims of COPFS’s strategic priorities and the national strategy</p> <p>Managing ICT Contracts follow up report (Performance Audit and Best Value, Audit Scotland)</p>	<p>Issues and recommendations reported in our Report on Interim Audit to the Audit and Risk Committee on 13 May 2015.</p> <p>Managing ICT Contracts follow up report issued June 2015.</p> <p>The COPFS’s Digital Strategy has not been finalised.</p>

Appendix II – Summary of local audit reports 2014/15



Appendix III – Summary of national reports 2014/15



Appendix IV – Action plan

No. Para/page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
Financial audit Issues				
1 9/7	<p>Quality of Draft Accounts</p> <p>The unaudited financial statements were received on 18 May 2015, however, the finalised sections of the Strategic Report and Governance Report were not received until 4 June 2015. The late decision to adjust misstatements identified during the audit led to a review of updated versions of financial statements prior to ARC members' approval.</p> <p>Risk: There is a risk that we cannot issue our audit opinion in accordance with the Annual Audit Plan timetable.</p> <p>Recommendation: Ensure that a completed set of unaudited accounts, along with an associated working papers pack that includes evidence providing a clear audit trail is available by the agreed deadline. To ensure that any decision to amend the financial statements for identified misstatements should allow sufficient time for audit checks to be undertaken.</p>	Agreed	Head of Financial Accounting	18 May 2016

Appendix IV – Action plan

No. Para/page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2 25/ 10	<p>Non Current Asset Register (NCAR)</p> <p>An extensive review of the NCAR took place during 2014/15 however further work is still required.</p> <p>Risk: The NCAR cannot be concluded as complete and accurate until all assets have been fully reconciled to the ledger.</p> <p>Recommendation: COPFS to continue the review of the NCAR until assets are fully reconciled to the ledger.</p>	Agreed	Head of Financial Accounting	30 September 2015

Appendix IV – Action plan

No. Para/page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
3 51/17	<p>Transparency</p> <p>COPFS holds Executive Board meetings and Audit and Risk Committees in private. There is restricted access to Board papers, Audit & Risk Committee papers and register of interests.</p> <p>Risk: There is a risk that COPFS is not sufficiently open and transparent.</p> <p>Recommendation: COPFS should consider implementing the recommendations relating to openness and transparency in decision making contained in the Scottish Government's On Board guidance.</p>	<p>Much of the discussion at the Executive Board and Audit and Risk Committee are concerned with formulating the review and implementation of prosecution policy and associated confidential business processes which would not be appropriate for release under Freedom of Information legislation and would not be discussed at public meetings.</p> <p>In order to ensure that there is as much transparency as possible COPFS publishes material on the COPFS website in respect of policies and procedures which can be made public are finalised together with appropriately redacted minutes of management and ARC meetings, performance and budget information. COPFS also engages on a regular basis with a wide variety of stakeholders to discuss policy formulations and execution including the holding of "scrutiny" panels at which a sample of relevant case papers are examined in detail by stakeholders to allow for critical feedback.</p>	Crown Agent	31 December 2015

Appendix IV – Action plan

No. Para/page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
Wider audit issues				
4 61/18	<p>Digital Strategy</p> <p>COPFS does not currently have an agreed Digital Strategy, supported by a detailed delivery plan.</p> <p>Risk: COPFS may not be able to demonstrate that they are capable of supporting the delivery of the national Digital Strategy for Justice in Scotland.</p> <p>Recommendation: COPFS should develop the high-level digital priorities in their Strategic Plan into a full Digital Strategy.</p>	<p>COPFS is developing a new Digital Strategy to support and deliver the digital priorities defined in its Strategic Plan. This will be published in summer 2015, and will be aligned appropriately to the Scottish Government’s Justice Digital Strategy. COPFS has worked collaboratively with the Scottish Government and justice sector partners during the development of the national strategy, and is leading work in a number of key areas to develop its strategic plans and interests. COPFS’ Information Systems Division has business plans setting out detailed planning to deliver digital priorities and solutions in line with strategic and business needs.</p>	Director of IT	September 2015

Appendix IV – Action plan

No. Para/page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
5 68/19	<p>National Fraud Initiative</p> <p>The Executive Board and Audit and Risk Committee are not regularly updated on NFI activities.</p> <p>Risk: There is a risk that senior management and Audit and Risk Committee members are not fully informed of any issues arising from this exercise.</p> <p>Recommendation: COPFS should ensure that regular updates are provided to the senior management team and Audit and Risk Committee members to ensure they are fully apprised of any emerging areas of risk or fraud.</p>	<p>Following the review of all matches an update will be provided to the Finance Management Group in the first instance and to other forums as appropriate.</p>	<p>Head of Financial Accounting</p>	<p>December 2015</p>

Appendix IV – Action plan

No. Para/page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
6 75/20	<p>Best Value Toolkits</p> <p>COPFS has self-assessed their arrangements against all Audit Scotland Best Value toolkits. Our review of completed toolkits revealed that the overall assessment, and any associated improvements actions were not clear.</p> <p>Risk: The lack of a clear overall assessment will impact on the prioritisation of any associated actions in the improvement action plan.</p> <p>Recommendation: Ensure all toolkits have a clear overall assessment with improvement actions where required. The improvement action plan should be reported to the Executive Board and Audit and Risk Committee where necessary.</p>	An assessment will be added to each toolkit. Progress on delivering the Improvement Plan will be reported regularly to the Executive Board.	Head of Corporate Office and Head of Strategy and Delivery Division	31 December 2015