

# Crown Office & Procurator Fiscal Service

Interim Audit Report 2016/17



 AUDIT SCOTLAND

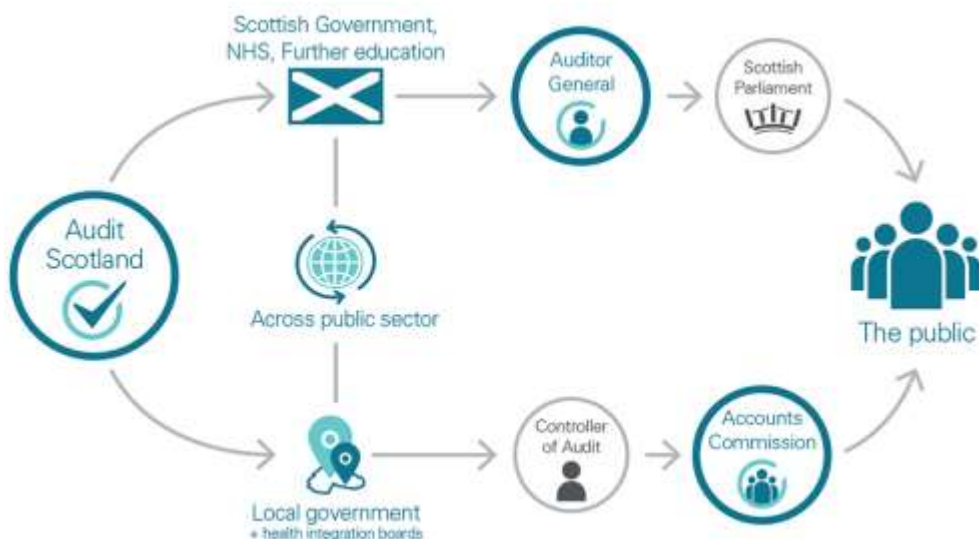
Prepared for the Crown Office & Procurator Fiscal Service

May 2017

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Audit findings

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## Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Crown Office & Procurator Fiscal Service (COPFS). This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements. We will use the results of this testing to inform our audit approach for the 2016/17 financial statements audit.

2. Our responsibilities under the Code of Audit Practice require us to assess the system of internal control put in place by management. We seek to gain assurance that COPFS:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption and
- complies with established policies, procedures, laws and regulations.

3. Also, under the Code of Audit Practice we have carried out work on the wider audit dimensions. This focussed on financial sustainability and on governance and transparency.

## Conclusion

4. We identified several control weaknesses as summarised in [Exhibit 1](#) where we will be carrying out additional work in response to these findings. This will enable us to take planned assurance for our audit of the 2016/17 financial statements.

5. The matters raised in this report should be considered as part of the Accountable Officer's assessment of the review and adequacy of the financial governance processes in place to support the Annual Governance Statement.

6. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

## Work summary

7. Our 2016/17 testing covered key controls in a number of areas including bank reconciliations, purchase to pay system, authorisation of journals, change of supplier bank details and IT access controls. Additionally, our testing covered budget monitoring and control, and non-current assets.

8. In accordance with *ISA 330: the auditor's response to assessed risk*, our audit judgements are based on current year testing of controls and where appropriate prior year results. Our risk based audit approach allows us to take a three-year cyclical approach to controls testing. This approach enables us to place reliance on previous years' audit work where controls remain unchanged and no significant weaknesses had been identified. Where possible we place reliance on the work of internal audit to avoid duplication of effort.

## Internal Audit areas of reliance

**9.** Our 2016/17 Annual Audit Plan set out our planned areas of reliance on internal audit. To support our audit opinion on the financial statements we intended to place formal reliance on the following planned internal audit reviews.

**Payroll transaction testing** - We recently met with Internal Audit and have reviewed this piece of work and we will place reliance on this area of work.

**Aspects of work included in Corporate Improvements** - The internal audit report has been drafted and is in the process of being cleared. Once available we will review the report and we will use this to inform our 2017/18 programme of work.

## Risks identified

**10.** The key control and wider dimension risks identified during the interim audit are detailed in [Exhibit 1](#). These findings will inform our approach to the financial statements audit where relevant.

**11.** Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to COPFS.

## National Fraud Initiative

**12.** The National Fraud Initiative (NFI) is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. It allows public bodies to investigate matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. Public bodies submitted data in October 2016 and received matches for investigation in January 2017. Audit Scotland expects bodies to investigate all recommended matches plus further matches if required (based on findings and the risk of error or fraud). Match investigation work should be completed by 30 September 2017 and the results recorded on the NFI system.

**13.** COPFS participates in the National Fraud Initiative (NFI). We have reviewed the arrangements in place at COPFS and the progress to date in reviewing the matches identified in the 2016/17 exercise. We found that

- COPFS are committed to the NFI
- have appropriate arrangements in place to review and investigate matches, and
- have made good progress in investigating the matched data to date.

**14.** At the time of writing 281 of the 670 matches have been investigated, including all 146 recommended matches. No monetary errors or fraud have been identified. Work is underway to investigate the remaining matches well in advance of the September 2017 deadline.

## Exhibit 1

### Key findings and action plan 2016/17

Issue identified	Management response Responsible officer / date	Additional audit work
<b>Audit findings</b>		
<p><b>Changes to supplier bank details (ref. 3292)</b></p> <p>When receiving details from a supplier regarding change of bank details, a key control is to contact the supplier directly using contact details already held to confirm the change. This is a key control that guards against fraud.</p> <p>We found that COPFS accept notification of supplier changes via letter however of the eight samples we tested there was one instance where the changes were not verified with the supplier by phone call.</p> <p><b>There is a risk that COPFS may make payments to an incorrect account due to fraudulent behaviour by a third party.</b></p>	<p>In this instance a letter was received from the company however the staff member didn't indicate they had called the supplier on the change form. We have checked the next invoice and found the bank details are correct.</p> <p>We are adding a box to the supplier addition form for telephone follow up indication so it is not forgotten.</p>	<p>Follow up new arrangements in 2017/18.</p>
<p><b>Revaluation reserve (ref. 4160/4161)</b></p> <p>Prior to 2014, property revaluations were aggregated in the revaluation reserve. Since 2014 correct accounting treatment has been used whereby revaluations are attributed to individual property assets.</p> <p>The pre-2014 aggregated amount requires to be reviewed and allocated to relevant properties, or written off.</p> <p>As a consequence of this, the revaluation reserve is not being managed in line with accounting requirements (e.g. there has been no amortisation of the reserve and any downward revaluations will not have been accounted for).</p> <p><b>There is a risk that correct accounting treatment is not being followed as the revaluation reserve is not being amortised appropriately.</b></p>	<p>Finance will review the revaluation reserve after September 2017 to rectify the issue found.</p>	<p>We will review and assess the impact on the financial statements as part of our year-end procedures.</p>
<p><b>Over-depreciation of buildings assets (ref. 4159)</b></p> <p>The finance team informed us that there were six assets which were over-depreciated in 2016/17. The same issue was also identified in 2015/16. To correct this, Finance staff had to close the assets and create new assets in the asset register. This is time consuming and could lead to errors.</p> <p>The issue appears to only affect fully depreciated assets which have subsequently been revalued. Both Sun</p>	<p>There has been a review of our system and updates run to ensure we are on the latest patch set. All is working now, but we have a visual check monthly to ensure nothing is out of line. User error may also cause anomalies so we retain the visual check as an integrity measure.</p>	<p>Increased testing of depreciation charges as part of the financial statements audit.</p>

Issue identified	Management response Responsible officer / date	Additional audit work
<p>and InforQ&amp;A (the system and report providers) have been unable to help resolve the issue which relates to the configuration of system generated depreciation charges.</p> <p><b>There is a risk that there continues to be errors in system generated depreciation charges and it is time consuming for staff to rectify. There is also a risk that expenditure could be overstated.</b></p>		
<h3>Wider dimension issues and risks</h3>		
<p><b>Financial sustainability project (ref. 4165)</b></p> <p>The annual capital expenditure plan for COPFS and updates on performance against the plan should be regularly reported to the appropriate committees/board.</p> <p>Estates report regularly on performance and capital spend to the Resources Committee, however there is no evidence of ISD reporting in a similar manner in the Resources Committee minutes.</p> <p>The Business Improvement Committee approves and prioritises corporate improvements. ISD have representation on this Committee. ISD maintain its own capital plan due to demands from across the organisation, therefore priorities do not always correlate with the Committee and spend may not be accurately controlled.</p> <p><b>There is a risk that without coordinated decision making and joined up plans, there may be insufficient funds available to finance ISD projects. There are also questions over the efficiency in running, maintaining and reconciling separate capital plans that are not joined up.</b></p>	<p>The Business Improvement Committee (BIC) sets priorities for digital developments and ISD projects and in doing so takes account of wider ISD priorities, such as maintaining and updating existing systems. ISD use this to develop an overall capital programme. Progress on delivery of the projects is monitored by the BIC, whilst the impact on the Finance Sustainability Project (FSP) and its interdependencies is monitored as part of the FSP monitoring process. The relevant Finance Business Partner discusses actual and planned spend with ISD on a regular basis and this is reported to the Resources Committee, along with estate capital spend.</p>	<p>We will continue to review progress in finalising and implementing the FSP.</p>
<p><b>Financial management (ref. 4165)</b></p> <p>As noted above, there is no evidence of ISD reporting to the Resources Committee. This is further compounded by the fact that there is no ISD representation on the Resources Committee.</p> <p>The Head of ISD is the third largest budget holder at COPFS. Information technology is at the heart of the work on financial sustainability and for the success of the supporting strategies. In addition, decisions on ICT 'Spend to Save' projects are being made at the Resources</p>	<p>We note above the way in which ISD spend is reported to the Resource Committee. We will review membership of the committee in the light of Audit Scotland's comments.</p>	<p>We continue to review and observe the various committee / boards in operation and provide further comment in our annual audit report.</p>

Issue identified	Management response Responsible officer / date	Additional audit work
Committee. <b>There is a risk that without ISD representation on the Resources Committee, there is a lack of integration and coordination in decision making.</b>		
<hr/> <p>Source: Audit Scotland</p> <hr/>		

**15.** All our outputs and any matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



# Crown Office & Procurator Fiscal Service

## Interim Audit Report 2016/17

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