

# Crown Office and Procurator Fiscal Service

2016/17 Annual Audit Report



 AUDIT SCOTLAND

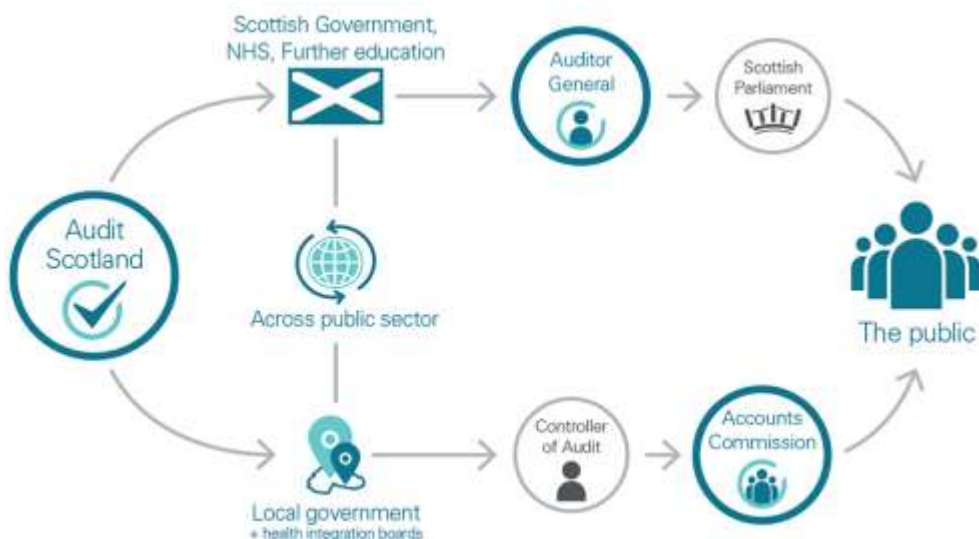
Prepared for Crown Office and Procurator Fiscal Service and the Auditor General for Scotland

7 July 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.

---

# Contents

---

Key messages	4
Introduction	5
Part 1 Audit of 2016/17 financial statements	7
Part 2 Financial management	10
Part 3 Financial sustainability	13
Part 4 Governance and transparency	15
Part 5 Value for money	18
Appendix 1 Action plan 2016/17	20
Appendix 2 Significant audit risks identified during planning	22
Appendix 3 Summary of unadjusted errors	26
Appendix 4 Summary of national performance reports 2016/17	26

---

# Key messages

---

## Audit of the 2016/17 financial statements

- 1 The financial statements of the Crown Office and Procurator Fiscal Service (COPFS) give a true and fair view of the financial position and its expenditure and income.
- 2 The expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.
- 3 The other information in the annual report and accounts is consistent with the financial statements and prepared in accordance with legal requirements.

## Financial management

- 4 COPFS has effective arrangements in place for financial management.
- 5 COPFS had an underspend on its overall 2016/17 budget of £1.74 million.
- 6 Systems of internal control operated effectively in 2016/17, with scope for improvements in some areas.

## Financial sustainability

- 7 COPFS has adequate financial planning arrangements in place.
- 8 While there are no significant concerns about the overall financial position, COPFS will need to make significant savings over the next five years to maintain this position.
- 9 COPFS has introduced a number of new strategies in year, but it is too early to assess their impact.

## Governance and transparency

- 10 COPFS has effective governance arrangements are in place.
- 11 COPFS has improved openness and transparency in the way it conducts its business however with increasing public expectations for more openness in the conduct of public business, COPFS needs to keep this area under review and consider whether there is scope to enhance transparency.

## Value for money

- 12 COPFS has an effective performance management framework in place which supports the achievement of value for money and continuous improvement in services.

---

# Introduction

---

1. This report is a summary of our findings arising from the 2016/17 audit of the Crown Office and Procurator Fiscal Service (COPFS).

2. The scope of our audit was set out in our Annual Audit Plan presented to the February 2017 meeting of the Audit and Risk Committee. This report comprises:

- an audit of the annual report and accounts
- consideration of the wider dimensions set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

---

## Exhibit 1

### Audit dimensions



Source: Code of Audit Practice 2016

---

3. The main elements of our audit work in 2016/17 have been:

- an interim audit of the COPFS' main financial systems and governance arrangements
- an audit of the COPFS' 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions.

4. COPFS is responsible for preparing financial statements that give a true and fair view, for the accuracy of the other information in the annual report and accounts and for establishing effective arrangements for governance, propriety and regularity that enable the Executive Board (the Board) to successfully deliver its objectives.

- 5.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), supplementary guidance and, guided by the auditing profession's ethical standards.
- 6.** These responsibilities include giving independent opinions on the financial statements, regularity, the remuneration and staff report, the performance report and the governance statement. We also review and report on the arrangements within the COPFS to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.
- 7.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.
- 8.** The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Also, our annual audit report contains an action plan at [Appendix 1 \(page 20\)](#). It sets out specific recommendations, responsible officers and dates for implementation.
- 9.** Communication in this report of matters arising from the audit of the annual report and accounts or of risks or of weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
- 10.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- 11.** This report is addressed to both the COPFS and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
- 12.** We would like to thank management and all the staff who have been involved in our work for their cooperation and assistance during the audit.

# Part 1

## Audit of 2016/17 financial statements



### Main judgements

**The financial statements of COPFS for 2016/17 give a true and fair view of the state of its affairs at 31 March 2017 and of its net expenditure for the year.**

**The expenditure and income in the financial statements were incurred or applied in accordance with the applicable enactments and guidance.**

**The other information in the annual report and accounts was consistent with the financial statements and prepared in accordance with legal requirements.**

### Unqualified audit opinions

**13.** The annual report and accounts for the year ended 31 March 2017 were considered and approved by the Audit and Risk Committee on 7 July 2017. We reported within our independent auditor's report:

- an unqualified opinion on the financial statements;
- an unqualified opinion on regularity of expenditure and income; and
- an unqualified audit opinion on the remuneration and staff report, performance report and governance statement.

**14.** Additionally, we are satisfied that there are no matters which we are required by the Auditor General to report by exception.

### Submission of annual report and accounts for audit

**15.** We received the unaudited financial statements on 12 May 2017 in line with our agreed audit timetable.

**16.** The working papers provided with the unaudited financial statements were of a good standard and finance staff provided support to the audit team which helped ensure the final accounts audit process ran smoothly.

### Risk of material misstatement

**17.** [Appendix 2 \(page 22\)](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team.

---

The annual report and accounts are the principal means of accounting for the stewardship of resources and performance in the use of those resources.

---

## Materiality

**18.** Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

**19.** Our initial assessment of materiality for the annual report and accounts was undertaken during the planning phase of the audit and is summarised in [Exhibit 2](#). Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

**20.** On receipt of the annual report and accounts we reviewed our original materiality calculations and concluded that they remained appropriate.

---

## Exhibit 2

### Materiality values

Materiality level	Amount
<b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£1.1 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 60% of overall materiality.	£660,000
<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of overall materiality.	£10,000

Source: Audit Scotland

---

## Evaluation of misstatements

**21.** There were no material adjustments to the unaudited financial statements arising from our audit.

**22.** There were no individual misstatements or errors which exceeded our reporting threshold.

**23.** In our interim report, we noted that COPFS had identified minor errors in system-generated depreciation calculations. Our year-end testing identified further errors. Although the absolute value of these errors is below our clearly trivial reporting threshold, this issue should be rectified.

---

### Recommendation 1 ([refer Action Plan, Appendix 1, issue 1](#))

**Routine checks on depreciation charges should continue to be carried out during 2017/18 to ensure errors are picked up and rectified and any further system-related matters are resolved promptly.**

---



## Significant findings from the audit

**24.** International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to you. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1 \(page 20\)](#) has been included.

### Exhibit 3

#### Significant findings from the audit of financial statements

Issue	Resolution
<p><b>1. Revaluation reserve</b></p> <p>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). This arises because of the way in which revaluations were accounted for prior to 2014. The pre-2014 aggregated amount requires to be reviewed and allocated to relevant properties or written off.</p> <p>We also identified that revaluation journals were not processed correctly as no adjustment is made for accumulated depreciation.</p> <p>As a result, there is no other comprehensive expenditure section for revaluations gains/losses in the Statement of net comprehensive expenditure (SoCNE).</p> <p>It was not possible to exactly quantify the values involved in year. From our audit work, we are satisfied that the amounts in relation to 2016/17 would not breach performance materiality.</p>	<p>We are content that this matter does not materially affect the 2016/17 accounts.</p> <p>COPFS has agreed to review and correct this matter during 2017/18.</p> <p><a href="#">Action Plan (Appendix 1, issue 2)</a></p>

Source: Audit Scotland Audit Work 2016/17

### Other findings

**25.** Our audit identified a number of presentational and disclosure issues which were discussed with management. These were all adjusted and are reflected in the audited financial statements.

**26.** We noted that there were significant delays in receiving the pension benefit information for senior staff which are required to compile the Remuneration and Staff Report disclosures. MyCSP (Civil Service Pensions) agreed to provide this information on 17 May and despite repeated requests from COPFS finance staff, these were not supplied by MyCSP until after the clearance meeting on 14 June. The accounts were subsequently updated and now include the required pension benefit disclosures.

# Part 2

## Financial management



### Main judgements

COPFS had an underspend on the overall 2016/17 budget of £1.74 million.

COPFS has effective arrangements in place for financial management.

Systems of internal control operated effectively in 2016/17 with scope for improvements in some areas.

### Financial performance in 2016/17

27. The main financial objective for COPFS is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

28. COPFS reported an outturn of £112.71 million, remaining within its overall budget for 2016/17 with an underspend of £1.74 million. The financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 4](#).

### Exhibit 4

Performance against Departmental Expenditure Limit (DEL) in 2016/17

Area	Initial budget £m	Final budget £m	Actual outturn £m	Over/(under) spend £m
Cash resource DEL	103.50	104.45	104.09	(0.36)
Non-cash resource DEL	5.40	5.40	3.75	(1.65)
Capital DEL	3.60	3.60	3.94	0.34
AME	0.00	1.00	0.93	(0.07)
Total	112.50	114.45	112.71	(1.74)

Source: Scotland's Budget: Draft Budget 2017/18 (issued 15 Dec 2016); Spring Budget Revision 2016/17 (issued 2 Feb 2017)

29. The £0.95 million increase in cash resource DEL related to additional Scottish Government funding to support prosecution of domestic abuse cases. In terms of cash resource, the underspend in cash resource DEL was used to fund the overspend in capital, leading to a total cash underspend for the year of £20,000.

**30.** The underspend on non-cash resource DEL is due to an underspend on non-cash depreciation of £1.65 million. This underspend cannot be used to support any cash resource or capital overspends.

**31.** Overall, we concluded that COPFS managed its 2016/17 budget effectively.

## Internal controls

**32.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that COPFS has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**33.** Our findings were included in an interim audit report presented to the Audit and Risk Committee on 25 May 2017. We concluded that overall the controls were generally operating effectively. No significant internal control weaknesses were identified during the audit which could affect COPFS' ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. We identified some matters relating to depreciation and the revaluation reserve which we considered further during our financial statements audit and summarised above in [paragraph 23](#) and [Exhibit 3](#).

## Budgetary processes

**34.** We reviewed COPFS' budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of relevant committee papers and attendance at the Audit and Risk Committee meetings we confirmed that senior management and non-executive directors receive regular, timely and up to date financial information on COPFS' financial position.

**35.** Against that background we concluded financial reporting could be enhanced by including more information on staff and non-staff expenditure variances and on budget changes. COPFS plans to introduce these changes from 2017/18 onwards and this will strengthen budget monitoring and support scrutiny of its finances. We also identified scope for improvement in the information on capital spending which, again, would support understanding and scrutiny.

**36.** We identified that it is not possible to directly link invoices to the capital plans for ISD and Estates as there is no unique identifier which clearly shows which invoice, and therefore capital spend, links to which approved project on capital plans. Having this direct link will help with forecasting, monitoring capital budget over/underspends and will help support longer term sustainability.

## Prevention and detection of fraud and irregularity

**37.** We assessed the COPFS' arrangements for the prevention and detection of fraud. Our audit work covered a number of areas such as whistleblowing and review of the counter fraud strategy.

**38.** We concluded that COPFS is proactive in promoting fraud awareness and had appropriate and adequate arrangements in place for fraud detection and prevention during 2016/17.

## National Fraud Initiative

**39.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error. COPFS' results of the 2016/17 NFI exercise are below in [Exhibit 5](#).

---

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

---

## Exhibit 5

### 2016/17 National Fraud Initiative Results

Total number of matches



670

Number recommended for investigation



146

Completed/closed investigations



387

Source: NFI Website

**40.** COPFS has fully investigated all the 2016/17 recommended NFI matches with no issues arising. All investigation results are duly recorded on the NFI website and there is an appropriate staff and skills mix dedicated to NFI. We also noted that NFI has been included on the monthly controls checklist by Finance. This is good practice and ensures that NFI remains at the forefront of Finance's attention.

**41.** COPFS continues to make good progress in investigating all other matches. Based on the evidence to date, we concluded that COPFS is proactive in investigating matches and reporting the outcomes of NFI activity.

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

**42.** We have reviewed the arrangements in place to maintain standards of conduct including the Staff Handbook and Civil Service and Members' Codes of Conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

**43.** Based on our review of the evidence we concluded that COPFS has appropriate arrangements in place for the prevention and detection of bribery corruption. We are not aware of any specific issues that we need to bring to your attention.

# Part 3

## Financial sustainability



### Main judgements

**COPFS has adequate financial planning arrangements in place.**

**There are no significant concerns about overall financial position of COPFS, although significant savings have to be made over the next five years to maintain this position.**

**COPFS has introduced a number of new strategies in year, but it is too early to assess their impact.**

### Financial planning

**44.** COPFS produced its 2017/18 draft budget in December 2016 with a resource allocation of £111.1 million (resource £107.5 million and capital £3.6 million) which is £2.4 million (2.2 %) less than the finalised 2016/17 budget allocation (excluding AME funding).

**45.** The 2017/18 budget shows a challenging position, reflecting the impact of future financial pressures. The Financial Strategy issued in January 2017 identifies the need to make savings of the order of £15 million by 2022/23.

### Medium to long term financial planning

**46.** We reviewed COPFS' financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

**47.** We recognise that COPFS is mainly funded from the Scottish Government budget allocation (99%) and this is currently set on a year-on-year basis by the Scottish Government. This should not preclude COPFS from preparing medium to long term financial plans based on sensitivity analysis and scenario planning for possible budget changes.

**48.** Work has been on-going throughout 2016/17 on financial sustainability and plans which has resulted in a new financial strategy and new ways of working. The strategy for the period 2016/17 to 2022/23 includes scenarios of flat cash settlements and a 2% reduction in settlements over the period. This demonstrates that COPFS need to make savings of around £15 million in the period to 2022/23 based on the flat-cash scenario, an average of £3 million per year. COPFS has weighted the savings, so that savings in excess of £3 million are required in the earlier years.

**49.** COPFS aims to achieve savings on non-staff expenditure, with approximately £2 million savings generated from estates savings and improved procurement. The Estate strategy issued in January 2017 focuses on methods to rationalise the estates use and improve the utilisation of COPFS properties. COPFS also will continue to share services with the Scottish Courts and Tribunal Service for

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

facilities management and this is another area where further efficiencies will be sought. A new Procurement strategy was issued in January 2017 with a view to deliver savings, benefits and efficiencies through improvements in contracting activity and strengthening contract management.

**50.** A new Workforce Planning strategy was issued in January 2017, covering the next five years. The aim is that COPFS has the right people with the right skills to ensure a skilled and capable workforce for the future. Savings in staff costs will need to be made over the medium to long term and COPFS believes that this may be achievable predominately through natural turnover.

**51.** To support achievement of these savings there is a need for further and improved use of digital technologies. The recent Justice Committee Inquiry report into the role of COPFS also identified that improvements in digitalisation will support COPFS to modernise and streamline criminal procedures going forward.

---

**Recommendation 3 (refer Action Plan, Appendix 1, issue 3)**

**Savings are required to maintain financial balance over the next five years. The financial strategy identifies over £15 million of savings which are reliant on on-going projects in digitalisation, estates, workforce planning and procurement.**

---

# Part 4

## Governance and transparency



### Main judgements

**COPFS has effective governance arrangements in place.**

**COPFS has improved openness and transparency in the way it conducts its business, with some scope for further review and improvement.**

**Risk management reporting and scrutiny is clear and effective.**

### Governance arrangements

**52.** We reviewed the role of the Executive Board (the Board) and the governance structure as part of our wider dimension audit work. We noted that COPFS regularly reviews its governance framework and structure to ensure that it is working effectively. There is effective scrutiny and challenge by the non-executive directors at committee meetings and we observed effective working relationships between non-executive directors and senior staff attending these meetings.

**53.** COPFS' committee meetings are not held in public. During the year there were significant developments in openness and transparency with the COPFS now publishing minutes of the Audit and Risk Committee and the three sub-committees of the Board on its website. Openness and transparency could be further enhanced by including agendas and meeting papers on the COPFS' website.

**54.** We noted that the Board does not check whether there are any declaration of interests at the beginning of its meetings nor is this a standing agenda item. In addition, we noted that non-executive directors appointed by the Scottish Government, do not complete a separate declaration of interest for COPFS. COPFS should request this to ensure there are no conflicts or potential related parties.

### **Recommendation 4 (refer Action Plan, Appendix 1, issue 4)**

**At the start of each Board meeting, the Chair should invite members to declare any interests and this should be recorded in the minutes. All non-executive directors should be required to complete a declaration of interest for COPFS at the beginning of their appointment and this should be reviewed and updated by non-executives annually.**

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

### The annual governance statement

**55.** Under the HM Treasury's Financial Reporting Manual (FReM), COPFS must prepare an annual governance statement within the annual report and accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the statement and provides assurances around the achievement of the organisation's strategic objectives.

**56.** The SPFM does not prescribe a format for the annual governance statement, but sets out minimum requirements for central government bodies. The process undertaken by COPFS management included all function heads and business area leaders completing detailed checklists covering all aspects of the business and providing certificates of assurance to the Crown Agent as evidence used in underpinning his preparation of the governance statement.

**57.** We concluded that the annual governance statement for 2016/17 complies with guidance issued by the Scottish Ministers and based on our knowledge and work performed presents an adequate picture of governance arrangements and matters at COPFS.

## Internal audit

**58.** Internal audit provides COPFS and the Accountable Officer with independent assurance on COPFS' overall risk management, internal control and corporate governance processes.

**59.** The internal audit function is carried out by the Scottish Government Internal Audit Directorate (SGIAD). We carried out a review of the adequacy of the internal audit function during our planning stage and concluded that SGIAD operates accordance with the Public Sector Internal Audit Standards and has sound documentation standards, reporting procedures and resources in place.

**60.** To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2016/17 we placed formal reliance on internal audit's work in payroll in the following key areas:

- employee verification
- IT access controls
- payroll exception reporting
- permanent changes to starters, leavers and pay awards
- temporary changes made to hours, maternity leave, sick pay and overtime.

**61.** This reliance allowed us to reduce our substantive testing at final accounts in payroll testing. During the course of our audit, we also considered internal audit reports and findings as part of our wider dimension work.

**62.** We had initially planned to place reliance in 2016/17 on the Corporate Systems work but due to the timing and completion of this work, we will consider it for supporting our audit work in 2017/18.

## ICT risks

**63.** COPFS finalised its new digital strategy in January 2017. This sets out the high-level strategic priorities for COPFS and will be supplemented by a detailed plan setting detailing functional priorities and delivery timeframes for 2017/18.

**64.** As the detailed plan is not yet available, we cannot conclude on the effectiveness of this work in 2016/17. We will review this area in 2017/18.

## Risk management

**65.** We reviewed 'Money Matters Booklet 8' which details the risk management process and the risk register. These areas are managed by the Risk Management Group which provides updates to the Audit and Risk Committee on new and emerging risks. The Audit and Risk Committee also carries out 'deep dives' into a



different risk at each meeting to gain a greater understanding of the challenges facing COPFS. This is for the benefit of non-executives and enables them to target scrutiny to key areas. We found the risk management process robust and the reporting to the Audit and Risk Committee is clear and effective.

## Transparency

**66.** Transparency means that the public, in particular, have access to understandable, relevant and timely information about how COPFS is making decisions and how it deploys its resources.

**67.** While the Board meetings (and all other committees) are held in private, COPFS demonstrates a commitment to improving transparency. Board minutes have been available on the website for a number of years and from January 2017 the minutes of the Audit and Risk Committee and the three sub-Committees of the Board are also available on the website.

**68.** Overall, we concluded that the Board conducts its business in an open and transparent manner but we believe that there are some areas where the Board could improve current arrangements including looking to publish agendas and papers. There have been improvements in year in publishing minutes and issuing the first Victims Right to Review Annual Report. With increasing public expectations for more openness in the conduct of public business, COPFS needs to keep this area under review and consider whether there is scope to enhance transparency.

# Part 5

## Value for money



### Main judgements

**COPFS has a well developed performance management framework in place.**

#### Performance management

**69.** Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.

**70.** The Board is kept informed about performance across all areas of activities. Responsibility for detailed review and scrutiny of performance lies with the Operational Performance Committee (a sub-committee of the Board). The Board has responsibility for the oversight of performance and delivery of targets. The main COPFS key performance indicators are set out in the Statistics (Performance) section of COPFS' website and are updated quarterly.

**71.** The Operational Performance Committee Executive meets monthly. We review the minutes of the meetings and request copies of papers as required to gain an insight into how well performance is scrutinised.

**72.** Each meeting of the Operational Performance Committee receives a corporate performance report which considers the monthly statistics and key indicators for each of the four COPFS functions. There is evidence of detailed discussion and where appropriate there is consideration of developing better indicators to support COPFS' work.

**73.** We concluded that COPFS has an effective performance management framework in place which supports the achievement of value for money and continuous improvement in the way services are delivered.

Value for money is concerned with using resources effectively and continually improving services.

#### Performance trends

**74.** The performance report outlines the activities of COPFS, the key risks facing COPFS going forward and its performance in year. The performance reporting covers:

- performance against key performance indicators for COPFS
- financial performance against budget
- performance against payment policy
- environmental sustainability performance

**75.** We reviewed the key performance indicators used by COPFS and trends over the last five year period and have summarised these in [Exhibit 6](#).

## Exhibit 6

### Key performance indicators – trend analysis

KPIs	2012/13	2013/14	2014/15	2015/16	2016/17
Bail cases – serve within timebar	● 85%	● 100%	● 100%	● 100%	● 100%
Take/implement decision – 75% within 4 weeks	● 82%	● 84%	● 81%	● 77%	● 76%
Investigation of deaths – 80% within 12 weeks	● 83%	● 88%	● 91%	● 92%	● 89%
Investigation of criminal allegation against police – 90% within 12 weeks	● 94%	● 91%	● 91%	● 92%	● 93%

Source: COPFS Audited Annual Accounts 2012/13 – 2016/17

**76.** We note that the performance trends are fairly static over the past five years. Bail cases served within timebar continues to meet the required 100% target (note the target was 80% in 2012/13). There have not been significant movements in the other KPIs over the last five years, with only minor fluctuations in each year. All KPIs have been met over the last five years.

### National performance audit reports

**77.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17 we published a number of reports which are of direct interest to the Board. These are outlined in [Appendix 3](#) in this report.

# Appendix 1

## Action plan 2016/17

### 2016/17 recommendations for improvement



Page  
no.

Issue

Recommendation

Agreed management  
action/timing

8

#### 1. Depreciation

Our audit identified minor errors in system-generated depreciation calculations.

There is a risk that the system is not calculating depreciation appropriately and over/undervaluing the assets.

COPFS should continue to maintain a record of depreciation charges for 2017/18 and monitor these for over/under depreciation.

Checks should be made during 2017/18 to ensure that there are no further issues with regard to depreciation charges and the system is operating properly.

An update of the fixed asset system occurred in May 2017.

A manual calculation of the expected 2017/18 depreciation monthly charge for the six assets in which there were errors in 2016/17 was carried out and this has been compared to the system generated calculations. No errors were found.

Depreciation figures will be checked during 2017/18.

Head of Financial Accounting and Finance Systems

December 2017

9

#### 2. Revaluation Reserve

The revaluation reserve is not 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).

We also identified that revaluation journals are not being processed correctly as no adjustment is made for accumulated depreciation.

As a result there is no other comprehensive expenditure section for revaluations gains/losses in the Statement of net comprehensive expenditure (SoCNE).

There is a risk that the revaluation reserve is not fully compliant with correct accounting requirements.

COPFS should review the revaluation reserve during 2017/18 and ensure that it operates in accordance with the proper accounting requirements.

A full review will be conducted.

Head of Financial Accounting and Finance Systems

February 2018



**Page  
no.**

**Issue**

**Recommendation**

**Agreed management  
action/timing**

14

**3. Long term financial planning**

COPFS requires to make savings to maintain financial balance over the next five years. The financial strategy identifies over £15 million of savings over the next five years which are reliant on on-going projects in digitalisation, estates, workforce planning and procurement.

There is a risk that without a long term financial plan or savings plans, the organisation will fail to achieve objectives.

The Board should ensure that a long term financial plan including detailed savings plans are developed identifying how and where savings in 2017/18 and beyond will be made.

The Finance Sustainability Project, which underpins the financial strategy and provides a direction of travel, is being updated and its assumptions refreshed in order to feed into the current spending review process. Once the result of the spending review is known it will enable us to develop more detailed plans for living within the budgets that are then set.

Deputy Chief Executive

December 2017 (dependent upon completion of spending review)

15

**4. Declaration of interests**

At Board meetings, members are not invited to declare any interests nor is there a standing agenda item for this.

All non-executive directors should be required to complete a declaration of interest at the beginning of their appointment and this should be reviewed and updated annually.

There is a risk that potential related parties could go undeclared / recorded.

At the start of each Board meeting, the Chair should invite members to declare any interests and this should be recorded in the minutes.

This will be added to the agenda.

We will confirm register of interests at the appointment of non-executive directors.

Secretariat

Immediate

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></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>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Sample tested journals created during the year and at year end. No issues identified.</p> <p>Accounting estimates were reviewed and no issues identified.</p> <p>Focused testing on accruals and prepayments was carried out and no issues identified.</p> <p>There was no evidence of transactions outside the course of normal business.</p> <p>From work carried out in year, there was no evidence of management override of controls.</p>
<p><b>2 Risk of fraud over expenditure</b></p> <p>The Financial Reporting Council's Practice Note 10 (revised) requires consideration of the risk of fraud over expenditure. The extent and nature of expenditure, for example, witness claims and increased usage of the new Purchase to Pay (P2P) system means that there is an inherent risk of fraud.</p>	<p>High level system review of P2P including controls testing.</p> <p>Focused substantive testing on higher risk and more complex areas such as trade payables and non-current assets.</p> <p>Reliance on the detailed work by internal audit on controls.</p>	<p>Carried out high level system review of payables including P2P and sampling of transactions. No fraud risks identified.</p> <p>Testing of trade payables and non-current additions and disposals and no fraud risks identified.</p> <p>Reviewed Internal Audit work on payroll and reliance was place on this work, no fraud issues were identified.</p> <p>There was no fraud risks identified in relation to expenditure.</p>
<p><b>3 IT access controls and segregation of duties</b></p> <p>Finance staff do not have access on their PCs to all the software programmes they require to carry out their roles. As a result finance staff are</p>	<p>Focused substantive testing on higher risk areas where there is limited access to software.</p> <p>Test ICT user access controls.</p>	<p>Identified that staff in finance now have new PCs which have given them access to appropriate programmes.</p> <p>Carried out sample testing of payables transactions and identified that no user could carry</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>using colleagues' log-in details and passwords to access the required software. Finance staff require robust, fit for purpose PCs and software to do their job effectively. The current process circumvents IT access and security controls, and segregation of duties controls. There is also risk of unauthorised use of programmes widening the potential for fraud.</p>		<p>out end to end testing.</p> <p>Reviewed ICT user access controls and no issues were identified.</p>
<p><b>4 Scheme of delegation</b></p> <p>The scheme of delegation identifies that there are four types of authority: procurement; purchasing; budgetary and payment and senior staff have the ability to carry out all these processes themselves and authorise all stages of a transaction.</p> <p>Finance staff have advised that this document does not necessarily reflect actual practice and, for example, P2P prevents officers from creating and authorising a purchase.</p> <p>The scheme of delegation should be updated to reflect actual practice also ensuring no member of staff can process a transaction from start to finish.</p>	<p>Review the revised scheme of delegation in line with local knowledge of client.</p> <p>Testing to ensure no transaction can be completed end to end by one user in P2P and through manual transaction.</p>	<p>Carried out sample testing of payables transactions (for both P2P and manual transaction) and identified that no user could carry out end to end testing.</p> <p>Reviewed authorisation over P2P journals and these were all prepared and authorised by separate individuals in line with the scheme of delegation.</p> <p>We note from the Financial Strategy (issued Jan 2017) that a new scheme of delegation will be issued in 2017/18 and this will be reviewed as part of the 2017/18 audit.</p>

### Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p><b>5 Financial sustainability</b></p> <p>COPFS are currently working on a financial strategy / sustainability project. The 2017/18 draft budget comprises an operating budget of £107.5m and capital budget of £3.6m. In real terms this total budget is a £4m reduction from 2016/17. Developing and maintaining a long-term financial strategy will help:</p> <ul style="list-style-type: none"> <li>• set the context for annual budgets</li> <li>• assist in clarifying the financial sustainability of COPFS over the longer term and,</li> <li>• assist in identifying</li> </ul>	<p>Monitor progress of the Shaping the Future programme and the Financial Sustainability Project.</p> <p>Review progress in the development of longer-term financial planning.</p>	<p>Attended Financial Sustainability sessions run by SGIAD to gain increased understanding of the project.</p> <p>Reviewed the medium term financial strategy issued January 2017.</p> <p>This work is a positive first step in longer term financial sustainability and we will continue to review as part of our on-going audit work.</p>
--	--	---

Audit Risk	Assurance procedure	Results and conclusions
<p>affordability issues at an early stage.</p> <p>A long-term financial strategy should have clear links to the COPFS' strategic objectives, corporate plan, workforce plans and annual business plans.</p> <p>There is a risk that given the substantial changes in the organisation, decisions may be taken without a clear understanding of the financial implications beyond the current financial year and how they affect the overall financial sustainability of COPFS.</p>		
<p><b>6 Financial management</b></p> <p>Throughout 2016/17, there have been a number of different officers involved in preparing monthly finance reports for the committees which has led to variations in the styles of reporting. In addition, these reports are now being circulated to the new incoming non-executive directors.</p> <p>The reports would benefit from including year to date actual expenditure in the high level summary table and further detail on over / underspends with required mitigating actions. Although the finance team will be aware of these, members may find it challenging to scrutinise the reports without this basic information.</p> <p>There is a risk that the key messages are not always clear or in a format suitable for scrutiny for those charged with governance.</p>	<p>Monthly finance reports will be reviewed against good practice expectations as well as minutes of the Resource Committee.</p>	<p>Reviewed finance reports provided to the Resources Committee and ARC. Areas for improvement were identified through discussion with the Head of Management Accounting including variances (including tolerance levels) and budget transfers.</p> <p>There are plans to enhance financial reporting starting in 2017/18 and this should allow increased scrutiny and a better understanding of the financial position. We will review as part of our 2017/18 audit.</p>
<p><b>7 Governance and transparency</b></p> <p>There are a number of strategies/policies which are currently in development:</p> <ul style="list-style-type: none"> <li>• Workforce strategy</li> <li>• Digital Strategy</li> <li>• Cyber Security policy</li> </ul> <p>Due to the extent of change in the business, there is a risk that without having a workforce or</p>	<p>Monitor progress on workforce planning arrangements throughout the year.</p> <p>Review the arrangements in place within COPFS to ensure that the local digital strategy fully supports the aims of COPFS strategic priorities and the national digital strategy when completed.</p> <p>Review of COPFS's approach to cyber security when</p>	<p>COPFS completed new workforce and digital strategies in January 2017.</p> <p>COPFS has reviewed its workforce planning strategy and completed action plans early 2017/18. We will review further in 2017/18.</p> <p>COPFS has reviewed its digital strategy. This will be supplemented in 2017/18 by a detailed plan setting out the</p>























Audit Risk	Assurance procedure	Results and conclusions
<p>digital strategy in place that decisions may be uncoordinated leading to decisions in one area having unintended consequences in another.</p>	<p>completed.</p> <p>Review and consider the Internal Audit findings on ICT assurance.</p> <p>We will review the newly drafted policies/strategies against good practice.</p>	<p>priorities and delivery timeframes for implementing the digital strategy priorities. We will review this further in 2017/18.</p>
<p><b>8 Governance and transparency</b></p> <p>The terms of reference for the Audit and Risk Committee (ARC) require to be updated (and reviewed at least annually) to reflect current circumstances. For example there is no reference in the membership details to the role of Depute Chief Executive; the document refers to four non-executive directors being part of the ARC whereas minutes suggest that there are only three; there is no reference to having at least one member with recent finance experience; and in appendix A names have not been updated (going forward, it may be more pragmatic to refer to officer roles rather than actual names).</p> <p>There is a risk that the roles and duties of those charged with governance and not clear especially given the changes in ARC membership during 2016/17.</p>	<p>Review revised terms of reference for the ARC when they are completed and ensure they are in line with our understanding of the ARC and how it operates and recognised good practice.</p> <p>Follow up on Role of Boards national study.</p>	<p>COPFS reviewed the terms of the reference of its ARC and presented a revised version to the May 2017 ARC. A small number of points are being revised before these will be issued. We will review as part of the 2017/18 work.</p> <p>We note that COPFS now includes ARC minutes on its website, representing a further contribution to enhanced transparency.</p>

# Appendix 3

## Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update
			 Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review
			 Managing new financial powers: an update

### Central Government relevant reports

[The National Fraud Initiative in Scotland](#) – June 2016

[Supporting Scotland's economic growth](#) – July 2016

[Superfast broadband for Scotland: a progress update](#) – August 2016

[Scotland's new financial powers](#) – September 2016

[Managing new financial powers: an update](#) – March 2017

# Crown Office and Procurator Fiscal Service

## 2016/17 Annual Audit Report

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)