

# Crown Office & Procurator Fiscal Service

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for Crown Office & Procurator Fiscal Service

February 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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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

2. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for the Crown Office and Procurator Fiscal Service (COPFS). We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

### Key audit risks

Audit Risk	Management assurance	Planned audit work
<b>Financial statement issues and risks</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>Owing to the nature of this risk, assurances from management are not applicable in this instance.</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><b>2 Risk of fraud over expenditure</b></p> <p>The Financial Reporting Council's <a href="#">Practice Note 10 (revised)</a> 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>Key controls are working effectively for expenditure, including in P2P and for witness claims.</p> <p>Segregation of duties in place.</p> <p>Internal audit work on controls, including payroll and P2P.</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>

Audit Risk	Management assurance	Planned audit work
<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 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>We now have new PCs (since January 2017) with relevant software and access available to relevant staff. The IT hardware and access is not fit for purpose.</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><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>The P2P system does not allow the order placer to authorise the order, so segregation is assured. Where P2P is not used, the scheme of delegation is understood by the organisation in that no person is allowed to order and authorise the goods. (From an external perspective it was pointed out by AS that the scheme of delegation does not read this way.)</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>
<b>Wider dimension risks</b>		
<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 affordability issues at an early stage.</li> </ul> <p>A long-term financial strategy should have clear links to the COPFS' strategic objectives, corporate plan,</p>	<p>Work is on going on the financial sustainability project.</p> <p>A draft medium term financial strategy was presented to the Audit and Risk Committee in November 2016 supplemented by a focussed training session facilitated by the Scottish Government's Head of Internal Audit. Expert consultants have also been employed to support this work. Financial strategy published 31 January 2017, together with Digital, Estates and Workforce strategies.</p>	<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>

Audit Risk	Management assurance	Planned audit work
<p>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>Movements in staffing in the finance department have been completed, and therefore there is now stability in the roles.</p>	<p>Monthly finance reports will be reviewed against good practice expectations as well as minutes of the Resource Committee.</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 digital strategy in place that decisions may be uncoordinated leading to decisions in one area having unintended consequences in another.</p>	<p>A workforce strategy was published on 31 January 2017.</p> <p>A Digital Strategy was published on 31 January 2017.</p> <p>A Cyber security policy is in development.</p> <p>Internal Audit report on ICT Assurance issued in December 2016 provided reasonable assurance.</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 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>

Audit Risk	Management assurance	Planned audit work
<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>It is planned to review the terms of reference once the new Audit &amp; Risk Committee members are in place in May 2017.</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>

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## National Fraud Initiative

**3.** The National Fraud Initiative (NFI) is a data-matching exercise led by Audit Scotland to aid the detection of fraudulent payments. NFI allows public bodies to investigate matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

**4.** The current data matching exercise collected data in October 2016 and match investigation work is due to begin in January 2017. We shall monitor COPFS' participation and progress with NFI. We will report progress in our Annual Audit Report, which will be presented to the Audit and Risk Committee in July 2017.

## Reporting arrangements

**5.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**6.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

**7.** We will provide an independent auditor's report to Crown Office & Procurator Fiscal Service, Scottish Parliament and the Auditor General for Scotland summarising the results of the audit of the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

8. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year-end i.e. 31 December. COPFS is required to submit their audited financial statements in line with the Scottish Government's accounts consolidation timetable.

## Exhibit 2

### 2016/17 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Interim Audit Report	24 May 2017	24 May 2017
Annual Audit Report including ISA 260 requirements	7 July 2017	7 July 2017
Signed Independent Auditor's Report	11 July 2017	N/A

### Audit fee

9. The proposed audit fee for the 2016/17 audit of COPFS is £97,950. In determining the audit fee we have taken account of the risk exposure of Crown Office & Procurator Fiscal Service, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 12 May 2017.

10. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

### Responsibilities

#### Audit and Risk Committee and Accountable Officer

11. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

12. The audit of the financial statements does not relieve management or the Audit and Risk Committee, as those charged with governance, of their responsibilities.

#### Appointed auditor

13. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

14. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial statements

**15.** The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of COPFS and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how COPFS will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**16.** We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of the audited body and its expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income.

## Materiality

**17.** Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for COPFS are set out in [Exhibit 3](#).



## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2017 based on the September 2016 finance report (excluding capital expenditure).	£1.099 m
<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 planning materiality.	£0.660 m
<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 planning materiality.	£0.010 m

**18.** We review and report on other information published with the financial statements including the performance report, accountability report including the annual governance statement and the remuneration and staff report. Any issue identified will be reported to the Audit and Risk Committee.

#### Timetable

**19.** To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit and Risk Committee dates.

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Meeting with officers to clarify working paper expectations	December 2016
Latest submission date of unaudited COPFS' financial statements with complete working papers package	12 May 2017
Latest date for final clearance meeting with Director of Finance	15 June 2017
Agreement of audited unsigned financial statements	7 July 2017
Issue of Annual Audit Report including ISA 260 report to those charged with governance	
Independent auditor's report signed	11 July 2017
Latest date for signing of Scottish Government consolidation return	14 July 2017

## Internal audit

**20.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by the Scottish Government Internal Audit Department.

### Adequacy of Internal Audit

**21.** We are currently undertaking a review of the Scottish Government's Internal Audit department. This will be reported to the Scottish Government Audit and Risk Committee in March 2017.

### Areas of reliance

**22.** To support our audit opinion on the financial statements we intend to place formal reliance on the following planned internal audit reviews:

- Payroll transaction testing
- Aspects of work included in Corporate Improvements

**23.** In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- ICT Assurance Report
- Transitional Finance and Governance Review - Phase 1

## Audit dimensions

**24.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

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### Exhibit 5

#### Audit dimensions




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### Financial sustainability

**25.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the

COPFS' financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We shall review selected aspects over our five year audit appointment and conclude on the following:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether COPFS can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

### **Financial management**

**26.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on the following over our five year appointment:

- whether COPFS has arrangements in place to ensure systems of internal control are operating effectively
- whether COPFS can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how COPFS has assured itself that its financial capacity and skills are appropriate
- whether COPFS has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

### **Governance and transparency**

**27.** 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. We will review, conclude and report on the following over our five year appointment:

- whether COPFS can demonstrate that the governance arrangements in place are appropriate and operating effectively.
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

### **Value for money**

**28.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on the following over our five year appointment:

- COPFS can provide evidence that it is demonstrating value for money in the use of its resources.
- COPFS can demonstrate that there is a clear link between money spent, output and outcomes delivered.
- COPFS can demonstrate that outcomes are improving.
- There is sufficient focus on improvement and the pace of it.

## Independence and objectivity

**29.** Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

**30.** The engagement lead for Crown Office & Procurator Fiscal Service is Gordon Smail, Assistant Director. Auditing and ethical standards require the appointed auditor Gordon Smail communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of COPFS.

## Quality control

**31.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

**32.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**33.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

# Annual Audit Plan 2016/17

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