

Crown Office and Procurator Fiscal Service

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

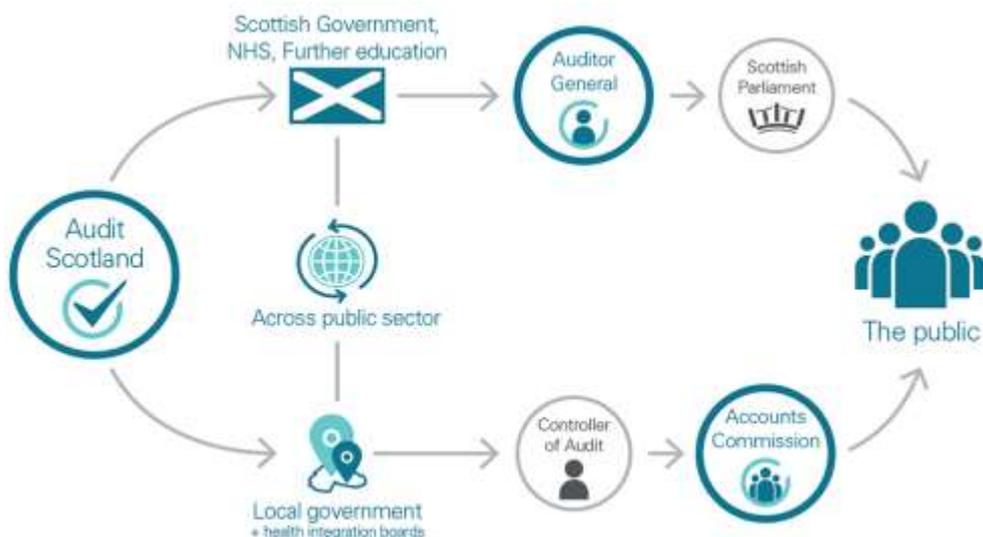
Prepared for Crown Office and Procurator Fiscal Service

February 2018

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.

2. 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

3. 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

2017/18 Key audit risks

| Audit Risk | Source of assurance | Planned audit work |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Financial statement issues and risks | | |
| <p>1 Risk of management override of controls</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, management assurances 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>2 Risk of fraud over expenditure</p> <p>The Financial Reporting Council's Practice Note 10 (revised) requires public sector auditors to give consideration to the risk of fraud over expenditure. The extent of expenditure 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 carried out in 2016/17.</p> | <p>System review of accounts payable/P2P focusing on key controls.</p> <p>Focused substantive testing on higher risk and more complex areas such as trade payables and non-current assets.</p> <p>Reliance on internal audit work as appropriate.</p> |

| Audit Risk | Source of assurance | Planned audit work |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>3 Provisions and contingent liabilities</p> <p>There is a significant degree of subjectivity in the measurement and valuation of provisions and contingent liabilities. We consider these material account areas for COPFS. There are also specific disclosures which are required to be made to support these.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements; including failure to correctly recognise, value and disclose liabilities or provisions.</p> | <p>Information and supporting evidence for provisions are provided to finance by COPFS functions.</p> <p>Finance staff receive regular training to ensure knowledge of accounting standards is maintained.</p> | <p>Substantive testing of provisions and contingent liabilities, ensuring valuations and disclosures are in line with the FReM and other relevant guidance.</p> <p>Through our knowledge of the business, review of key documents, and cut-off testing we will assure ourselves a to the completeness of these categories.</p> |
| <p>4 Budgetary pressures</p> <p>For 2017/18 COPFS' budget has reduced in real terms. This places increased pressure on the financial sustainability project to deliver increased savings in year and ensure there is no overspend at year end. At the time of drafting this plan, COPFS was projecting a small overspend.</p> <p>There is a risk that COPFS is unable to achieve financial balance at year end.</p> | <p>Key controls are working effectively for expenditure including in P2P and for witness claims.</p> <p>Internal audit work on controls including payroll and P2P carried out in 2016/17.</p> <p>Monthly budget information is shared throughout the organisation and action is taken to address overspends.</p> | <p>Monitor monthly budget reports and review actions taken by COPFS to address projected overspends.</p> <p>Focused substantive testing of expenditure and trade payables.</p> |
| Wider dimension risks | | |
| <p>5 Financial sustainability</p> <p>COPFS services are demand led and there has been a trend of increasing numbers of serious complex cases.</p> <p>The 2018/19 Scottish Government draft budget identified a real increase in cash terms for COPFS for that year. However COPFS still face longer term budget challenges and need to make £15 million in savings from 2017/18 to 2022/23.</p> <p>There is a risk that without detailed savings plans for each year, short term or reactionary decisions may be made and these may not fit with longer term plans or strategies of COPFS.</p> | <p>Periodic monitoring of the financial sustainability project.</p> <p>Workforce planning group monitoring delivery of the workforce strategy.</p> | <p>Monitor delivery of the sustainability project including savings planned and achieved and report in our annual audit report.</p> |

| Audit Risk | Source of assurance | Planned audit work |
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| <p>6 Cyber and data security</p> <p>COPFS, in common with other public sector bodies, is at risk from cyber attacks and data losses.</p> <p>In late 2017 the Scottish Government issued A Cyber Resilience Strategy for Scotland: Public sector action plan 2017-2018 which details a number of key actions which COPFS will be required to complete throughout 2018. Actions include preparing cyber incident response plans, a cyber security strategy and resilience training.</p> <p>COPFS has yet to appoint a Head of Cyber Security and Resilience and, an IT Security Officer by spring 2018.</p> <p>New General Data Protection Regulations (GDPR) come into force in May 2018 and will strengthen data protection regulations and increase fines for any breaches.</p> <p>COPFS hold a significant amount of personal and sensitive information. There is a risk that a cyber attack or significant data loss could lead to financial and reputational losses for COPFS.</p> | <p>Digital Strategy issued in January 2017 and the Digital Strategy delivery plan is due to be published in February 2018. This plan reflects the conclusion of complex, strategic and solutions roadmap planning. The timing of the publication of the delivery plan factors the additional ISD resources being assigned to deliver the Digital Strategy.</p> <p>Publication of COPFS cyber resilience plan.</p> <p>A new IT cyber security and resilience team is being created in ISD (Information Systems Division). Recruitment processes are underway with new specialist staff expected to be in post for spring 2018. ISD continues to apply its cyber protection and IT security systems and processes for managing COPFS' IT systems and information.</p> <p>An Information Assurance Group is to be established to coordinate preparation for GDPR. A GDPR framework and readiness planning paper has been produced to structure COPFS' strategic and compliance management for this legislation.</p> <p>A Data Protection Officer is to be appointed.</p> | <p>Review the governance arrangements put in place to manage cyber resilience arrangements.</p> <p>Review progress in achieving the actions identified in the Cyber Resilience Strategy 2017/18.</p> <p>Monitor cyber security updates in the Scottish Public Finance Manual (SPFM) to ensure COPFS complies with the new requirements as they are published.</p> <p>Monitor progress in preparation for GDPR including review of the COPFS' plans for GDPR implementation.</p> |
| <p>7 Workforce Planning</p> <p>COPFS introduced a new workforce strategy in January 2017 as part of the work on longer term financial sustainability.</p> <p>Until this strategy is embedded in COPFS, there is a risk that changes in the workforce in one area of the organisation may have unintended consequences on another area of the business. The most effective skills mix for COPFS may not be achieved.</p> | <p>Workforce strategy issued in January 2017.</p> <p>Workforce planning group meets fortnightly to provide challenge over vacancies/filling posts.</p> <p>Additional funding has been provided to cover short term staffing pressures in 2017/18.</p> | <p>Follow up of Scotland's Public Sector Workforce report from November 2013 and report our findings in our annual audit report.</p> |

| Audit Risk | Source of assurance | Planned audit work |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>8 Procurement</p> <p>A new procurement strategy (January 2017 – March 2019) was issued in December 2016. The aims are to make savings and generate efficiencies.</p> <p>COPFS hold a large number of complex contracts that are due for renewal in a short space of time. This will require significant expert resource. We found limited linkages between procurement and finance and a number of staffing changes to the procurement team.</p> <p>COPFS is reviewing its shared service agreement with the Scottish Government for procurement.</p> <p>There is a risk that savings and efficiencies are not achieved and that additional cost is incurred.</p> | <p>Procurement strategy issued in December 2016.</p> <p>Internal audit work on procurement and contract management completed in 2017/18.</p> <p>Consultant has been in place to assist with renewal of complex contracts.</p> <p>The Central Procurement Team is now fully staffed and is looking to longer term succession planning.</p> <p>COPFS has committed to the “under £50,000” shared service provided by the Scottish Government and is in the process of renegotiating the “over £50,000” shared service.</p> <p>A Procurement Action Plan has been put in place.</p> | <p>Review internal audit work in 2017/18 on procurement and contract management and monitor progress against the recommendations.</p> <p>Monitor progress on procurement project and contract management throughout the year, including outcomes.</p> |

Reporting arrangements

4. 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.

5. 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.

6. We will provide an independent auditor’s report to COPFS, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual audit report containing observations and recommendations on significant matters which have arisen in the course of the audit.

7. 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 are required to submit their audited financial statements by mid July to meet the Scottish Government’s consolidation timetable.

Exhibit 2

2017/18 Audit outputs

| Audit Output | Target date | Audit and Risk Committee date |
|------------------------------|------------------|-------------------------------|
| Annual Audit Plan | 26 February 2018 | 26 February 2018 |
| Management Report | 30 May 2018 | 30 May 2018 |
| Annual Audit Report | 5 July 2018 | 5 July 2018 |
| Independent Auditor's Report | 5 July 2018 | 5 July 2018 |

Audit fee

8. The proposed audit fee for the 2017/18 audit of COPFS is £99,130 (2016/17: £97,950). In determining the audit fee we have taken account of the risk exposure of COPFS, 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 14 May 2018.

9. 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 not included in our planned audit activity.

Responsibilities

Audit and Risk Committee and Accountable Officer

10. 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.

11. 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

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

13. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying 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

14. 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.

15. 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 bodies and their 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

16. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

17. 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 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| Planning materiality – 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 2018 based on the latest audited accounts for the year ended 31 March 2017. | £1.100 million |
| Performance materiality – 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 million |
| Reporting threshold (i.e. clearly trivial) – 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 million |

Source: Audit Scotland

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 |
|-----------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|
| Working paper checklist provided to clarify working paper expectations | December 2017 |
| Latest submission date of unaudited annual accounts with complete working papers package | 14 May 2018 |
| Latest date for final clearance meeting with Director of Finance | 14 June 2018 |
| Issue of letter of representation and proposed independent auditor's report | 5 July 2018 |
| Issue of Annual Audit Report including ISA 260 report to those charged with governance | 5 July 2018 |
| Independent auditor's report signed | 6 July 2018 |
| Latest date for signing of Scottish Government consolidation return | 16 July 2018 |

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 Scottish Government Internal Audit Directorate overseen by a Director of Internal Audit.

Adequacy of Internal Audit

21. Audit Scotland are currently undertaking a review of the Scottish Government Internal Audit Directorate. This will be reported to the Scottish Government Audit and Assurance Committee in March 2018.

Areas of Internal Audit reliance

22. In respect of our wider dimension audit responsibilities we will consider the following internal audit work:

- Key Performance Indicators and links to Justice Reform objectives
- Procurement and Contract Management
- Transitional Finance, Governance and Workforce Planning in line with Justice Reform objectives (Phase 2)
- Information Management.

Audit dimensions

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

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

Financial sustainability

24. 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 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 will carry out work and conclude on:

- 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.

Financial management

25. 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:

- 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

26. 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:

- 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

27. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- 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.
- there is sufficient focus on improvement and the pace of it.

Independence and objectivity

28. Auditors appointed by the Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. 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 Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

29. The engagement lead for COPFS is Gillian Woolman, Assistant Director. Auditing and ethical standards require the appointed auditor Gillian Woolman to 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

30. 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.

31. 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 (and relevant supporting guidance) 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 recently secured new arrangements for external quality reviews.

32. 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.

Adding Value

33. Through our audit work we aim to add value to COPFS. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well COPFS has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

Crown Office and Procurator Fiscal Service

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