

# Scottish Police Services Authority

Report on the 2008/09 Audit

November 2009

The logo for Audit Scotland, featuring a stylized blue checkmark inside a circle.

AUDIT SCOTLAND

# Scottish Police Services Authority

**Report on the 2008/09 Audit**

# Contents

Key messages	1	Governance and Accountability	17
Introduction	4	Performance	22
Financial Statements	6	Looking Forward	28
Use of Resources	10		



# Key messages

In 2008/09 we looked at the key strategic and financial risks being faced by the Scottish Police Services Authority (SPSA). We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

## Financial statements

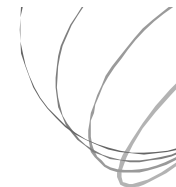
We have given an unqualified opinion on the financial statements of SPSA for 2008/09. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

## Financial position and use of resources

SPSA's resource budget for 2008/09 was £97.9 million including resource cover of £6.023 million for non-cash costs. Under statute, SPSA also 'maintain' the SCDEA and funding of £24.476 million was ring fenced from the SPSA budget for SCDEA costs. The total resource out-turn for 2008/09 was £98.532 million, resulting in an overspend of £632,000. The overspend was due to increased legal costs relating to various issues: the dispute with the Chief Executive, advisory costs related to the implementation of an agency agreement for the delivery of ICT services to police forces, the ongoing fingerprint inquiry and the cost of specialist VAT advice associated with an on-going HMRC appeal. There was also an increase in the cost of the ICT restructure due to different than expected age profile of the early retirement and voluntary severance applicants. The Scottish Government were kept informed during 2008/09 of the potential overspend and has confirmed that no grant-in-aid will be clawed back in relation to this overspend.

SPSA's balance sheet at 31 March 2009 shows a net liability of £168,000 compared to a net asset position of £2.993 million as at 31 March 2008. The movement is mainly caused by the pension fund moving from an asset position to a liability of £4.657 million because of the decreased value of investments due to the impact of the economic downturn.

The 2009/10 budget for SPSA is £111.187 million, £108 million of which will be funded by Scottish Ministers and £3 million externally funded. SPSA's budget includes 2% efficiency savings and costs fit-out of a new forensic laboratory at £7 million. In 2009/10 SPSA has assumed responsibility for procuring all ICT goods and services for police forces. While the costs of the goods and services lie with forces, SPSA incur the costs of managing the procurement process and, as this is the first year of this process, these costs can be only be estimated. The delivery of efficiency savings together with other budget pressures, and new responsibilities, are a significant challenge for SPSA.



To meet budget requirements together with billing and reporting arrangements under the new ICT agency agreement, SPSA must have a strong budgeting and monitoring regime in place. To improve financial monitoring and reporting, SPSA plan to procure a new financial ledger system during 2009/10.

## **Governance and accountability**

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. In 2007/08 we reported there had been a number of changes to the Board. In 2008/09 there were more changes to Board membership, further recruitment to senior management posts and in addition, the chief executive was suspended from duty in December 2008. 2008/09 was only SPSA's second year and this level of change has resulted in much time being devoted to addressing these issues resulting in risks that the Board and senior management have been unable to fully focus on strategic issues and delivering key services and efficiencies.

Our overall conclusion though is that during these two years, much work has been done on establishing sound systems of corporate governance arrangements particularly on the work of audit committee, risk management, clearer and improved reporting to the Board and greater focus on the work of the Executive Committee. However, further work is required to embed controls across the organisation, for example SPSA are making improvements to their procurement procedures following the results of internal audit work on tendering as described in the Statement on Internal Control.

## **Performance**

The 2008/09 Annual Plan was based on the four strategic priorities set by Scottish Ministers and objectives set for each business area, with 14 key performance indicators (KPIs). Of the 14 KPIs, nine were achieved or exceeded target. The Scottish Police College, Information Services and Criminal Justice met the majority of their objectives including delivering probationer training for additional police officers and integrating 350 ICT staff from police forces.

The Forensic Services and Corporate Services achieved less than 50% of their objectives and on reflection, SPSA consider some objectives were set without a full understanding of baseline data available and some other objectives had unrealistic expectations. Two objectives relating to sickness and performance reviews, attributable to Corporate Services but requiring input from across the business were not met. Progress has been made with over 60% of staff having been through performance reviews and SPSA are actively managing sickness absence rates.

During 2009/10 the interim Chief Executive is leading on a comprehensive strategic review and planning process aimed at preparing a five-year strategic plan by March 2010. Taking cognisance of this work, SPSA agreed with the Scottish Government that the high level strategic priorities from 2008/09 be set aside in 2009/10 and instead eight corporate objectives and 16 corporate KPIs have been set, which link to the Scottish Government's strategic objectives under 'Scotland Performs' and Scottish Policing Performance Framework themes.



## **Looking forward**

The final part of our report notes some key risk areas and issues for SPSA going forward, including SPSA's strategic review in 2009/10 and work required on understanding cost-drivers at SPSA and identifying long-term efficiencies. SPSA faces significant financial pressures and we will continue to monitor SPSA's financial position and the plan for efficiencies and savings to achieve financial balance. We also highlight the introduction of the new Scottish Police Board, which will bring together central and local government partners with the police to identify and consider strategic priorities.

Audit Scotland's forward work programme of performance audits for 2009/10 includes a review of SPSA's progress in delivering efficiencies in police support services. This study is due to start in 2010.

The assistance and co-operation given to us by Board members and staff during our audit is gratefully acknowledged.

**Audit Scotland**  
**November 2009**



# Introduction

1. This report summarises the findings from our 2008/09 audit of SPSA. The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 18 February 2009. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
2. We have issued four reports this year, and we briefly touch on the key issues we raised in this report. Each report set out our detailed findings and recommendations and the Board's agreed response.
3. Best value duties apply across the public sector and, in central government, best value is a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and throughout this report we comment on aspects of SPSA arrangements.

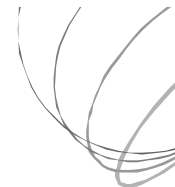
**Exhibit 1: Framework for a best value audit of a public body**





4. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report is the first step towards that goal.
5. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. We mention the key findings from all relevant reports, and the implications for SPSA, throughout this report. Full copies of the study reports can be obtained from Audit Scotland's website, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
6. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by management and Board members of SPSA during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.





# Financial Statements

7. In this section we summarise key outcomes from our audit of SPSA financial statements for 2008/09 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

## Our responsibilities

8. We audit the financial statements and give an opinion on:
- whether they give a true and fair view of the financial position of SPSA and its expenditure and income for the period in question
  - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
  - the consistency of the information which comprises the Introduction, Corporate Social Responsibility, Leadership and Governance and Management Commentary within the financial statements
  - the regularity of the expenditure and receipts.
9. We also review the statement on internal control by:
- considering the adequacy of the process put in place by the interim Chief Executive as Accountable Officer to obtain assurances on systems of internal control
  - assessing whether disclosures in the statement are consistent with our knowledge of SPSA.

## Overall conclusion

10. We have given an unqualified opinion on the financial statements of SPSA for 2008/09.
11. As agreed, the unaudited accounts were provided to us on 15 June 2009, supported by a comprehensive working paper package. We concluded our audit within the agreed timetable and provided our opinion to the Audit Committee on 10 September 2009 as timetabled.



## Issues arising from the audit

12. As required by auditing standards we reported to the audit committee on 10 September 2009 the main issues arising from our audit of the financial statements. The key issues were as follows:
13. **Managing property and programme income and expenditure** - SPSA has to manage programme income and expenditure for projects which involve funding in addition to grant-in-aid. It is important to monitor income and expenditure for programmes together to establish recovery of costs and to maximise income against costs incurred. We identified instances where SPSA were relying on emails rather than agreements and/or payment schedules with the Scottish Government for programme income. SPSA are in discussion about putting in place agreements payment schedules for programme income.
14. SPSA also has a number of properties to manage which involves subletting accommodation within these properties and billing tenants for rent and services provided. We identified instances where improvements could be made to manage income and cash flows: changes to rental arrangements not being formalised in memorandum of terms of occupancy (MOTOs) and cost re-charges for the year not being finalised. Without agreements and programme budgeting arrangements in place SPSA are open to budget risks and lengthy disputes resolving cases. In 2008 SPSA appointed a facilities manager to manage the properties and SPSA are liaising with tenants to finalise MOTOs. Cost re-charges are being reviewed for 2009/10.
15. **Impairment review** - In 2008 we reported an impairment review of assets transferred from police forces and the Scottish Government to SPSA had not been carried out during 2007/08 and SPSA committed to undertake impairment reviews across all business areas from 2008/09. During 2009 a full physical verification and impairment review was undertaken by SPSA, led by the Compliance Manager. The accounts presented for audit on 15 June 2009 did not include the results of the review but were provided during the audit visit. The accounts were updated for assets held but not previously recorded; assets recorded in error when they had been disposed of in prior years; and an impairment charge. This resulted in a net adjustment to increase the net book value of assets by £363,000 and an impairment charge to the income and expenditure account of £67,000.
16. **Contingent liabilities and provisions** - The accounts presented for audit did not disclose any provisions or contingent liabilities, and we were aware of issue which could potentially lead to payments being made by SPSA. In addition, SPSA is liable for inherited claims from staff from predecessor bodies. SPSA contacted predecessor bodies to establish a position of known cases in order to monitor the potential exposure and the accounts were updated to reflect the outcome of a recent employment tribunal case.

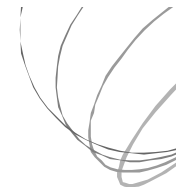


## Regularity

17. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to her view on adherence to enactments and guidance.
18. The only issue identified for disclosure as a significant control issue in the Statement on Internal Control reports relates to control issues on tendering of professional services. Internal audit carried out a review of procurement during which they identified a number of issues over tendering on professional services. SPSA put in place an action plan to address the issues and reported on progress to the Audit Committee. Internal audit also carried out a follow-up audit and confirmed actions were being implemented.

## International financial reporting standards (IFRS)

19. As announced by the Chancellor in the 2008 Budget report on 12 March 2008 (Budget report paragraph C103), Government departments and other public sector bodies will report using International Financial Reporting Standards (IFRS) from 2009/10. The Scottish Government announced on 25 April 2008 that all Scottish Government Departments, Executive Agencies, Health Bodies and Non-Departmental Public Bodies would be required to produce shadow IFRS based accounts for financial year 2008/09. This was to include a restated balance sheet as at 1 April 2008.
20. In terms of the audit of the IFRS opening balance sheet at 1 April 2008, there were two key dates to achieve as outlined below:
  - **28 November 2008** – opening 2008 IFRS-based balance sheet were to be presented to auditors for dry-run audit
  - **28 February 2009** – dry-run audit of opening balances was to be completed, resulting in a letter to management highlighting the work done, auditors' findings and areas for further work.
21. The opening balance sheet and supporting documentation were submitted by SPSA for audit for review by the deadline date of 28 November 2008. The restated balance sheet and supporting working papers were comprehensive and SPSA had reviewed the majority of leases to identify finance leases; reviewed intangible assets to determine if they still meet the capitalisation tests; and calculated an accrual to reflect the liability for untaken annual leave.



22. We made some recommendations for the delivery of the next stage of IFRS reporting – the production of the shadow accounts for 2008/09, and will consider progress on these when we review the shadow accounts later in 2009. These included:

- **Leases** – further work was required to complete the full review of leases and document the decision as to whether a lease was an operating or finance lease. This includes the Dundee Forensic laboratory and the Scottish Police College (Tulliallan).
- **Componentisation** - SPSA were to undertake a review of assets to demonstrate that there are no significant components of assets that require to be separated and depreciated at different rates.
- **Financial instruments** – significant contracts were to be reviewed to determine whether conditions in the contracts could vary cash flows in an uncertain manner over time e.g. contracts in foreign currency, and to demonstrate no additional accounting was required.
- **Annual leave accrual and flexitime**– further work was to be undertaken to establish a wider representative sample across all business areas.



# Use of Resources

23. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from our review of SPSA.

## Financial Position

### Outturn 2008/09

24. SPSA is required to work within the resource budget set by the Scottish Government. Under the Police, Public Order and Criminal Justice (Scotland) Act 2006, SPSA 'maintain' the SCDEA and funding is ring fenced from the SPSA budget for SCDEA costs. SPSA's resource budget for 2008/09 was £97.9 million including resource cover of £6.023 million for non-cash costs. SPSA incurred an overspend of £632,000 and the outturn against budget for SPSA and SCDEA is as follows:

**Exhibit 2 – Performance against resource budget 2008/09 (£ million)**

Resource Allocation (£million)	Budget	Actual Outturn	Difference
SPSA	68.777	69.431	
SCDEA	23.100	22.932	
<i>Total Grant in Aid (GIA) – cash</i>	<i>91.877</i>	<i>92.363</i>	<i>(0.486)</i>
SPSA	4.647	4.906	
SCDEA	1.376	1.263	
<i>Total Resource cover – non-cash</i>	<i>6.023</i>	<i>6.169</i>	<i>(0.146)</i>
<b>Total</b>	<b>97.900</b>	<b>98.532</b>	<b>(0.632)</b>

25. The overspend was due to increased legal costs relating to various issues: the dispute with the Chief Executive, advisory costs related to the implementation of an agency agreement for the delivery of ICT services to police forces, the ongoing fingerprint inquiry and the cost of specialist VAT advice associated with an on-going HMRC appeal. There was also an increase in the cost of the ICT restructure due to different than expected age profile of the early retirement and voluntary severance applicants. The Scottish Government were kept informed during 2008/09 of the potential overspend and has confirmed that no grant-in-aid will be clawed back in relation to this overspend.
26. SPSA's balance sheet at 31 March 2009 shows a net liability of £168,000 compared to a net asset position of £2.993 million as at 31 March 2008. The movement is mainly caused by the movement on the pension fund from an asset of £0.929 million to a liability of £4.657 million due to the impact of the economic downturn on the value of pension fund investments.



27. In 2007/08 SPSA did not draw down £5.738 million GIA from the 2007/08 budget as the cash was not required and it was agreed with the Scottish Government these funds could be used to pay year-end creditors in April. Last year we noted that GIA is accounted for on a cash basis within year and there is no mechanism to defer draw downs to future financial years and as a result this funding would be unavailable to SPSA. However in 2008/09, the sponsor department allowed SPSA to draw down £4.676 million of this amount. SPSA have been advised though that the remaining £1.062 million will not be available in 2009/10.

## Financial sustainability and the 2009/10 budget

28. SPSA's budget for 2009/10 is £111.187 million.

### Exhibit 3 – 2009/10 Budget

Limits	Budget
	£000
SPSA revenue and capital expenditure	86,455
SCDEA expenditure	24,732
<b>Total</b>	<b>111,187</b>

29. This is to be funded as follows:

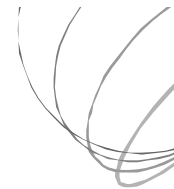
### Exhibit 3 – 2009/10 Resource Plan

Limits	Budget
	£000
Cash Grant in Aid for capital and revenue expenditure	101,834
Non-cash grant-in-aid	6,023
External Income	3,330
<b>Total</b>	<b>111,187</b>



30. SPSA is expected to achieve 2% of efficiency savings per year from 2009/10 to 2011/12. Although SPSA has forecast a balanced budget for 2009/10 delivering efficiencies year on year while absorbing cost pressures represents a significant challenge for the organisation. Some of the factors impacting on SPSA include:

- **New forensic laboratory** - The main capital project for SPSA included in the 2009/10 budget is a new forensic laboratory Dundee with fit-out costs budgeted at £7.5 million. The Scottish Government has agreed to fund £6.5 million for the project on the basis that SPSA can repay a proportion of this sum over the next two years and therefore, the SPSA budget will be reduced by £1 million for both 2010/11 and 2011/12 to cover this. As part of the original proposal to build this new laboratory, the Aberdeen forensic facility was to close but following a campaign to keep the service open, the new convener committed to further consultation on forensic services. In April 2009 SPSA announced a full examination of the way forward for a national forensic service, to review current capability, to seek independent expertise to support this process, and to carry out a full engagement with customers before a preferred shape of a national forensic service model was agreed. The review is due for completion shortly.
- **ICT services** - In April 2008 350 ICT staff transferred from police forces into SPSA, increasing the SPSA 2008/09 budget by £14.0 million (17%) for related staff costs, however, ICT goods and services continued to be paid for by local police forces. From July 2009 all ICT goods and services are procured through SPSA under an agency agreement with police forces and the Scottish Government, whereby SPSA will undertake procurement on behalf of all forces. SPSA will invoice forces and then police forces will seek reimbursement from the Scottish Government. Expenditure is currently forecast at £23.0 million split across goods and services (£15 million); specified capital replacements (£2 million); and national projects (£5 million), with further work required to establish the level of spend by police forces on local projects. While the costs of the goods and services lie with forces, SPSA incur the costs of managing the procurement process and, as this is the first year of this process, these costs can only be estimated. These are complex arrangements requiring monitoring and co-operation among all forces and SPSA.
- **Financial system** - To meet budget requirements together with billing and reporting arrangements under the new ICT agency agreement, SPSA must have a strong budgeting and monitoring regime in place. In 2007/08 and 2008/09 SPSA relied on spreadsheets to produce management information. The Finance team is planning to procure a new financial ledger system which should improve financial reporting.
- **Baseline costs** - In order to support efficiencies SPSA management recognise there is a need to establish a baseline of costs and analyse these costs compared to activities and volume of services provided. Unit costs of core activities are not available at present and charging rates continue to be based on those inherited from forces. Once there is a clear understanding of costs and level of service provided SPSA can develop the correct capability to support Scottish police forces. This is further discussed under the strategic review in paragraph 71.



## Procurement

31. Internal audit carried out a review of procurement and identified a small number of contracts in specified areas where there was no evidence that they had been subject to a tender process. These findings related to contracts from the early months of establishing SPSA and audit testing confirmed controls were in place into 2008/09. The contracts were for specialist VAT advice, legal services and facilities management services. An action plan is being monitored by the audit committee to put in additional controls and clarify procurement procedures. Due to the nature of the findings by internal audit disclosures were made in the Statement on Internal Control in the statutory accounts. With SPSA taking on responsibility for ICT procurement for all forces it is important that SPSA staff understand and follow procurement controls. Internal audit follow-up work in August 2009 confirmed actions were being addressed.

## People Management

32. When SPSA was established it inherited staff from the Scottish Government and the police forces. It therefore has staff on a number of different terms and conditions. Staff costs account for over two-thirds of expenditure for SPSA, with staff numbers (average full-time equivalent) increasing to 1,300 following the transfer of 350 ICT staff in April 2008, increasing staff and rental costs by £14 million. SPSA plan to complete harmonisation of terms and conditions by 31 March 2010 and costs of harmonisation will be included within the 2010/11 budget.
33. SPSA are responsible for human resources cases passed across from predecessor organisations and are therefore involved in The Fingerprint Inquiry (Scotland), which began in June 2009 and is currently underway. The Inquiry is investigating the steps taken to verify the fingerprints associated with the case of *H.M Advocate v McKie* in 1999, and related matters. An SPSA oversight team meets regularly to review the outcomes from the inquiry and assess the impact on SPSA. In relation to another case, SPSA has been ordered by an Employment Tribunal to reinstate an employee whose dismissal was found to be unfair. SPSA has accepted the unfair dismissal claim but has appealed the order of the Tribunal to reinstate the employee. If the appeal is successful SPSA will be obliged to pay a sum by way of compensation. Legal costs for these cases are an additional cost pressure on SPSA.
34. SPSA's 2008/09 Annual Plan set a target of staff absence levels to be 8 days per employee but the out-turn was 9.2 days. SPSA are working on separating long-term sickness cases inherited by SPSA and aiming for 5.1 days (long-term sick excluded) and absence rates to date show improvements in 2009/10. The Board regularly review sickness absence rates as part of their human resources monitoring and SPSA has recently contributed to the HM Inspectorate of Constabulary for Scotland (HMICS) thematic review of Absence Management across policing in Scotland and will address any actions arising from this review.





35. The 2008/09 Annual Report records all staff received an average of 3.2 days training against a target of 3 days and over 60% of staff have received a personal development review. In 2009/10, SPSA plan for all staff to receive a personal development review and undertake a training gap analysis with the aim of implementing a training plan by March 2010.

## Information and communication technology

36. In our annual plan 2008/09 we recorded the risks surrounding ICT service provision, data sharing and security. Our planned audit work includes a computer services review, which examines the arrangements for the management of ICT services. This includes reviewing the: strategic direction for the use of ICT; the structure for the delivery of services; the operational environment; arrangements for monitoring the performance of services and business continuity management. SPSA completed a self-assessment questionnaire and provided supporting evidence to support the assessment. As advised to the Audit Committee in May 2009 our work will be reported upon in the autumn and this work is currently underway.
37. SPSA has a designated information management team, which co-ordinates the management of information risk across the organisation. Information management policies and procedures have been developed and a detailed data handling review was undertaken during the year to assess compliance with policies. We will consider these developments as part of our review.

## National Studies

38. Audit Scotland published a number of national studies relevant to SPSA's use of resources. These were *Use of Consultancy Services*, *Improving Public Sector Purchasing* and *Improving Energy Efficiency*. The Head of Corporate Management is reviewing how best SPSA can assess and implement, where appropriate, the recommendations from national reports.

## Use of Consultancy Services

39. The overall aim of the study was to review central government's use of consultancy services and to make recommendations to improve the public sector's use of consultants' knowledge, skills and resources to help deliver new services and initiatives quickly and expertly. The key findings were that the public sector is strengthening the way it buys goods and services. In most cases, central government buys consultancy services well but some improvements can be made: central government does not have a clear strategy for its use of consultants or for linking use to its priorities or financial and workforce plans; management of consultancy projects could be improved through more consistent and formal evaluation of consultants' work and learning more from them; and central government could make savings of up to £13 million a year through better planning and buying of consultancy services.



40. The report made specific recommendations for public bodies, including the following examples:

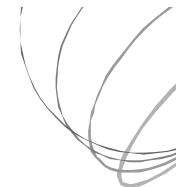
- having clear processes for approving, recording and monitoring the use of consultants
- planning the use of consultancy services to ensure that consultants are used where their knowledge and skills bring greatest value for money
- improve the quality of their invitations to tender through better and earlier discussion with consultants about their consultancy needs
- using the most economical competition routes by using framework agreements, restricted competitions and closed tendering approaches when appropriate
- evaluating the work of consultants more systematically and sharing findings from these reviews
- working closely with consultants to increase assurance on quality and make use of opportunities to learn from consultants and ensure knowledge transfer, where appropriate.

41. SPSA contracts with consultants to support their work in a number of areas including ICT development, HR job evaluation project, facilities management. As described above SPSA, in response to an internal audit report are improving their controls over tendering and procurement. This includes establishing a contracts database and undertaking a review of supplier performance against contractual arrangements.

## **Improving Energy Efficiency**

42. Audit Scotland assessed how councils, NHS bodies and central government bodies were improving energy efficiency in relation to buildings and transport use. This included examination of a range of issues including whether public bodies demonstrate commitment to improving energy efficiency; how public bodies are performing against their objectives and targets for improving energy efficiency; and if public bodies are delivering continuous improvement in this area.

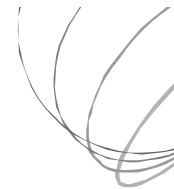
- Funding has been made available by the Scottish Government and public bodies to improve energy efficiency. While energy consumption in buildings has fallen, spending on energy increased in the three years to 2006/07.
- There is a need for stronger leadership by the Scottish Government and within public bodies to improve energy efficiency and ensure that the necessary cultural and behavioural changes are made.
- A robust strategy is central to the coordination of activities to improve energy efficiency, however, there are inconsistencies in the quality of strategies being implemented.
- There is a lack of formal monitoring and reporting of progress in improving energy efficiency by public bodies and the Scottish Government.



43. SPSA rent out a number of properties across Scotland and due to staff being located across Scotland and the nature of the work incur significant travel costs. SPSA's 2008/09 Annual Report records that progress has been made in 'green' travel policies e.g. use of video conferencing and purchase of fuel efficient cars and a new fleet manager was employed from August 2009. In 2008 SPSA employed a facilities manager to manage the portfolio of properties and the Corporate Services business plan for 2009/10 includes energy efficiency targets. For 2009/10 SPSA plan to baseline environmental impact measures to enable accurate assessments of how changes and improvements made by SPSA reduce the impact on the environment.

### **Improving Public Sector Purchasing**

44. Audit Scotland assessed the impact of the Public Procurement Reform Programme (the Programme) which aimed at improving purchasing practice and making savings of about three per cent a year. This included examination of the savings from the Programme and the wider benefits of the Programme. The report noted the following:
- The Programme, which is ambitious and challenging has made significant progress but some changes are taking longer than planned to implement and performance measures are largely incomplete.
  - Around £327 million has been saved in the first two years of the Programme which is in line with the Programme target however some savings have been delayed and because of limited data it is unclear how progress towards the third year target of £400 million will be monitored.
  - Overall the impact of the Programme appears positive however the scale of improvement is difficult to quantify and there are variable levels of engagement by public bodies.
  - Key risks to the Programme include maintaining momentum, programme management, availability of information and shortages of skilled staff. These need to be addressed to help accelerate the Programme.
  - Key to the delivery of the programme is the five centres of expertise, set up to improve purchasing and help deliver savings.
45. In 2009/10, successful implementation of the ICT agency agreement and procurement arrangements is key for SPSA's reputation within Scottish policing. SPSA is expected to reduce the complexity of ICT provision by consolidating suppliers and reducing the current fragmentation of service provision, thereby bringing efficiencies and reducing costs. Internal audit are reviewing the arrangements for ICT procurement as part of their internal audit plan and we will monitor progress during the course of the 2009/10 audit.



# Governance and Accountability

46. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our findings arising from a review of SPSA arrangements.
47. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

## Overview of arrangements

48. This year we reviewed:
- governance arrangements
  - key systems of internal control
  - internal audit
  - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct.
49. Our overall conclusion is that SPSA, during its second year, continues to make progress in establishing sound arrangements but further work is required to embed controls across the organisation.

## Governance arrangements

50. Our audit plan noted the complex accountability arrangements across police services in Scotland and membership of the Board reflects this environment; the Board consists of chief constables, police authority/ joint board conveners and non-executive lay members. In 2007/08 there were changes to the Board due to political changes following the council elections in May 2007. In 2008/09 there were more changes to the Board: the Convener left in September 2008 and there was a change in the membership of Chief Constable. In January 2009 a new convener, Vic Emery joined the Board. Since the year-end there have been further changes with a police authority member leaving the Board in June 2009 and the Scottish Government are currently recruiting a new member.



51. In December 2008 the Chief Executive was suspended from duty and by mutually agreed settlement left SPSA in April 2009. In January 2009 the Director of Strategy and Performance was appointed as Interim Chief Executive (after joining SPSA in September 2008), and will continue in that role until a permanent appointment has been made. SPSA are currently recruiting a Chief Executive. Further changes to senior management included the Head of Corporate Management joining SPSA in August 2008 and the Chief Information Officer leaving in March 2009. A new Chief Information Officer was appointed, effective from August 2009.
52. While there have been a number of changes to the Board the two independent members have remained the same providing consistency of membership (and chair) on the Audit Committee and HR Committee. The Audit Committee meets quarterly and in spring 2009 carried out a self-assessment using the checklist from the Scottish Government's Audit Committee Handbook. The results were generally satisfactory but the committee considered that cultures of openness and compliance require to be further embedded across SPSA. The Audit Committee plan to support the strategy work of the Chief Executive and the Board by ensuring a strong assurance framework is developed.
53. 2008/09 was only SPSA's second year and this level of change has resulted in much time being devoted to addressing these issues resulting in risks that the SPSA Board and senior management have been unable to fully focus on strategic issues and deliver key services and efficiencies.

## Systems of internal control

54. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2008/09, PricewaterhouseCoopers, the internal auditors, provided their opinion that based on the internal audit work undertaken during the year, testing confirmed that, excluding their work on procurement (see paragraph 56) controls were operating satisfactorily during the period under review.
55. As part of our audit we reviewed the controls in a number of SPSA systems that impact on the financial statements including payroll, creditors, debtors and the general ledger. Our overall conclusion was that progress continues to be made in establishing the systems of internal control during the second year of SPSA, however some controls were not in place during the whole year, and it will take more time to embed financial controls across SPSA. We identified a number of areas where controls could be strengthened including the risks over continued use of spreadsheets for financial reporting and recording of fixed assets, improvements in maintaining complete personnel files for all staff and control over the use of government procurement cards. Management agreed to an action plan of improvements and this will be followed up in 2009 to confirm progress has been made. Our substantive testing provided us with assurance of the regularity of transactions and results confirmed that the underlying transactions had been accounted for properly.



## Statement on Internal Control

56. The Statement on Internal Control provided by SPSA Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out SPSA approach to this. The Statement on Internal Control discloses significant internal control problems identified by internal audit from their review of procurement processes and related to historic tendering of a small number of professional services contracts. The Accountable Officer comments on the action plan prepared and SPSA has been addressing the actions raised in response to the findings from internal audit.

## Internal Audit

57. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2008/09 audit we assessed whether we could place reliance on SPSA internal audit function. We concluded that PricewaterhouseCoopers operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in a number of areas during 2008/09, as we anticipated in our annual audit plan.

## Prevention and detection of fraud and irregularities

58. SPSA has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Board members, with policies e.g. Fraud Policy/Fraud Response Plan and whistle blowing procedure being regularly reviewed by the Audit Committee and HR Committee, respectively. At the May 2009 Audit Committee the Compliance Manager reported on his fraud assessment based on a self-assessment (using a Treasury checklist) of controls addressing risks associated with cash handling, payroll, purchasing, use of contractors and use of assets (including information). In general the results were satisfactory but the review highlighted areas for improvement and action is being taken to address risks.

59. The Compliance Manager also reported in May 2009 there had been no reported cases of fraud during 2008-09. The only asset loss during 2008/09 was a laptop loss in May 2008, valued at approximately £900 but as this laptop had not yet been used there was no risk of data loss. The Audit Committee were advised of the loss and action taken to improve physical security of assets.



## National Studies

60. Audit Scotland published two national studies, a review of *Major Capital Projects* and *Improving Civil Contingencies Planning* which are relevant to SPSA.

## Major Capital Projects

61. This report was the first systematic review of major capital projects in Scotland. It considered the progress of all 43 projects completed in the five years between April 2002 and March 2007, and a sample of current major projects. It looked at progress against cost and time estimates, quality specifications and project management in general. The main findings from the report were as follows:

- The achievement of cost and time targets improved significantly as projects progressed.
- Early cost and time estimates at project approval stage were too optimistic.
- Performance against cost and time estimates is better after contracts are awarded, as plans are more certain and risks clearer.
- Most completed projects have successfully delivered the required roads, hospitals and other assets, and all current projects are forecast to do so. However, few projects have been evaluated to demonstrate that they have delivered the expected wider benefits which originally justified the investment.
- Nine current projects examined had awarded the main construction contract, which should increase cost certainty. However, four projects had significant increases in estimated cost before reaching this stage.
- Project management and governance arrangements within individual projects are broadly effective, although room for improvement remains. A more strategic approach to managing the programme of capital projects could improve value for money.

62. As noted previously in this report SPSA has commenced the lease and fit-out of a new forensic laboratory in Dundee at an estimated cost in 2009/10 of £7.5 million. Due to the size of this capital project it is important that SPSA consider the findings of this study and take appropriate action. SPSA has dedicated staff in place to project manage the work in Dundee.

## Improving Civil Contingencies Planning

63. *Improving Civil Contingencies Planning* stated that The Civil Contingencies Act 2004 has reinforced multi-agency working and organisations are making progress in meeting their duties, although there are a number of areas that could be improved. Recommendations were made on partnership working; planning and lessons learned from training exercises; managing expenditure and performance.



64. Police forces play a vital part in civil contingency planning and under the 2004 Act police forces are described as category one responders. SPSA has provided information to the Scottish Government for them to determine if SPSA should be classified as a category one responder. Indications are that SPSA will be categorised as category one and business continuity plans are being prepared on this assumption.





# Performance

65. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. Key features of best value include:
- setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery
  - a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes.
66. In this section we comment on:
- SPSA corporate plan and strategic review
  - stakeholder engagement and relationship management
  - performance
  - performance management arrangements
  - risk management
  - efficiency.

## Corporate Plan and strategic direction

67. SPSA published its first three-year corporate plan for 2008 -2011 in June 2008. In the first two years the Scottish Government set four strategic priorities for SPSA, which were shorter-term relating to the initial set-up of SPSA, rather than longer term strategic aims. Following the appointment of the Director of Strategy and Performance in September 2008, strategic priorities and performance management framework were reviewed. SPSA agreed with the Scottish Government that the high level strategic priorities from 2008/09 be set aside in 2009/10 and instead eight corporate objectives and 16 corporate KPIs have been set, which link to the Scottish Government's strategic objectives under 'Scotland Performs' and Scottish Policing Performance Framework themes.
68. A 2009/10 Annual Plan has not been published by SPSA; while the Scottish Government are content with the plan, there were delays in agreeing the final budget for the Dundee laboratory and SPSA are still to receive formal approval.



69. The eight corporate objectives for 2009/10 are:

- provision and development of resilient, effective and efficient systems that support police service response and build public confidence in policing
- develop a resilient underpinning capability to support effective investigation of crime and contribute to the reduction of crime and safer communities
- deliver operational services that contribute to an effective, efficient and accessible criminal justice system
- develop relationships with key stakeholders and better understand and anticipate their needs through the development of appropriate service agreements and reports
- deliver real efficiencies within year and identify programmes to deliver long-term sustainable efficiency
- to identify and agree with the Board the long-term strategic options and related business model for SPSA
- to review and improve governance and management frameworks, processes and systems
- to ensure SPSA has a suitably skilled, responsive and motivated workforce to meet the need of the business and its stakeholders.

70. Under the corporate objectives are seventeen corporate key performance indicators and business areas devised their own objectives and targets to support the corporate objectives. The delivery of the corporate plan objectives will be particularly challenging given the tight financial constraints over the same period and the level of developments on-going e.g. recruitment of a Chief Executive, review of Forensic capability and opening of Dundee laboratory, five-year strategic review and new ICT procurement processes.

71. During 2009/10 the interim Chief Executive is leading on a comprehensive strategic review and planning process aiming to prepare a five-year strategic plan by March 2010. Work to date has included speaking to many stakeholders (internally and externally) on reviewing the current position and exploring future opportunities. Following discussions by the Executive Committee on the initial findings, the Board approved the next stages and overarching strategic plan in August 2009. SPSA consider that a new business model is needed to demonstrate value in the services provided by the organisation and an understanding for customers and staff of how and when, and on what basis, SPSA develops its business. We will monitor developments of the strategic review as part of our audit work.

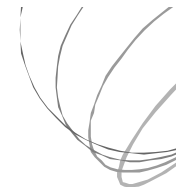


## Stakeholder engagement and relationship management

72. With complex tri-partite governance arrangements within Scottish policing, stakeholder management is key for SPSA. While SPSA had strategies in place since its establishment, practicalities of engaging with stakeholders were complicated by the convener leaving in September 2008 and circumstances leading to the Chief Executive being suspended in December 2008. With the appointment of the new Convener and Interim Chief Executive in January 2009 there has been renewed effort in stakeholder engagement by the Board and the interim Chief Executive is working at improving relations with individuals and key organisations in Scottish policing. She reports on stakeholder engagement to each SPSA board meeting. To build on this work during the period of strategic review, an interim Stakeholder Management Strategy through to April 2010 has been put in place and building relationships with key stakeholders is a corporate objective for 2009/10.

## Performance

73. The 2008/09 Annual Plan was based on the four strategic priorities set by Scottish Ministers and objectives set for each business area, with 14 key performance indicators (KPIs). The 2008/09 Annual Report and Accounts provides details of progress against each KPI and objective. Of the 14 KPIs nine were achieved or exceeded target. The Scottish Police College, Information Services and Criminal Justice met the majority of their objectives but Forensic Services and Corporate Services achieved less than 50% of their objectives. The Interim Chief Executive comments in the annual report that some objectives were set without a full understanding of baseline data available and some other objectives had unrealistic expectations. Also, while objectives relating to sickness and performance reviews are attributable to Corporate Services input is required from across the business for these objectives to be met.
74. SPSA did deliver on integrating ICT staff transferred from forces into SPSA and reducing the backlog of dealing with forensic cases and delivered on key national priorities for example training additional police probationers as part of the Government's plan to recruit extra police officers.
75. As previously mentioned a significant development for SPSA in 2008/09 was the transfer of ICT staff from police forces together with transferring ICT staff from other business areas in SPSA into the new ICT structure, a total of 440 staff were involved in the re-structure. All ICT staff employees are now matched into their new roles and the ICT service has developed a five-year strategy with priorities to consolidate ICT commercial contracts and convergence of ICT systems. In September 2009 the SPSA Board reviewed 'lessons learned' from the restructure and this identified examples of good practice and recommendations for improvement for future restructures.



76. 2008/09 was the first year of the new HMICS self-assessment regime, which replaced the five-year cycle of primary review and inspections. The Audit Committee reviewed the results of the first self-assessment process and approved the action plan at the February 2009 meeting. The self-assessment process highlighted improvements were needed under the criteria of society results, people results and customer results. Actions are being addressed by each business area and progress is monitored through the Executive Committee. Progress is on-going for many of the actions as actions relate to longer term work being undertaken by SPSA e.g. harmonisations of terms and conditions.

## Performance management

77. Performance in 2008/09 was monitored throughout SPSA by means of monthly reports and quarterly balanced scorecard reports, using the Red, Amber and Green (RAG) status format, which were reviewed by the Board. In May 2009 the Board approved a revised reporting format and there is now more information to explain the reason for the RAG status, details of actions being taken to address issues with a named action owner.
78. Since the year-end SPSA, following consultation with forces, has reviewed the format of performance reporting to police forces. Quarterly reports will be provided, supplemented by more specific monthly reports as requested by forces. All performance issues highlighted through these reports will be reviewed by the Executive Committee and, as necessary, highlighted in performance reports to the Boards.
79. The 2008/09 Annual Plan included an objective to implement a Best Value strategy, which would seek to commission a programme of regular best value studies across business areas. The development of a formal best value approach has not progressed as planned given the governance changes during the year and that 2008/09 was just the second year of SPSA. However, business reviews were carried out during 2008/09 or are currently underway: SPSA are undertaking a capability review on Forensic Services; completed a restructure of ICT in 2008/09; there was an external review of capacity and capability at SCDEA; and SPSA has just started a review of its contractual arrangements with its customers and suppliers. Internal auditors (PricewaterhouseCoopers) reported to the May 2009 Audit Committee on their Best Value Review. It was a high level review identifying examples of good practice, confirming SPSA's commitment to best value principles. However, a challenge for SPSA is to consider how they can demonstrate overall that arrangements have been made to secure best value.



## Risk management

80. In 2007/08 SPSA established its risk management framework whereby business areas prepared risk registers and a corporate risk register identified the significant risks for the organisation. The risk register was a standing item at each Board meeting and the Audit Committee considered the approach to ensuring the risks register captured the main risks to the organisation. During 2008/09 changes were made to the format of the risk register to provide clearer presentation of business and financial risk and changes in risk levels.
81. In June 2009 the Executive Committee thoroughly reviewed the risks for the organisation and adopted an approach used in other parts of Scottish policing. The risk management framework was aligned more closely with the ACPOS Business Change Programme Board Risk register and the format of the risk register was updated.
82. The main risks currently identified by SPSA include:
- managing tight financial resources if there are changes in service demands or delays in capital projects
  - failure of ICT systems which support national police work leading to potential loss of evidence or loss of life
  - failure to engage with stakeholders leading to lack of support to improve current service and/or the ability to develop services.
83. Risks on specific projects are also included in the risk register, for example the Job Evaluation and Harmonisation project and the Dundee Forensic Laboratory. The risk register details the impact of the risks and control measures in place and the risk registers are reviewed by business areas and the Executive Committee every month. We will continue to monitor progress in these areas over the course of the audit appointment.

## Efficiency

84. One of the founding principles in establishing SPSA was to bring efficiencies to police support services across Scotland. The Scottish Government's second strategic priority for SPSA was to deliver efficiency savings equivalent to 2% per annum while maintaining and improving the quality of the police support services and SCDEA. SPSA has therefore focused on demonstrating efficiency savings and this work was led by the Efficiencies Monitoring Group which reported quarterly on progress to the Board with supporting evidence of specific examples of savings. SPSA set a target of £1.447 million and this was exceeded with savings of £1.555 million being reported in SPSA's Annual Report.



85. The 2009/10 budget was set on the basis of an annual inflationary uplift of 2.7% offset by 2% efficiency savings and the 2009/10 Annual Plan notes that delivery within budget is seen as delivery of the cash efficiency target. The focus for 2009/10 is to move away from detailed review of overheads and costs to providing medium to long-term sustainable efficiencies, which may involve 'spend-to-save' type programmes; through using different business tools; and through a schedule of best value reviews. Internal projects are appraised and progressed on the basis that they give rise to pre-identified operational and efficiency benefits. SPSA acknowledge that such costs will need to be carefully managed within the budget.



# Looking Forward

86. SPSA faces a number of challenges in 2009/10, which include:

- **Strategic review** – SPSA has committed to developing a five-year strategic plan by April 2010, which requires significant levels of stakeholder engagement and staff resources in preparing the plan. Completing the plan will be challenge for SPSA as they also manage other key developments e.g. forensic review, Dundee lab, new ICT procurement arrangements and recruiting a Chief Executive.
- **Budgets and financial management** – Budgets for 2009/10 and the immediate future will need to be managed within a tighter funding regime. This includes no scope for end of year flexibility for the Government with HM Treasury until the next spending review and the impact of the introduction of International Financial Reporting Standards (IFRS). In addition to managing efficiency savings SPSA has to manage agreed funding arrangements for the Dundee fit-out (upfront funding in 2009/10 but reduced budgets for the following two years). The challenge for SPSA is to prioritise spending, maximise income, identify efficiencies and review future commitments to ensure delivery of key targets and objectives.
- **Forensic laboratory at Dundee** – SPSA has secured accommodation in Dundee for a new forensic laboratory, which will house a DNA database, biology and chemistry laboratories and fingerprint and scene of crime examination units. The lab forms part of the Scottish Government's Infrastructure Investment Plan 2008 but is financed and managed through the SPSA. The lab is currently being fitted out and SPSA plan to operate from the new site in March 2010. Delays in this project or cost over-runs are significant risks for SPSA for 2009/10
- **Efficiencies** – One of the founding principles in establishing SPSA was to bring efficiencies to police support services across Scotland. For the first two years efficiencies were achieved by reviewing overheads and staffing levels. SPSA consider that a new business model is needed to demonstrate value in the services provided by the organisation. Before long-term efficiencies can be developed work is required to obtain an understanding of the activities and performance of the business areas; understand what drives the costs of the organisation and then engage with stakeholders to ensure there is shared understanding of these issues. This is a significant challenge.
- **National Police Board** - In June 2009 the Cabinet Secretary for Justice announced the Scottish Government will convene a new Scottish Police Board, which will bring together central and local government partners with the police to identify and consider strategic priorities. The first meeting will take place in the autumn. This is in response to HMICS report Independent Review of



Policing. HMICS recommended that the Cabinet Secretary for Justice establish and chair a national group that reflects at least the tripartite arrangements for policing in Scotland. This provides further opportunity for stakeholder engagement for SPSA as part of their strategic review.

- **National study** - Audit Scotland's forward work programme of performance audits for 2009/10 includes a review of SPSA's progress in delivering efficiencies in police support services. This study is now due to start in 2010.