



INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Scottish Prison Service

Annual audit report to Scottish Prison Service and the Auditor General for
Scotland

Audit: year ended 31 March 2009

8 July 2009

AUDIT

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- Executive summary
- Introduction
- Financial statements
- Use of resources
- Governance and accountability
- Performance management
- Action plan

About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of only Scottish Prison Service and is made available to Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

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Financial statements

Following chief executive approval on 2 July 2009 we issued an audit report expressing an unqualified opinion on the financial statements of SPS for the year ended 31 March 2009 and on the regularity of transactions reflected in those financial statements

SPS total spend for 2008-09, including capital and revenue, shows an underspend of £5.3 million against the revised budget allocation, which is solely due to an underspend on capital expenditure. The actual average annual cost per prisoner place for 2008-09 was £31,106 (2007-08 : £32,358), which was within the target of £37,200 and represents a reduction of 4% compared to 2007-08.

Total provisions as at 31 March 2009 were £72.9 million (2008: £75.9 million), of which £64.2 million (2008: £66.7 million) relates to prisoner claims. Legislation was approved by the Scottish Parliament on 18 June 2009 that places a timebar on European Court of Human Rights claims. This could significantly impact the total level of payments in relation to prisoner compensation claims. This is a non-adjusting post balance sheet event for the purposes of financial reporting. Management has included narrative disclosures in the financial statements to make the reader aware of these events.

Governance and accountability

We considered corporate governance arrangements as they relate to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct and arrangements for the prevention and detection of corruption, and its financial position.

The annual internal assurance programme supports the assessment of the effective operation of the system of internal control. Responsible officers provide a statement of assurance to the chief executive to assist in his preparation of the statement of internal control in the annual accounts.

Our testing of the design and operations of entity level controls and significant risk points in key financial processes confirms that, subject to minor weaknesses reported in our interim audit report, controls are designed appropriately and operating effectively.

We also confirmed that:

- the statement on internal control does not disclose any significant weaknesses in the systems of internal control and is consistent with our understanding; and
- there is a process to record, distribute and monitor action in response to key guidance and circulars.

Performance management

SPS has strong performance management arrangements and measure performance on a monthly basis against key performance indicators. The key performance indicators are set by the Scottish Ministers, and include average annual cost per prisoner place, improved literacy skills and reduced substance abuse. Internal performance measures have also been established within establishments and these provide a suitable framework of accountability for financial and operational performance.

SPS has reported savings of £15.7 million for 2008-09 against a target of £8.6 million in the first year of the new Scottish Government efficiency targets.

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice*. This specifies a number of objectives for our audit.

Audit framework

This year was the third of our five-year appointment by the Auditor General for Scotland as external auditors of Scottish Prison Service ("SPS"). This report to Scottish Prison Service and the Auditor General provides our opinion and conclusions and highlights significant issues arising from our work.

We outlined the framework under which we operate, under appointment by Audit Scotland, in the audit plan overview discussed with SPS's audit committee on 12 March 2009.

The purpose of this report is to report our findings as they relate to:

- the **financial statements** and our audit opinions on net operating costs and the regularity of transactions;
- **use of resources**, including financial outturn for the year ended 31 March 2009 and financial plans for 2009-10 and beyond;
- arrangements around **governance and accountability**, including risk management and our consideration of the work of internal audit; and
- **performance management** and SPS' arrangements to achieve efficiency savings.

Best Value

Audit Scotland and the Scottish Government have been committed to extending the Best Value audit regime across the whole public sector for some time now, with significant amounts of development work having taken place during the last year. Using the Scottish Government's nine best value principles as the basis for audit activity, Audit Scotland selected five areas as priority development areas (use of resources, governance and risk management, accountability, review and option appraisal, and joint working).

We note that Audit Scotland is developing a series of toolkits that auditors will use from 2008-09. Audit Scotland confirmed that there was no requirement for application of these toolkits at SPS in 2008-09.

Responsibilities of SPS and its auditors

External auditors do not act as a substitute for SPS' own responsibilities for putting in place proper arrangements to account for the stewardship of resources made available to it and its financial performance in the use of those resources, to ensure the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the effectiveness of those arrangements and, through the accountable officer, to make arrangements to secure Best Value.

Action plan

This report includes an action plan containing areas for development or improvement identified during our financial statements audit fieldwork. We have not repeated recommendations raised in reports issued during our earlier work in respect of our 2008-09 audit. Responsibility for taking action and monitoring progress in response to all our recommendations lies with management.

Acknowledgement

We wish to record our appreciation of the continued co-operation and assistance extended to us by your staff.

Overview of activities

SPS is an executive agency of the Scottish Government and its function is to provide secure custodial services and enhance opportunities for people sent to prison. SPS spends around £340 million per annum operating fifteen establishments in Scotland, including two prisons run through a public private partnership, at Kilmarnock and at Addiewell (which was opened during the year).

Currently, prisons run by SPS have a design capacity of 7,441. Actual prisoner numbers at 31 March 2009 stood at 8,028 (2008: 7,692), which exceeds design capacity by 587 prisoners. In order to assist management manage the consequential risks of the high prisoner population, the assessed operating limit was introduced during the year. This allows each governor to assess the safe operating level for their prison. At 31 March 2009, the assessed operating limit of the prison estate was 8,920. The prisoner population was therefore within the assessed operating limit.

Prisoner numbers have increased by 336 during the 2008-09 financial year. Increasing prisoner numbers remains the most significant challenge currently facing SPS. It is estimated this will be the most significant ongoing challenge for a number of years as prisoner numbers are expected to continue increasing in the future. In order to mitigate this risk, HMP Addiewell was opened in December 2008, and was fully operational by February 2009. The opening of the prison provided an additional 700 prisoner places and in addition, the opening of Ratho Hall at HMP Edinburgh provided an additional 116 prisoner places.

Plans are at an advanced stage to replace HMP Low Moss, which was demolished through the year, with a new prison on the same site. An announcement on the successful bidder to build the new prison is expected in the near future, and it is expected that the new prison will be operational by June 2012.

Following amendments to the financial statements we intend to issue unqualified opinions on the financial statements and the regularity of transactions reflected in those financial statements.

The key issues arising from our audit of the financial statements are:

- Prisoner compensation claims – during our audit planning work, management advised us that revised legislation may be passing through the Scottish Parliament in 2009, which would place a timebar on European Court of Human Rights (“ECHR”) claims. When we started our audit fieldwork SPS had recognised a provision for compensation claims payable to all prisoners who had to ‘slop out’ during their time in prison, regardless of the time elapsed between the ‘slopping out’ and the date of the claim. Following the approval of the relevant bill by the Scottish Parliament on 18 June 2009 the position was reviewed and the bill was determined to be a non-adjusting post balance sheet event.
- The financial statements include provisions for the estimated legal and other costs associated with the prisoner compensation claims currently in progress. In calculating these provisions, management has taken into account advice from third party experts, lawyers and also the organisation’s historical experience in dealing with such claims. Management has confirmed to us that the provisions for prisoner compensation and related costs reflect their best estimate of the likely costs involved in each.

Audit opinions and key issues

Reporting arrangements and timetable

In accordance with the agreed timetable, draft financial statements were available for audit on 26 May 2009. This is in line with the timetable in prior years. This allowed for timely completion of the audit, including narrative amendments for prisoner compensation claims and consideration and approval of the financial statements by the chief executive on 2 July 2009.

Audit opinion

Following approval on 2 July 2009 we issued an audit report expressing an unqualified opinion on the financial statements for the year ended 31 March 2009 and on the regularity of transactions reflected in those financial statements.

Key issues arising during our audit of the financial statements

Our audit plan overview and interim management report identified five key risk areas.

Key risk area	Conclusions
Provisions for liabilities	<p>Provisions for liabilities at 31 March 2009 were £74.4 million (2008: £75.9 million), of which £64.2 million relates to prisoner claims.</p> <p>Management has continued to engage third party experts, including lawyers where appropriate, to assist in the estimation of such provisions. As the nature of the provisions, in particular the prisoner claims, are uncertain, we feel this approach is appropriate.</p> <p>Legislation was approved by the Scottish Parliament in June 2009 that may significantly reduce SPS' exposure to prisoner claims and consequently reduce the provision. This legislation has placed a timebar of November 2009 for any claims greater than a year old to be submitted. Following consideration by management, this has been determined to be a non-adjusting post balance sheet event in line with financial reporting standard 21 'events after the balance sheet date'. Accordingly, no numerical changes have been made to the financial statements to reflect this, though a number of narrative amendments have been made.</p>
Capital programme	<p>There has been significant expenditure on capital projects during 2008-09. We have reviewed the capital expenditure incurred and have sample tested the balance to ensure that it has been correctly accounted for in accordance with financial reporting standard 15 'tangible fixed assets'.</p> <p>SPS spent £10.2 million less than the original budget on the capital programme. Of this, £5 million was surrendered to the Scottish Government Justice Department in the spring budget revision, £2 million was underspent in relation to residual interest at HMP Addiewell and the remainder is explained by slippage in the estates development programme. This equated to approximately two weeks worth of slippage. It has been agreed that the transfer to the Scottish Government Justice Department will be recovered by SPS from the Scottish Consolidated fund in 2009-10 and 2010-11.</p>

Audit opinions and key issues (continued)

Key risk area	Conclusions
Public private partnerships ("PPP")	<p>The construction of HMP Addiewell was completed during the year and the prison was fully operational by February 2009. Management has accounted for the prison using the same basis as HMP Kilmarnock, which has been in operation since 1999. This has resulted in increased prepayments of £0.7 million and increased deferred residual interest of £21.2 million. We have reviewed the accounting for this PPP scheme and consider it to be appropriate.</p>
Valuations at 31 March 2009	<p>In line with SPS' accounting policy, four sites were subject to a full valuation by the Valuation Office Agency ("VOA") during the year (HMP Barlinnie, HMP Edinburgh, HMP Glenochil and HMP Addiewell), with the remaining buildings subject to indexation in line with the FReM. Land at all establishments was subject to a full valuation in the year.</p> <p>Following receipt of these valuations, management challenged the VOA on a number of issues to ensure the reliability and accuracy of his work.</p> <p>The 2008-09 financial statements reflect a revaluation loss of £58 million, including a reduction in land values across the estate by 43%. Management consulted the VOA on the reason for this and it was identified that this due to fluctuations in market values.</p> <p>As the revaluation loss was attributable to fluctuations in market values, the majority of the movement (£54.9 million) was charged against the revaluation reserve with the remaining balance of £1.6 million being charged to the operating cost statement as an impairment charge.</p>
Operational issues	<p>Prisoner numbers have continued to increase during 2008-09. Management has kept the Justice and Public Audit Committees of the Scottish Parliament informed of the increase in numbers and how this is being dealt with by SPS. At 31 March 2009 the total number of prisoners held was 8,028 (2008: 7,692), excluding those on 'home detention curfew'.</p> <p>During the year an assessed operational level was established for each facility to measure the numerical level at which prison governors assess they can safely operate their prison in the short term. At the time of introduction, the limit for the estate was 8,126 and this was breached a total of 705 times for individual prisons.</p> <p>Effective management of these prisoner numbers has been aided by the additional capacity from the opening of HMP Addiewell and Ratho Hall at HMP Edinburgh during the year which increased the limit of the estate to 8,920. This has not yet been breached, but overall numbers are continuing to rise.</p>

Regularity of transactions

In order to gain assurance over the regularity of expenditure we have updated our understanding over the processes in place to receive Scottish Government circulars, register, allocate and distribute responsibility for action points and monitor and follow up on these action points. Testing of the register and monitoring process identified that these processes are designed, implemented and operating effectively.

Every communication received is entered into a basic case management system which details who needs to take action and when the action is due.

We tested a sample of communications from the Scottish Government to ensure that the correct procedures had been followed. In all cases we found that the correct procedures had been followed.

Implementation of International Financial Reporting Standards

The public sector will prepare full IFRS compliant financial statements for the year ending 31 March 2010. This is preceded by a shadow conversion process.

The 2007 Budget had announced that central government and health bodies would report under international financial reporting standards ("IFRS"), as adapted by HM Treasury through the financial reporting manual ("IFReM"), from 2008-09. Following consultation with Government departments and the Financial Reporting Advisory Board on the technical work needed to implement this change, the Government now intends to move to IFRS from 2009-10 as announced in the 2008 Budget.

The SPS financial statements will require to be prepared on the basis of the IFReM from 2009-10. Shadow IFReM financial statements, including an opening balance sheet, will be required for 2008-09. The shadow IFReM financial statements were subject to a 'dry run' audit in accordance with timescales prescribed by the Scottish Government. The timescales are set out in the table below.

	Presented for audit	Completion of dry-run audit
Opening 2008 IFRS based balance sheet	28 November 2008	28 February 2009
2008-09 shadow IFRS based financial statements	30 September 2009	11 December 2009

As a result of the audit of opening balances a report was issued to management highlighting the work done, our findings and areas for further work by management when preparing the shadow and full IFRS accounts. Our work was undertaken in accordance with guidance included in Audit Scotland's note for guidance 2008/6: *Auditors' role in the implementation of international financial reporting standards*. No issues were identified relating to the restated opening balances.

Our work on the 2008-09 shadow IFReM based financial statements will be performed as part of our 2009-10 audit. It is our experience that under IFRS the time required to produce the information required for the audit and accounts takes considerably longer to produce than that under UK GAAP. SPS has delivered to the timetable in each of the last three years, which has enabled the accounts to be finalised timeously. This means that our audit team is onsite for a longer period than at comparable clients where accounts are produced before we arrive on-site. Implementation of the IFReM by SPS in 2010, will mean that operating on a similar timetable to the current year could result in later clearance of our audit issues.

Recommendations

We did not identify any recommendations in relation to IFRS.

SPS recorded an underspend on capital expenditure of £5.3 million. The outturn against the original and revised revenue allocations was breakeven.

SPS were allocated a total budget for 2009-10 of £455.1 million, of which £108.7 million relates to capital expenditure and £346.4 million relates to revenue expenditure. Achievement of this budget will be challenging due to continually increasing prisoner numbers and achieving efficiency targets set by the Scottish Government.

It is unlikely additional funding will be received should prisoner numbers increase, but SPS can volunteer amendments to the budget at the autumn and spring budget revisions.

SPS ran an early retirement scheme during 2008-09. Seventeen members of staff successfully applied for the scheme, resulting in a cost to the organisation of £1.5 million.

Management has a central procurement team to ensure SPS comply with all EU regulations around procurement.

Recommendations

We did not identify any recommendations for development of SPS' arrangements to manage the use of resources.

Financial position

Performance against the budget approved by the Scottish Government was as follows:

£'000	Budget allocation £ million	Revised budget allocation £ million	Outturn £ million	Variance £ million
Operating cost allocation	£328.2	£331.3	£331.3	-
Capital allocation	£113.1	£105.4	£100.1	(£5.3)
Total	£441.3	£436.7	£431.4	(£5.3)

The movements between the budget allocation and the final outturn are detailed in the table below and explained underneath.

Movement	£ million	Movement	£ million
Budget allocation	441.3	Revised budget allocation	436.7
Autumn budget revision	0.4	Decrease in reversionary interest below budget	(2.2)
Spring budget revision	(5.0)	Reduced capital spend due to timing	(3.1)
Revised budget allocation	436.7	Final outturn	431.4

The original budget allocation was revised by an adjustment of £5 million; this was part of SPS' capital budget and was transferred to the Scottish Government Justice Department. This was not required in 2008-09 due to the slippage of capital projects for reasons outwith management's control, and was transferred to the Scottish Government Justice Department. The amount transferred is expected to be recouped by SPS during 2009-10 and 2010-11.

There were two specific differences between the revised budget allocation and the actual spend:

- changes to the reversionary interest in HMP Addiewell following calculation by the external valuer; and
- reductions in capital expenditure in the year due to changes in timing of capital projects.

There were no movements in the outturn between the draft financial statements and the final financial statements.

Financial management and budgetary control

The board meets on a monthly basis. SPS' financial performance is discussed in detail at these meetings, including any concerns over or risks to the financial situation.

SPS is given a budget allocation by the Scottish Government each year and fiscal management is critical as SPS has a statutory obligation to house any individual who is sent to them by the courts. It is unlikely that additional funding would be available should prisoner numbers increase (as is the current trend).

SPS has opportunities to amend its budget through the autumn and spring budget revisions. Any such amendments must be authorised by the Scottish Government.

Efficiency savings

This is the first year of the new Scottish Government efficiency programme where specific efficiency saving targets have been allocated to SPS. SPS has been delivering against previous efficiency targets for a number of years. Internal audit has monitored the progress of saving, and a report was submitted to the director of finance and business services as of 31 March 2009.

SPS achieved £15.7 million of savings against a target of £8.6 million. SPS' agreed budget was reduced by £2 million which was diverted to the police. SPS agreed with the Scottish Government that this amount would be recognised as efficiency savings. Savings of £10.6 million were achieved due to the increase in average prisoner numbers. This was a result of the relatively small marginal cost of increased prisoner numbers against the original budget and the fact that SPS was already operating at full capacity.

Prison establishments accounted for savings of £2.7 million and SPS headquarters accounted for savings of £0.4 million.

SPS has been set an efficiency saving target of £17.1 million for 2009-10. Management has noted that this will be difficult to deliver due to the anticipated rise in prisoner numbers.

Financial planning

The allocated budget for 2009-10 is £455.1 million (2008-09: 441.3 million). Of this £108.7 million (2008-09: £110.4 million) relates to capital expenditure and £346.4 million (2008-09: £330.9 million) relates to revenue expenditure, for which detailed budgets have been prepared.

Funding for SPS is determined each year by the Scottish Government as part of the national budget process, and is subject to parliamentary approval. SPS has to operate within its designated funding for the year, as it is generally not allocated any additional funding for any increase in prisoner numbers.

Key risks

Achievement of the financial plan in 2009-10 by SPS will be challenging to due increasing prisoner numbers and efficiency targets set by the Scottish Government. Management has identified a number of key risks to achieving the 2009-10 plan as summarised in the diagram below.

Key risks identified by management

- Increasing prison numbers
- Increasingly demanding Scottish Government efficiency targets

Management arrangements; partnership working

Workforce management

SPS established an early retirement scheme during 2008-09. The scheme was undertaken for efficiency reasons and to create opportunities for management restructuring. The scheme operated in February 2009 and those who were successful in their application were informed prior to 31 March 2009. The total cost of this to SPS was £1.5 million.

Asset management

Management introduced a programme in 2007, whereby specific annual objectives and targets were introduced for each establishment. During 2008-09, good progress has been made in a number of areas, including energy efficiency management, improved waste management and recycling practices. Management also implemented processes for more efficient monitoring of these areas, including installing technology in the new establishments.

SPS was not included in the Audit Scotland report on improving energy efficiency. When the report was published, it was reviewed by management and any relevant learning points were fed into SPS' plans.

The board devolved responsibility for monitoring capital projects to the estates development group. The group comprises senior management from different directorates and holds regular, minuted meetings. The purpose of the group is to ensure that guidance dictated by the Scottish Government is complied with and that there is a regular review of actual spend against budgeted spend for capital projects.

Procurement

Management has a central procurement team, which comprises individuals who are experts in complying with EU procurement regulations. The team reviews any projects with costs exceeding £20,000 to ensure that the EU regulations are being fully complied with. There is a regularly updated procurement manual that gives guidance to responsible officers.

SPS has a number of contracts with suppliers or service providers and there is a continuing cycle of procurement initiations taking place at any time as contracts expire or commence.

Information management

SPS is committed to following government guidance on matters such as data security. SPS complies with the Freedom of Information (Scotland) Act 2002, and seeks to act in the spirit of openness to provide information within twenty working days under its publication scheme.

Partnership working

SPS has arrangements with a number of different bodies in order to achieve efficiencies or improve the services it provides. SPS runs an escort contract on behalf of the police service, the courts and SPS itself. Other examples of partnerships include working alongside local authorities and criminal justice authorities in attempting to reintroduce offenders back into the community and taking part in the multi agency public protection arrangements.

The statement of internal control does not disclose any significant weaknesses in the systems of internal control but does highlight the continuing increase in prisoner numbers as a risk.

There is a formal fraud policy in place at SPS and SPS has a formal process to receive and review Audit Scotland national reports

Recommendations

We did not identify any significant recommendations for development in governance and accountability arrangements.

Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all bodies.

Through its chief executive, the SPS is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The *Code* requires auditors to review and report on corporate governance arrangements as they relate to:

- the Board's reviews of its systems of internal control, including its reporting arrangements;
- the prevention and detection of fraud and irregularity; and
- standards of conduct and arrangements for the prevention and detection of corruption.

Governance framework

We considered corporate governance arrangements as they relate to systems of internal control, the prevention and detection of fraud and irregularity, standards and conduct and arrangements for the prevention and detection of corruption, and the financial position of SPS.

The annual internal assurance programme supports the assessment of the operation of the system of internal control. Responsible officers provide a statement of assurance to the chief executive to assist in his preparation of the statement.

The statement of internal control does not disclose any significant weaknesses in the systems of internal control and is consistent with our understanding.

Internal audit

Internal audit delivered its plan in full. We recommended in 2007-08 that the post of head of internal audit be filled by a permanent appointment. Progress has been made, and a permanent employee took up post during the year. We have evaluated the internal audit function and have confirmed that we are able to continue to place formal reliance on the findings of internal audit. We relied on work over payroll, cash and banking, employee compensation payments, preparation for the implementation of best value and staff costs. No significant observations or weaknesses were found by internal audit. On reviewing the work of internal audit, we found that the sample sizes used were not compliant with our methodology. We have since supplied guidance on sample sizes in order to enhance our ability to rely on Internal audit in the future.

On 12 May 2009, the risk management and audit committee received internal audit's annual report, which concluded that *"Our review of the corporate governance and control environment, management of risk and reliance placed on the work of other external providers and review bodies enables me, as Head of Audit & Assurance, to offer an overall reasonable level of assurance"*.

Internal controls

Our testing of the design and operation of entity level controls and significant risk points in key financial processes confirms that, subject to some weaknesses reported, controls are designed appropriately and operating effectively.

Equality and diversity

SPS was not subject to a report from the Equality Commission during 2008-09. SPS continues to monitor and review policies and procedures in line with the SPS race equality scheme and SPS disability equality scheme. This reflects SPS' duties under the Race Relations (Amendment) Act 2000 and the Disability Discrimination Act 2005.

Prevention and detection of fraud and irregularity

There continues to be a strong fraud policy at SPS, with no significant changes in the year. Management continues to recognise the importance of controls designed to mitigate the risk of fraud

Where management is made aware of a suspected fraud, the internal fraud response group is convened to co-ordinate an investigation. The composition of the fraud response group depends on the nature of the fraud, but will usually be chaired by the director of finance and attended by the head of finance, the director of internal audit and any other relevant officers. The fraud response group is responsible for undertaking preliminary investigations, reporting to the risk monitoring and audit committee, board and chief executive and proceeding with a follow up investigation if required.

There is also a formal whistle blowing policy, which governs the procedures to be followed in the event of suspecting or detecting fraud.

A number of minor instances of fraud were identified during the year but did not result in any significant issues.

Audit Scotland periodically undertakes national studies on topics relevant to the performance of central government bodies. While the recommendations from some of the studies may have a national application, elements of the recommendations are also capable of implementation at local level, as appropriate.

Management has established procedures to consider individual reports. An evaluation of each of the reports reviewed has been carried out by the chief executive and responses sent promptly to Audit Scotland. Each report lists the recommendations made by Audit Scotland and summarises the processes that have either been implemented or are in the process of implementation by SPS, which shows good practice.

We reviewed the response of management to the reports, which are summarised below.

Report topic (issue date)	Discussed by a committee	Noted by a committee	Self-assessment performed	Local action plan prepared	Plans to feed back to a committee	Frequency of feedback
Managing increasing prisoner numbers in Scotland (8 May 2008)	✓	✓	✓	✓	✓	✓
Review of major capital projects (24 June 2008)	✓	✓	✓	✓	✓	✓

Recommendations

The action plan includes a recommendation for improvement in the following area:

Area for development	Action plan reference
The process to consider Audit Scotland national reports includes review by the director of finance and business services of all reports to identify those that relate particularly to SPS. Audit Scotland are currently monitoring this area and we, as auditors, are required to report on responses to national reports three months after issue. As such, it would be best practice for SPS to formally review all national reports and not just those specifically relating to SPS.	One

All twelve key performance indicator targets set by the Scottish Ministers were met by SPS during 2008-09.

Performance management arrangements continue to be strong. Stakeholder engagement, consultation and partnership working are embedded in SPS' culture.

Recommendations

We did not identify any recommendations for development in performance management arrangements.

Performance management arrangements

There are strong performance management arrangements, which include monitoring of key performance indicators on a monthly basis and establishment of a series of formal contracts with public and private establishments that provide a suitable framework of accountability for financial and operational performance.

SPS is responsible for meeting key performance indicators which are monitored against targets set by the Scottish Ministers and detailed in the 2008-09 delivery plan. The key performance indicators include annual average cost per prisoner place, reduced substance misuse and offender development hours.

All twelve key performance indicator targets were met by SPS during 2008-09.

Performance against targets in 2008-09

The average annual cost per prisoner place at for 2008-09 was £31,106 (2007-08: £32,358) against a target of £37,200 (2007-08: £36,000). Serious assaults on staff and prisoners have fallen on 2007-08, being 2 and 62 respectively (2007-08: 4 and 68). Literacy rates amongst prisoners has also improved, reaching 100% for 2008-09, as measured in accordance with the key performance indicator (2007-08: 93%).

Stakeholder engagement and consultation

Prisoner surveys are carried out on a regular basis, the results of which are considered by management and acted on where they consider relevant.

In addition, SPS is heavily involved with the community justice authorities. Feedback is received from the authorities and this is compared against planned performance.

Appendix one – action plan

Priority rating for recommendations

Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of SPS or systems under consideration. The weakness may therefore give rise to loss or error.

Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.

No.	Issue and recommendation	Management response	Officer and due date
1	<p>The process SPS currently has in place to consider Audit Scotland national reports includes review by the Director of Finance and Business Services of all reports to identify those that relate particularly to the organisation. Audit Scotland have noted that they are currently monitoring this area and we as auditors will be required to report on responses to national reports three months after issue. As such, it would be best practice for SPS to formally record review of all national reports and not just those specifically relating to SPS.</p> <p><i>(Grade three)</i></p>	Already in place.	n/a