

Scottish Police Services Authority / Scottish Crime and Drug Enforcement Agency

Annual report on the 2010/11 audit



Prepared for Scottish Police Services Authority, Scottish Crime and Drug Enforcement Agency and
the Auditor General for Scotland

November 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

2010/11

We have given unqualified opinions on the financial statements of Scottish Police Services Authority (SPSA) and Scottish Crime and Drug Enforcement Agency (SCDEA) for 2010/11.

SPSA's resource budget for 2010/11 was £108 million, which includes ring-fenced funding for SCDEA of £26m. SPSA is accountable for the total outturn, which was £105.394 million, leaving an underspend of £2.6 million. The underspend was due to reduced operating costs at SPSA and an increase in external income, together with decreased employee costs at SCDEA.

SPSA and SCDEA took significant steps to reduce their on-going operating costs, in the context of constrained public finances. A voluntary severance exercise resulted in 74 SPSA staff leaving the organisation (6.1% of the total workforce) at a cost of £2.8 million. Five staff also left SCDEA at a cost of £80,000.

In October 2010, Audit Scotland's Performance Audit study on SPSA reported that for ICT services, there were no mechanisms in place to limit demand or agree priorities with forces. SPSA now has an agreed engagement model with forces and joint planning exercises are now helping SPSA define its workload.

Outlook

As at October 2011, SPSA was still negotiating funding with the Scottish Government and did not have balanced budget for 2011/12. The current resource budget is £96.9 million, an £8million reduction on recurrent funding. Total forecast expenditure (net of external income) is £98.2 million. Discussions are on-going with the Scottish Government and SPSA management continues to examine how the projected gap can be closed.

On 7 September, the Scottish Government announced their plans to merge Scotland's police forces into one national police service. This includes SPSA and SCDEA. Announcements are awaited covering the structure of programme of work that will be undertaken, however SPSA and SCDEA have started to consider who can most effectively contribute to the reform programme; prioritise areas of work; and how reform will impact the delivery of services.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of SPSA and SCDEA. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. Reports have been issued in the course of the year (Appendix A) and we do not repeat all of the findings in this report, but instead we focus on the financial statements.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that SPSA and SCDEA understands their risks and have arrangements in place to manage these risks. The Board and Accountable Officer should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to SPSA, SCDEA and the Auditor General and should form a key part of discussions with audit committees, either prior to, or as soon as possible, after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the Audit Committee.
6. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income (except for local government bodies).
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the management commentary, statement on internal control and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of SPSA and SCDEA for 2010/11 give a true and fair view of the state of the bodies' affairs.
11. SPSA prepares the financial statements for SPSA and SCDEA. SPSA is required to follow the 2010/11 Government Financial Reporting Manual (the FReM) and we confirm that the financial statements have been properly prepared in accordance with the FReM.

Going concern

12. As at 31 March 2011, SPSA had a net liability on the statement of financial position of £9.9 million (31 March 2010: £32.7 million). The net liability arises due to the on-going recognition of the pension scheme net liability totalling £12.9 million (31 March 2010: £37.8 million). The liabilities will be met by future grant-in-aid (GIA) from the sponsoring department. Based on the assurances given by the Scottish Government, management has considered this issue and have adopted a going concern basis for the preparation of these financial statements.

Regularity

13. In accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000, we have also provided an opinion, that in all material respects, the expenditure and receipts in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

Remuneration report and statement on internal control

14. In our opinion, the audited parts of the remuneration reports have been properly prepared and are consistent with the financial statements.
15. We also confirm that we have no issues to report to you on the statements on internal control and their compliance with guidance.

Accounting issues

Accounts submission

16. The audit was timetabled to begin on 13 June and we received the first draft of accounts on 20 June. They were substantially complete subject to details on exit packages and other notes being provided in later drafts.
17. Issues arising from our audit were discussed with finance staff during the course of the audit. Our report on any significant matters on the financial statements was issued to the Audit Committee on 8 September.

Presentational and monetary adjustments to the accounts

18. A number of disclosures in the annual report and accounts were amended at our request to better meet the requirements of FReM. On SPSA, a few monetary errors were identified during the audit but these had no overall effect on the Statement of Comprehensive Net Expenditure.
19. After the Audit Committee on 13 September 2011, at which we had issued our report to those charged with governance, SPSA changed an agreed disclosure on the Remuneration Report. There were also proposed further changes to the description of achievement against corporate objectives in the management commentary. These late changes indicate that improvements can be made in the processes for reviewing the annual report and accounts before their submission for audit. We would not expect further changes to be made, other than those arising from the audit, after our reporting to those charged with governance, as this may require further reporting prior to the completion of the audit.

Refer Action Plan No. 1

Prior year adjustments

20. All central government bodies have been affected by the removal of the cost of capital in the 2010/11 FReM. This change is identified in the accounting policies and appropriate amendments have been made to the prior year statements.

Impairment

21. When SPSA was established assets were transferred from police forces, but information sometimes made it difficult to specifically identify the assets recorded. SPSA carried out a desk-top impairment exercise for 2010/11 as part of the accounts preparation but there has

not been a physical verification exercise since 2008/09. As an interim measure local asset holder were asked to sign off asset declaration forms but this was unsuccessful as local asset holders were unable to verify older assets.

22. The majority of older assets have already been fully written down and we concluded that the assets were not materially misstated.

Refer Action Plan No. 2

VAT

23. Working papers provided for the audit could not clearly explain how the SPSA VAT balance was calculated or how it linked to the 2011 March-end VAT return. SPSA identified there had been errors in the VAT returns for quarters one, two and four and provided further papers to support the year-end ledger balance.

Refer Action Plan No. 3

Whole of government accounts

24. The whole of government accounts (WGA) is the consolidated financial statements for all branches of government in the UK. Audited bodies were required to submit a consolidation pack to the Scottish Government by 15 July, prior to the submission to audit. Following delays with instructions from the Scottish Government, SPSA agreed to submit a pack to them in September and the audited return will be completed soon.

Outlook

25. The main change in the financial reporting framework (FReM) next year (2011/12) is that grants and donated assets should be recognised immediately, unless there is a condition that the recipient had not satisfied that would lead to repayment. This is unlikely to have much (if any) impact on SPSA and SCDEA as they do not have donated assets or government grant deferred balances.
26. Looking further ahead, from 1 January 2013 changes to international financial reporting standards (IFRSs) will become effective. This includes the introduction of:
 - IFRS 9 - financial instruments (replacing IAS39)
 - IFRS 10 - consolidated financial statements (replacing IAS27)
 - IFRS11 - joint arrangements (replacing IAS31)
 - IFRS12 - disclosure of interest in other entities (replacing IAS 27,28 and 31)
 - IFRS 13 - fair value.
27. Revisions to the FReM for 2013/14 are included in the Financial Reporting Advisory Board (FRAB) forward work programme for 1 December 2011.

Audit appointment for 2011/12

28. Audit appointments are made by the Auditor General, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment. The procurement process for the next five years was completed in May 2011. From next year (2011/12) the auditor for SPSA and SCDEA will continue to be Audit Scotland. We look forward to continuing the good working relationship that exists and thank officers and members of the board and committees for their assistance during the last five years.

Financial position

29. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
30. Auditors consider whether audited bodies have established adequate arrangements and examine:
- financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
31. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results 2010/11

32. 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 for SCDEA. As SPSA are funded for both itself and SCDEA, and accountable for total funding, figures shown below include both bodies.

Exhibit 1: Performance against resource budget

Resource allocation	Final budget £m	Actual £m	Difference £m
SPSA	76.528	74.667	1.861
SCDEA	25.220	23.687	1.533
Total cash grant-in-aid (GIA)	101.748	98.354	3.394
SPSA	5.228	5.684	-0.456
SCDEA	1.023	1.356	-0.333
Total non-cash GIA	6.251	7.040	-0.789
Total	107.999	105.394	2.605

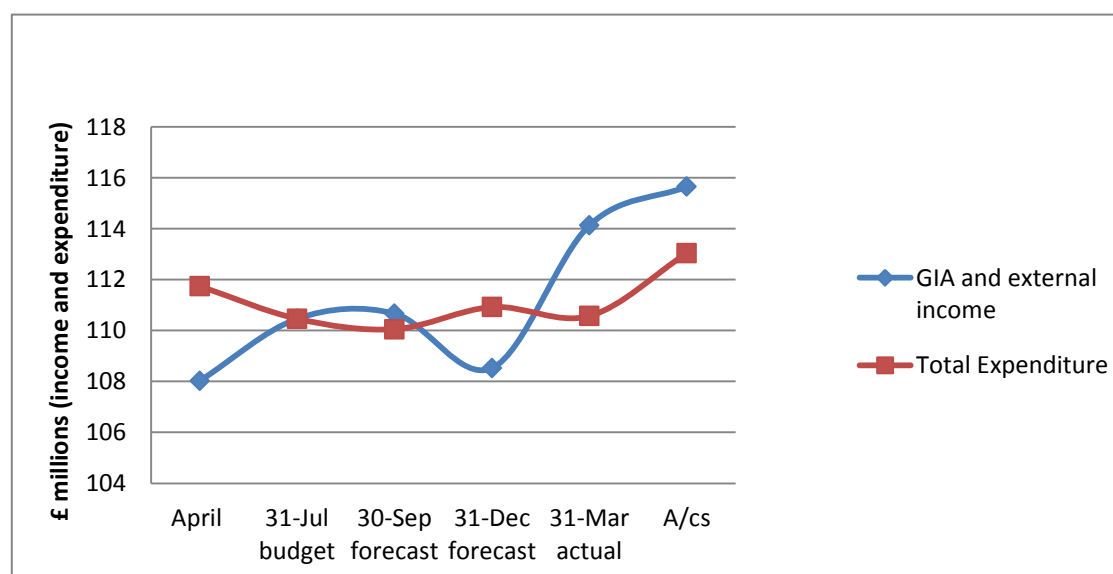
Source: SPSA 2010/11 Annual Report and Accounts

33. Total budget figures are the GIA funding from the Scottish Government. The cash underspend at SPSA is due to underspends across a range of cost centres e.g. courses and conferences, catering costs at Scottish Police College, ICT consumables and maintenance costs, together with higher external income. Non-cash covers notional rent and depreciation

and the overspend is mainly due to depreciation costs of £2m being greater than budget of £1.6m.

34. The SCDEA underspend is due to reduced employee costs of £1.1 million, compared to budget. In June 2009 the Cabinet Secretary for Justice announced additional investment in the SCDEA of approximately £4 million over two years, to allow the Agency to recruit up to 81 additional posts. 32 staff additional posts were employed by 31 March 2010 but during 2010/11 SCDEA stopped recruiting additional specialist roles due to the financial cut backs.
35. Since SPSA's inception in 2007, a key financial challenge has been to understand the underlying costs of delivering transferred services, (and agreeing an appropriate level of GIA funding) and to budget for non-recurring initiatives, while delivering efficiencies. An on-going problem for SPSA has been that when services transferred to SPSA, the corresponding funding that transferred was based on incomplete information. There was a lack understanding of the cost of delivering the services and therefore funding didn't necessarily match the baseline services provided.
36. During 2010/11 the SPSA negotiated with their sponsor branch on budget issues, for example:
 - Running costs at the new forensics lab in Dundee, opened in 2009 were greater than originally budgeted.
 - There are additional cost implications under forensic modernisation and the preferred model of delivery chosen by the Scottish Government.
 - Funding was agreed for specific ICT developments.
 - Funding was required for voluntary severance schemes at SCDEA and SPSA.

Exhibit 2: Budgetary control reporting



Source: SPSA finance reports (forecast figures) and 2010/11 Annual Report and Accounts

37. The volatility of the funding position can be seen in the above Exhibit. SPSA started the year with funding of £102.6 million, supplemented by external income of approximately £5.4m. Bottom-up budgets at that time showed there was a funding shortfall of £3.7 million and as a result SPSA and SCDEA started identifying efficiencies and cost savings. GIA increased by £2.433 million by July 2011 and the Board were provided with an updated and balanced budget, but that was on the basis that £4.6m efficiency savings would be achieved. During the next six months SPSA negotiated funding for further individual business cases and their voluntary severance scheme (£3m). The final funding position was agreed with the Scottish Government on 23 March 2011 at £107.999m. Adding external income as at 31 March brings the full amount to £114.131 million.
38. Finance reports are reviewed by the executive team on a monthly basis and the Board are provided with monitoring reports and updates on outstanding funding bids with the Scottish Government. This level of negotiation and change during the year required a significant level of input from finance staff but also senior management in their discussions with the Scottish Government. The 2011/12 position is described below at paragraph 50.

Financial position

39. SPSA's year-end position shows a net liability of £9.9 million, compared to a net liability position of £32.7 million as at 31 March 2011. The movement is primarily due the reduction in the pension liability of £25m (from £37.8 million to £12.9 million). The financial assumption for the inflation/ pension increase rate decreased from 3.8% to 2.8% as future pensions' increases are now linked to the consumer prices index (CPI) and not the retail prices index (RPI).

Financial planning to support priority setting and cost reductions

Workforce reduction

40. Like many other public sector bodies over 70% of SPSA costs relate to staff costs. SPSA introduced a voluntary severance scheme in 2010 reducing their workforce by 74 at a cost of £2.8 million. The scale of reduction represents 6.1% of the 2010/11 permanent workforce (1,213). Forensic services and ICT have the highest numbers leaving with 43 and 23 staff, respectively, leaving these business areas.
41. At SCDEA the expansion programme was stopped and five members of staff left under voluntary severance scheme at a cost of £80,000. At the year-end SCDEA actual full-time equivalent in post was 337 compared to budget establishment of 393.
42. SPSA estimate that the severance schemes for both bodies will release over £2.9 million savings each year.

Job evaluation and harmonisation

43. In 2010/11 SPSA completed the implementation of a job evaluation and harmonisation project. Since 2007 SPSA had been operating with nine sets of terms and conditions, nine sets of policies and a wide range of varying interpretations and applications of procedures. SPSA estimate that for SPSA and SCDEA, for both projects, total savings of £3.8 million will be realised between 2011 and 2016.

Service review

44. When SPSA was established one of its aims was to bring efficiencies to the services which transferred to it and this review of services had already started before the impact of budget restrictions was better known. Forensic services have been through a modernisation programme which started in 2009/10 and in December 2010 the Scottish Government announced its model for future delivery with a local service retained and savings being achieved through the centralisation of certain services e.g. volume crime DNA and drugs analysis. There have been changes to shift patterns, better procurement and cost cutting measures. SPSA anticipate total savings of at least £5.6 million over 2010-2015.
45. During 2010/11 SPSA carried out detailed examination of all its costs to identify savings. Business area savings plans were scrutinised and challenged by the Chief Executive and Director of Finance. This resulted in further savings across operating expenditure and helped SPSA meet its resource budget target.
46. At SCDEA, staff were asked to make suggestions on how to cut costs and make efficiencies. From this controllable savings were identified and savings were also considered according to risk and impact. The SCDEA finance group monitored progress.

Shared services

47. To improve financial management, and in particular financial reporting, SPSA procured a new financial ledger system in 2010/11. SPSA are now using the same financial ledger system as Strathclyde Police, who provided training to SPSA staff. SPSA already use Strathclyde Police's payroll system.
48. A significant project on shared services is the planned move of SCDEA and Glasgow's forensic services to the 'crime campus' at Gartcosh. The Director General is a Crime Campus Programme Board member and is the main public voice for the project, supported by the Head of Corporate Communications at SPSA. SPSA and SCDEA will share the campus with other public sector bodies. The building will be owned by the Scottish Government but SPSA will lead on facilities management and deliver the common ICT environment.

Procurement

49. Procurement is a significant activity for SPSA. In 2009/10 it assumed responsibility for procuring all ICT goods and services for police forces under an ICT agency agreement. For 2010/11 this totalled £17.7 million.

50. The Audit Committee increased its monitoring of procurement activity in 2010/11: standing agenda items now include a procurement report which details contract awards, non-competitive actions (both awarded and rejected) and procurement exercises in progress. SPSA reports that there is still too much use of non-competitive actions but consider the level is decreasing. SPSA has been subject to two independent reviews on procurement: procurement capability assessment (PCA) and a recent internal audit report.
51. In 2009 the Scottish Government introduced a new annual evidence-based assessment, the procurement capability assessment (PCA), to monitor how far public sector bodies adopt good purchasing practice and as a basis for sharing best practice. We reported last year that SPSA had been assessed in July 2010 and again in January 2011 with the overall assessment increasing from 29% to 37%. The results are categorised into one of four possible performance bands/grades - developing, conformance, improved performance and superior performance. Both figures lie within in the conformance category.
52. The improvement was due to increases in two categories in particular 'defining the supply need' (33% to 53%) and 'key purchasing processes and systems' (17% to 37%). Contract and supplier management requires further improvement but there was a slight increase in performance, from 17% to 19%.
53. In September internal audit completed a review of procurement and concluded that overall the procurement function is reasonably efficient and the current procurement and contracts team is effective at supporting regulatory and legislative compliance. Internal audit have made suggestions to improve efficiencies for example, concerning methodologies and better education of users. SPSA is currently completing an appropriate action plan.

Outlook

2011/12 budget

54. In August 2011 Audit Scotland's published its report *Scotland's public finances: addressing the challenges*. SPSA were surveyed as part of the report. The report noted that for central government overall, funding had decreased by 12% from 2010/11 to 2011/12 and SPSA had not been able to present a balanced budget.
55. As at October 2011, SPSA was still negotiating funding with the Scottish Government and did not have balanced budget for 2011/12. Discussions are on-going with the Scottish Government and SPSA management continues to examine how the projected gap can be closed.

Exhibit 3: 2011/12 budget

Budget 2011/12	£000
Cash grant-in-aid for capital and revenue purposes	89,953
Non-cash grant-in-aid	6,908
Total funding	96,861
Total forecast net expenditure for capital and revenue	98,172
Budget shortfall as at October 2011	1,311

56. The 2011/12 funding includes an £8m cut from recurrent funding (£6m SPSA, £2m SCDEA).

Refer Action Plan No. 4

End Year Flexibility

57. As part of efforts to reduce national borrowing levels, the UK Government has announced the replacement of End Year Flexibility with a more restrictive budget exchange arrangement from 2011/12. The Scottish Government is in dialogue with HM Treasury about the ultimate implications for the Scottish Budget, including the extent to which it can carry forward any unspent funding from 2010/11 to future years.

Governance and accountability

58. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
59. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
60. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
61. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

62. As reported in previous years, since its inception in 2007, SPSA has had many changes at executive management and board level. This continued in 2010/11. The new Chief Executive started in June 2010 and the Head of Corporate Management left in October 2010, replaced by a new Director of Finance in January 2011. The Head of Criminal Justice left in January 2011 and Chief information Officer left in May 2011. SPSA changed executive committee responsibilities and recruited temporary staff to cover posts during this time.
63. At Board level, two new independent members joined in October 2010, which increased the number of lay members by one and allowed the membership of sub-committees to be reviewed and changed.

Internal control

64. While we concentrate on significant systems and key controls in support of the opinion on the financial statements, our wider responsibilities require us to consider the financial systems and controls of audited bodies as a whole. This extent of this work is informed by an assessment of risk and the activities of internal audit.

65. As part of our risk assessment and planning process we assessed PricewaterhouseCoopers LLP (PwC), SPSA's internal auditors, and concluded that they operate in accordance with the Government Internal Audit Manual. We were therefore able to place reliance on their work in a number of areas as detailed within our annual audit plan.
66. SPSA maintain one financial ledger for both itself and SCDEA and other systems and controls are common to both bodies. As agreed with internal audit we split the testing of financial systems with internal audit focused on payroll, accounts receivable, cash and use of government procurement card and we tested controls on the main financial ledger, overtime and expenses, asset management and accounts payable. We concluded we could take adequate assurance from system controls apart from the asset management system, where certain controls had not been in place for the full financial year and, as planned, we carried out additional substantive testing at the year-end.
67. In the annual report for 2010/11, PwC provided an opinion, based on the work undertaken during the year, that they "did not identify any critical control weaknesses that could be pervasive in their effects on the organisation's overall system of internal control". Following a tender process in the summer, PwC were re-appointed the internal auditors for SPSA.
68. The statements on internal control for SPSA and SCDEA within the 2010/11 financial statements accurately reflect the findings of internal and external audit work.

Prevention and detection of fraud and irregularities

69. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements. SPSA has appropriate arrangements in place for all business areas and SCDEA to prevent and detect instances of fraud and corruption and the Fraud Policy and Fraud Response Plan are reviewed annually. There were no instances of fraud or corruption reported by SPSA in 2010/11.

NFI in Scotland

70. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. SPSA participated in the 2010/11 NFI exercise and met the deadlines for submission of data. SPSA had 21 matches, (1.6% of total staff), and has made good progress in reviewing the NFI reports and taking appropriate action. No instances of fraud have been identified from the recent NFI exercise.

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

71. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We have concluded that the arrangements in SPSA are satisfactory.

72. The SCDEA Statement on Internal Control refers to an aspect of covert expenditure which had not been administered as completely as expected. The Director General has provided assurances that a review has taken place to improve control measures.
73. The Deputy Director General has responsibility for all aspects of professional standards, counter corruption and integrity. SCDEA reported in their Annual Report 2010/11 that during the year they established a professional standards capability that will collectively reduce the vulnerability of officers and staff to potential criminal pressures. This involves providing prevention advice and supporting officers on specific queries.

Outlook

Police reform

74. On 7 September 2011, the Scottish Government announced their plans to merge Scotland's police forces, SPSA and SCDEA into a single police service and the consultation period ran from 8 September to 2 November. This change for SPSA and SCDEA staff brings many uncertainties and following the announcement, the Director General spoke with SCDEA staff about the changes and SPSA ran 15 staff 'Question and Answer' sessions across 10 locations to discuss staff concerns.
75. While SPSA and SCDEA await announcements as to the structure of programme of work that will be undertaken they have started to think about who can most effectively contribute to the reform programme; areas of work that should be accelerated or put on hold; and how reform will impact the delivery of services.

Best Value, use of resources and performance

76. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.
77. The Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where no requirements are specified for auditors in a period they may, in conjunction with their audited bodies, agree to undertake local work in this area.
78. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
79. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
80. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
81. This section includes a commentary on the Best Value/ performance management arrangements within SPSA. We also note any headline performance outcomes/ measures used by SPSA and any comment on any relevant national reports and the body's response to these.

Management arrangements

Best Value

82. In March 2011, the Scottish Government issued new guidance for accountable officers on Best Value in Public Services. The new guidance, in essence, required public bodies to take a systematic approach to self-evaluation and continuous improvement.
83. The guidance identifies the themes which an organisation needs to focus on in order to deliver the duty of Best value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

84. The five themes and two cross-cutting themes (some of which we have commented on earlier in this report) are:
- vision and leadership
 - effective partnership
 - governance and accountability
 - use of resources
 - performance management
 - equality (cross-cutting)
 - sustainability (cross-cutting).
85. In May 2011 SPSA carried out a self assessment against the refreshed guidance, which showed current practice compared to the evidence required per the guidance. The conclusion was that the majority of the requirements were being met and identified gaps are being addressed and monitored through other activities across SPSA. This was an early proactive review of the new guidelines and the results were discussed by the Audit Committee, who agreed that the checklist now be reviewed twice a year by the Executive Committee and reported annually to the Audit Committee. SCDEA is now also undertaking the self assessment exercise.
86. During 2010/11 SCDEA completed a best value review of internal management processes of meetings, supporting administration and reporting arrangements. SCDEA report that staff now spend 47% less time attending internal meetings. A review of vehicle fleet has started and will be completed in 2011/12.

Performance management

87. SPSA's 2010/11 Annual Plan was the first year under the five-year strategic plan and it details 18 corporate objectives under four strategic focus areas:
- Focus on delivery - consolidate, improve and develop services.
 - Delivering growth through partnership - consolidate position as integral part of criminal justice community; with main focus still remaining on Scottish police forces.
 - Underpinning delivery - e.g. commitment to improve efficiency, management information and performance reporting.
 - Support those who deliver - to have strong and clear leadership and to develop staff.
88. The Annual Plan links the corporate objectives the Scottish Ministers' 2010/11 priorities.
89. As described in the 2010/11 Annual Plan, the annual plan is supported by business area operating plans, with targets and milestones set within monthly tracker reports and progress is monitored by the executive committee. At Board meetings, the Board are provided with summary position showing status of progress for each corporate objective as red, amber or green. For objectives with amber or red status, more information on action is provided. In 2009, the Serious Organised Crime Task Force launched 'Letting Our Communities Flourish',

a national strategy designed to focus the activities of all those involved in tackling serious organised crime. Since publication of the strategy SCDEA's work is focused on the following four aims:

- Divert - to divert individuals (particularly young people from engaging in or using the products of serious organised crime.
- Deter - to deter serious organised crime by implementing measures to protect communities, businesses and the public sector.
- Disrupt - to disrupt the activities of serious organised crime groups who pose the greatest risk, threat and harm to our communities.
- Detect - to give serious organised criminals no place to hide by boosting capacity and improving co-ordination.

90. SCDEA published its Five Year Strategic Plan 2010-2015 in April 2010, which is based upon 'Letting our Communities Flourish' and also sets out additional ministerial priorities to increase staffing within SCDEA and contribute to the successful delivery of the Scottish Crime Campus at Gartcosh.
91. For 2010/11 SCDEA set outcomes and key performance indicators under each of the above aims and priorities. Performance is monitored through the quarterly SCDEA Performance Management Group, with monthly meetings held to discuss detailed operations. The Board review progress by means of reports presented to each meeting: the Director General's update and reports on risk management, HR and performance.

Stakeholder engagement and partnership working

92. As SPSA provides a range of services to police forces, stakeholder engagement is key in understanding requirements from forces and other criminal justice bodies and agreeing on priorities. SPSA has been proactive in their engagement and examples from the past year include:
- SPSA visited police forces and Crown Office Procurator Fiscal Service to explain the budget cuts for SPSA and to discuss the impact on the capacity to deliver services.
 - A stakeholder engagement model was developed by SPSA, ACPOS and the eight forces. SPSA now have joint planning exercises with forces for ICT allowing them to define workload in conjunction with forces and agree on the top priorities.
 - SPSA is now a member of the Scottish Policing Board (a recommendation from the Audit Scotland study).
93. SPSA is planning to carry out a customer satisfaction survey in 2011, with the aim that regular systematic monitoring of customer satisfaction will be published as part of performance reporting.
94. SCDEA's strategic plan acknowledges the input of partners in delivering its objectives. A particular example of this is the Scottish Intelligence Co-ordination Unit (SICU), which was established in 2009/10 by SCDEA. It is a multi-agency collaboration and comprises

representatives from, for example, HMRC, the Scottish Prison Service, the Scottish Crime Centre and UK Border Agency. SICU collates and disseminates information to colleagues, nationally and internationally.

Overview of performance in 2010/11

Audit Scotland performance report on SPSA

95. In October 2010, Audit Scotland issued a performance report on the Scottish Police Service Authority (SPSA) summarising:
 - SPSA's origins and how it evolved
 - what it has delivered to date
 - the challenges ahead.
96. The Audit Scotland report contained a number of recommendations for the Scottish Government and for the SPSA.
97. In October 2010, Mott MacDonald issued a report which was commissioned by the Review Steering Group (consisting of the Scottish Government, Association of Chief Police Officers in Scotland (ACPOS) and the SPSA) covering a Review of Police ICT. The report set out broad findings, recommendations and proposed actions.
98. SPSA took the recommendations in both of these reports and summarised these in a recommendations tracker document supplemented by other internally identified actions. In February 2011 SPSA decided that with the impact of the budget cuts some of the planned actions would be addressed through a phased approach.
99. Progress on implementation is noted in the tracker document and reported through the SPSA Improvement Programme Board (which meets monthly) and through an external change Board (consisting of SPSA, ACPOS and Scottish Government). The chief executive updates the SPSA Board on progress.
100. It has been agreed with SPSA that Audit Scotland, together with SPSA's internal auditor, PwC, will undertake a joint audit review of progress in 2011/12. The review is planned to take place early in 2012 and the remit is currently being discussed with SPSA.
101. We note that as at October 2011, the tracker shows 28 open recommendations and 30 closed/completed demonstrating SPSA's commitment to progress work on addressing recommendations.

Performance measurement outcomes

102. SPSA's Annual report and Accounts 2010/11 shows that 15 corporate objectives were fully met out of the 18 set in the annual plan. One area of focus was to review delivery models and for SPC a national training model has been agreed. In addition in forensic services, baselines for national standards and service provision are now in place.

103. Audit Scotland's performance report on SPSA reported that there was no mechanism to limit levels of demand or agree criteria to enable SPSA to prioritise workload. SPSA now has an agreed ICT business and engagement model with forces and ACPOS.
104. A basic cost allocation model had been developed for the Scottish Police and Forensic Services, and the on-going development of ICT Resource Planning Model will further inform this work.
105. SCDEA report performance under two documents. Firstly, under the Police, Public Order and Criminal Justice (Scotland) Act 2006, paragraph 15(1) the Director General prepares a report, which describes progress against implementing the annual plan. The Director General's report uses case studies to describe the work of SCDEA and the examples highlight the importance of working with partners to deliver operations. Secondly, the SCDEA Annual Report and Accounts 2010/11 (published in the same document as the SPSA Annual Report and Accounts) reports on progress against corporate objectives along-side financial information and other disclosures as required under the FReM.
106. The SCDEA Annual Report and Accounts 2011/12 provides high level progress against the key performance indicators, split under the four objectives of Divert, Disrupt, Deter and Detect. Of the 21 targets, 15 are reported as achieved and six partially complete. Achievements include delivering key strategy and analysis documents, for example on knowledge management, human trafficking, serious and complex fraud needs assessment and 'The Scottish Capability and Capacity of e-crime Review'.
107. In November 2010 we reported that SCDEA was developing a Disruption Panel Model which will measure the impact of intelligence and interventions against the capability and harm of serious organised crime groups. SCDEA reports that disruptions panels are now a standard part of the SCDEA performance evaluation process.
108. For the six objectives that were partially implemented, SCDEA report that this was often due to financial restrictions, for example only two out of four Crime Stopper campaigns were carried out and SCDEA stopped its recruitment of specialist posts.
109. Class A drug seizures used to be a separate objective for SCDEA but now it is included as a factor within their broader disruption model. It is still a performance indicator, however, within the Scottish Policing Performance Framework. While the 2010/11 seizures of 80.5kg are less than previous years, seizures level have fluctuated from 77kg to over 1,000kg over the past five years.

National performance reports

110. Other Audit Scotland reports in the last year of interest are:

Exhibit 4: A selection of National performance reports 2010/11

- | | |
|---|--|
| <ul style="list-style-type: none">• Improving energy efficiency: a follow-up report• Scotland's public finances: responding to the challenges• The role of boards | <ul style="list-style-type: none">• Role of boards: a summary for non-executive board members• Management of the Scottish Government's capital investment programme• An Overview of Scotland's Criminal Justice System |
|---|--|

Source: www.audit-scotland.gov.uk

The role of boards

111. The report noted that there remains a lack of clarity about the roles of the boards of public bodies, particularly the extent to which they provide leadership and strategic direction and examines this issue, along with other questions about the work of boards.
112. SPSA participated in fieldwork for the report but SPSA does not have a formal action plan on the Role of Board's study because they responded to their own study, which picked up findings from the Role of Boards study. We have reported in previous years the unique position of SPSA and SCDEA having one accountable officer and reporting to one Board. Issues surrounding this complexity have been superseded with the announcement in September 2011 that SPSA will be transferred into a single Scottish police service.

Improving energy efficiency: a follow-up report

113. Scotland has ambitious targets to reduce greenhouse gas emissions and public bodies are adopting a more strategic approach to improving energy efficiency. However, the public sector as a whole is not yet reducing emissions at sufficient pace to set a good example or influence others, and future budget reductions may affect the level of investment available to achieve further improvement.
114. SPSA are involved in an ACPOS consortium set up to help drive a common approach to carbon management across Scottish policing, working in partnership with the Carbon Trust. SCDEA work alongside the SPSA carbon management team. Baseline metrics and plans are in place to address the requirements of the Climate Change (Scotland) Act 2009.

Overview of Scotland's criminal justice system

115. There have been significant changes to the criminal justice system since devolution delivering major reform but which has also contributed to its complexity, though joint working has improved in recent years.
116. The report does not make specific recommendations but notes that the Auditor General and Accounts Commission will consult with criminal justice bodies to identify areas where more

detailed performance audit work would add value. Audit Scotland's study on SPSA noted that SPSA provides services that deliver savings across the criminal justice sector but there are no systems to measure this. The Scottish Government is taking this point forward under its 'Making Justice Work' programme.

117. Currently, SPSA maintain the Criminal History System (an index of records about individuals who have a criminal record) and under 'Making Justice Work,' SPSA is working with partners on a project to, co-ordinate IT and management information. The project's aim is to develop and operate a strategic platform for information management and data exchange across the criminal justice system, so that the right people have access to the right information at the right time.
118. In 2010/11 SCDEA worked with the Crown Office and Procurator Fiscal Service to align investigative and prosecution strategies so that the work of SCDEA results in the most appropriate criminal justice outcome. A strategy is now complete and has been signed by both parties.

Scottish Public Finance and relevant national reports

119. The remit of the Audit Committee includes a requirement to consider all relevant reports by the Auditor General including reports on achievements of value for money. The Audit Committee discusses national studies, as highlighted by Audit Scotland through progress reports, and how they relate to SPSA, SCDEA or the wider criminal justice system.
120. In May 2011 changes to the Scottish Public Finance Manual now require the accountable officer to formally consider a proportionate response to relevant national reports. SPSA should consider what processes should be put in place to meet this requirement and support the Audit Committee in their role.

Refer Action Plan No. 5

Appendix A: audit reports

External audit reports and audit opinions issued for SPSA and SCDEA for 2010/11

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	2 February 2011	9 February 2011
Key financial controls assurance report	6 September	13 September 2011
Report on financial statements to those charged with governance	8 September 2011	13 September 2011
Audit opinion on the 2010/11 financial statements	28 September 2011	n/a

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible officer	Target date
1	19	<p>The review of the annual report and accounts should be completed before the accounts are submitted for audit, with changes and audit adjustments agreed prior to the Audit Committee.</p> <p>There is a risk that changes subsequent to our ISA260 report to the audit committee will result in further reporting and delays to the finalisation of the accounts.</p>	<p>The Executive Committee had reviewed the Annual report and accounts prior to the audit committee and changes were only made after later reflection. However, the timetable for 2011/12 will remind directors that all changes should be addressed prior to the audit committee.</p>	Corporate Planning Manager	31 March 2012
2	22	<p>Accountable officers are responsible for ensuring the safeguarding of assets and the Scottish Public Finance Manual requires that asset registers should show regular evidence of physical verification of an asset's existence.</p> <p>2008/09 was the last year a physical verification exercise was completed. There is an increased risk that obsolete or lost assets are not identified.</p>	<p>For 2011/12 SPSA are investigating a physical verification exercise and plan to visit local asset holders to discuss proposals.</p>	Head of Finance	31 March 2012
3	23	<p>During the audit of the accounts SPSA identified</p>	<p>SPSA are working with external</p>	Director of Finance	31 March 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible officer	Target date
		<p>there were errors in the VAT returns for quarters, one, two and four and at the time of the audit SPSA were still working with their advisers to correct the mistakes.</p> <p>There is risk that any error in VAT returns will lead to errors in the financial statements or delays</p>	<p>consultants to correct mistakes on VAT returns.</p> <p>After that SPSA will re-evaluate quality of VAT services received.</p>		
4	56	<p>SPSA have undertaken work to identify savings but do not yet have a balanced budget for 2011/12.</p> <p>There is a risk that 2011/12 budgets are exceeded or services are significantly curtailed in order to meet budget limits.</p>	<p>The budget risk is a high risk on the SPSA Risk Register with updates provided to each Board meeting. SPSA continue regular meetings with Scottish Government and monitor progress against projected savings.</p>	Director of Finance	On-going to March 2012
5	120	<p>There is a new requirement in the Scottish Public Finance Manual to formally consider a proportionate response to relevant national reports prepared by Audit Scotland.</p> <p>SPSA risk not meeting the requirements of the SPFM without putting in place adequate procedures.</p>	<p>Finance department will co-ordinate production of a proportionate response for review by Chief Executive and Executive Team.</p>	Head of Finance	December 2011