

# Scottish Prison Service

## Annual report on the 2012/13 audit



Prepared for Scottish Prison Service and the Auditor General for Scotland  
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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

## 2012/13

The Scottish public sector is experiencing significant financial challenges in providing expected levels of service within the agreed financial framework. In 2012/13 we assessed the key strategic and financial risks being faced by the Scottish Prison Service (SPS). 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.

The SPS is a public service led delivery agency which is legally required to deliver custodial and rehabilitation services for those sent to it by the courts. As an executive agency of the Scottish Government, the SPS is funded by the Scottish Government. At 31 March 2013 there were 14 publicly managed prisons and 2 privately managed prisons (HMP Kilmarnock and HMP Addiewell).

## Financial statements

We have given an unqualified audit report on the financial statements of SPS for 2012/13. We have also concluded that in all material respects, the expenditure and income shown in the financial statements were incurred and applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.

A number of audit adjustments were made to the financial statements. The overall effect of these adjustments was to decrease total comprehensive expenditure by £2m and to increase net assets by £2m. We are satisfied that the correct accounting entries have been made in each case.

## Financial position and use of resources

SPS reported net operating costs of £353.1 million and net capital expenditure of £71.4 million in 2012/13; an underspend of £4.3 million against budget. Budgetary controls operated effectively during the year with the managed underspend and subsequent transfer of £20.6 million to the Scottish Government in the Spring Budget Revision contributing to the overall Scottish Government position in relation to the Justice Portfolio.

During 2012/13 the overall prison population has shown a downward trend although there continues to be a long term pressure on the prison population. The maintenance of SPS' revenue funding reflects the financial impact of the continuing high levels of demand and expectations on the service.

Modernisation of the prison estate continued during the year. The redevelopment of HMP Shotts was completed when phase two became operational in August 2012, the construction of HMP Grampian progressed during the year and work has commenced on the design of the women's prison at HMP Inverclyde. HMP Noranside was sold in October 2012.

## Governance and accountability

In 2012/13 SPS had sound corporate governance structures in place. We examined the organisation's key financial systems underpinning the organisation's control environment and concluded that they operated sufficiently well for us to place reliance on them.

In July 2012 the Chief Executive announced a strategic review of SPS which is intended to reshape the organisation. As a result of the ongoing review, a number of Board and other senior appointments within the organisation are currently of a temporary nature. SPS will need to ensure that it has effective workforce planning and appropriate capacity to deliver the improvements identified.

## Performance and best value

A number of improvements relating to partnership working have taken place during 2012/13 and SPS continued to contribute to both Scottish Government and agency initiatives to reduce levels of reoffending.

SPS has taken action to implement improvements to the management of women offenders in Scotland in line with the recommendations from the work of the Commission on Women Offenders. The Agency is currently planning the construction of a new national prison for women at HMP Inverclyde, as a replacement for HMP Cornton Vale, and developing a new specialist unit at HMP Edinburgh.

Key performance indicators in 2012/13 showed a general improvement on performance reported in the previous year.

## Outlook

SPS' revenue budget continues to increase, by approximately £20 million annually, in 2013/14 and 2014/15. In a period of reducing resources across the public sector as a whole, the challenge facing the SPS is to demonstrate efficiency and best value in its management of the stable revenue commitment from the Scottish Government. The organisational review will be instrumental in addressing these issues.

HMP Grampian is due for completion in March 2014. As the capital budget decreases significantly over the next two years, this will put pressure on the resources available for other improvements to the prison estate.

SPS will continue to take forward the delivery of critical improvements to the management and accommodation of women offenders including the construction of HMP Inverclyde.

# Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of SPS. 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. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of SPS.
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 SPS understands its risks and has arrangements in place to manage these risks. The Accountable Officer and other members of the board 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 SPS and the Auditor General and should form a key part of discussions with the Risk Management and Audit Committee (RMAC). 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 RMAC.
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. We 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.
9. We review and report on, as appropriate, other information published with the financial statements, including the management commentary, governance statement and the remuneration report. We also review and report on the Scottish Government consolidation pack incorporating the Whole of Government Accounts (WGA) return. This section summarises the results of our audit on the financial statements.

## Audit opinions

10. We have given an unqualified opinion that the financial statements of SPS for 2012/13 give a true and fair view of the state of the body's affairs and its net operating cost for the year.
11. SPS is required to follow the 2012/13 Government Financial Reporting Manual (FReM) and we confirmed that the financial statements have been properly prepared in accordance with the FReM. We also confirmed that relevant parts of the remuneration report had been properly prepared and that information given in the management commentary was consistent with the financial statements.
12. We also reviewed the governance statement and concluded that it complied with Scottish Government guidance.

## Regularity

13. We confirmed that the expenditure and income in the financial statements was in accordance with applicable legislation and Ministerial guidance, the Budget Act for 2012/13 and legislation governing sums paid out of the Scottish Consolidated Fund.

## Accounting issues

### Accounts submission

14. Initial accounts working papers were available from 22 April 2013 and our on-site audit fieldwork commenced the following week. Further working papers were made available over

the next three weeks with unaudited financial statements submitted for audit on 23 May 2013. The majority of schedules were submitted in accordance with a pre-agreed timetable. A number of these schedules were subsequently amended during the course of the audit.

15. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. The overall effect of these adjustments was to decrease total comprehensive expenditure by £2m and to increase net assets by £2m. Further details of the most significant adjustments are provided below.
16. The issues arising from the audit were discussed with the Head of Finance during the course of our fieldwork and at a clearance meeting on 4 June 2013. The more significant issues arising were discussed with the Director of Finance at a meeting on 6 June 2013. The financial statements were considered by the RMAC and signed by the Chief Executive, as Accountable Officer, on 26 June 2013.

## Prior year adjustments

### Recognition of demolition costs

17. SPS has reviewed and amended its accounting policy for the recognition of demolition costs. Previously such costs were recognised as capital expenditure, initially being added to the carrying value of assets until a revaluation occurred. The revised accounting policy is to recognise such expenditure as operating costs charging amounts directly to the statement of comprehensive net expenditure. This policy has been applied in the audited financial statements with a prior year adjustment made to the comparative figures for 2011/12.
18. The effect of this prior year adjustment was to increase the 2011/12 net operating cost by £0.04 million however there was no impact on the total comprehensive expenditure for the year as a result of a corresponding increase in the net surplus on revaluation of property, plant and equipment. The restated statement of financial position, as at 31 March 2012, reflects a transfer of £3.2 million between the General Fund and Revaluation Reserve which had no impact on total taxpayers' equity. We are satisfied that the revised accounting policy has been applied appropriately.

### Prisoners' canteen and retail shop

19. SPS has reviewed and amended its approach to the recognition of income and expenditure associated with the prisoners' canteen and retail shop. Previously net income was recorded as a single item of income in the statement of comprehensive net expenditure. The revised approach is to account separately for sales and the costs of sales on a gross basis recording these as income and other costs respectively. Corresponding adjustments were made to increase prior year income and expenditure by £3.8 million, to reflect the revised approach, which had no net effect on the reported results. We are satisfied that correct accounting entries have been made in respect of this adjustment.



## Provision for demolition costs

20. The Scottish Government's Infrastructure Investment Plan sets out a commitment to further modernise and improve the Scottish prison estate, including the replacement of a number of existing prisons. The estimated costs associated with the demolition of the prisons that are to be replaced had been recognised in prior year financial statements as a provision for liabilities of uncertain timing or amount on the grounds that a constructive obligation existed at that time as a result of decisions taken by the Scottish Ministers.
21. As part of the 2012/13 audit we reviewed the existing provisions as well as the new provisions that had been created during the year. We concluded that the available evidence to support the existence of a constructive obligation in respect of future demolition costs for HMP Cornton Vale (£2.2 million) and HMP Inverness (£1.1 million) was not sufficient to sustain this assumption and SPS agreed to amend the financial statements to remove these amounts from the provision for demolition costs.
22. On the basis of the evidence available, including the representations received from the Accountable Officer, we are satisfied that the provision for demolition costs included in the financial statements is reasonable.

**Refer Action Plan No. 1**

## Asset impairments

23. In 2012/13 a policy decision was made to replace HMP Cornton Vale with HMP Inverclyde. As a result of this decision HMP Cornton Vale's asset life was reduced from 22 years to 3 years. This reduction in the remaining functional life of the asset resulted in an impairment charge of £12 million to the statement of comprehensive net expenditure. In the unaudited accounts £3m had initially been charged to the revaluation reserve with the balance of £9m being charged to the statement of comprehensive net expenditure. Following discussions with management during the course of the audit SPS agreed to correct this error.
24. As a result of a downward movement in indexation factors and the revaluation of a number of properties, including HMP Cornton Vale, there was a significant impairment charge of £51 million included in the financial statements. We are satisfied that the correct accounting entries have been made in respect of these impairment charges.

## Consolidation templates

25. An unaudited consolidation pack, including supporting notes workbook and WGA submissions was received on 13 June 2013. There were a small number of adjustments required to the draft submission.
26. The entity certificate was signed by the Director of Finance on 3 July 2013. Our audit report concluded that the consolidation templates were consistent with the audited financial statements with the exception of a number of comments marked for the attention of the Scottish Government. The completed templates, together with our opinion, were submitted to the Scottish Government on 4 July 2013.

## Outlook

27. As SPS continues with its programme of modernisation of the prison estate the provision for demolition costs should be kept under review.

**Refer Action Plan No. 1**

28. There are no significant changes to the 2013/14 FReM that are expected to have an impact on SPS' annual financial statements.

# 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. We 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

### Annual outturn

32. Net operating costs during 2012/13 were £353.1 million and net capital expenditure was £71.4 million. Cash funding of £353.6 million was received from the Scottish Consolidated Fund and cash balances increased by £0.03 million.
33. Net operating costs have increased by £57.7 million (19.5%) since 2011/12. The most significant element of this increase related to depreciation and impairment charges which increased by £45.4 million (110.9%).

### Budgetary control

34. SPS reported a net underspend of £4.3 million (1.0%) against the final budget of £428.8 million approved by the Scottish Parliament. The net underspend includes £3.9 million on capital projects which was mostly due to some slippage in the construction work on HMP Grampian. Resource savings (£0.4 million) were generated from improved use and modernisation of the prison estate and the efficient management of major initiatives.
35. In addition to the underspend reported above, £20.6 million was released during the year to the Scottish Government's Justice Portfolio, largely as a result of the re-profiling of expenditure for HMP Grampian, the release of provisions and other in-year savings. Other budget changes included an increase of £48.8 million to cover forecast provision and impairment charges, an additional £0.4 million for depreciation and £2.7 million in respect of private finance initiative (PFI) adjustments. This resulted in a net increase in the total budget during the year of £31.3 million.

36. A financial report is submitted to each meeting of the SPS Board which includes a summary of financial performance for the year to date. Capital projects are also monitored against budgets on a regular basis.
37. Overall, budgetary control arrangements operated satisfactorily during the year.

## Financial position

38. The statement of financial position shows a net asset position of £759.8 million at 31 March 2013. This reflects a reduction in non current assets of £24.2 million (2.7%) which was partially offset by a decrease in total liabilities of £12.7 million (7.1%) and an increase in current assets of £4.4 million (46.7%).

## Public reporting

39. Observations on the underlying financial picture are summarised in the management commentary included within the SPS annual report and accounts 2012/13.
40. Note 25 to the accounts includes a summary of the financial performance of SPS. This note compares the final outturn with the revised budget, details under and overspends against the main budget headings and provides some commentary on these variances. Details of budget movements during the year were added to the note for the first time in 2012/13. This disclosure enhances transparency and public accountability.
41. There are opportunities to further develop the narrative relating to financial performance in the management commentary. The current disclosure doesn't include substantive commentary on budget performance, changes made to the budget during the year and the final position. Public reporting would be enhanced by additional commentary on the final outturn against budget and clarification of budget movements in year. By way of example this could include an explanation of the surrender of revenue funding to the Scottish Government. In addition further explanation of the technical terms used in note 25 would provide a better understanding of the reported results.

**Refer Action Plan No. 2**

## Capital investment and performance 2012/13

42. The capital budget was managed effectively during the year with net capital expenditure of £71.4 million invested during 2012/13. The redevelopment of HMP Shotts was completed when phase two became operational in August 2012, the construction of HMP Grampian progressed during the year and work has commenced on the design of the women's prison at HMP Inverclyde.
43. HMP Noranside which was valued at a market value of £0.6 million was sold for £1.5 million in October 2012. HMP Friarton and surplus land at HMP Edinburgh were available for sale at 31 March 2013. These sites, which were valued at £3.6 million at 31 March 2013, are expected to be sold during 2013/14.

44. We reviewed the classification of capital expenditure as part of the financial statements audit and concluded that accounting for capital expenditure was appropriate.

## Financial planning to support priority setting and cost reductions

45. Over the current spending review period, SPS has stated a commitment to investing in the creation of a prison estate that is fit for purpose and provides a humane regime, capable of contributing to maintaining public safety and reducing reoffending and addressing the increasing female prison population. SPS, in common with every public service delivery body, will face new financial pressures over the coming years. There is also increasing expectations for the justice system to work more efficiently and effectively.

## Scotland's public finances – addressing the challenges

46. *Scotland's public finances: addressing the challenges* was published by the Auditor General in August 2011. The report provided an overview of the scale of budget cuts expected to be faced by the Scottish public sector in the period 2010/11 to 2014/15, and how public bodies were beginning to respond to the challenges of reducing expenditure. In particular, the report highlighted some of the main cost pressures facing public bodies and emphasised the importance of them achieving long-term financial sustainability. As part of the 2012/13 audit we are undertaking follow-up work to assess how SPS is responding to the challenges of public sector budget constraints and their efforts to achieve financial sustainability. As part of the follow-up audit, we have considered two key questions:
- Do SPS have sustainable financial plans which reflect a strategic approach to cost reduction?
  - Do senior officials and non-executive directors demonstrate ownership of financial plans and are they subject to sufficient scrutiny before approval?
47. The fieldwork for this exercise has been completed and a separate report will be issued.

## Exit packages

48. Future revenue budgets and increasing demands on the service indicate that the SPS is in a growing or stable employment situation. There were 12 exit packages at a cost of £0.5 million disclosed in the 2012/13 accounts (2011/12: 37 packages at a cost of £0.9 million). The decrease in the number of packages is the result of the closure of HMP Noranside in October 2011.
49. HMP Grampian is due for completion in winter 2013/14. A voluntary exit scheme is expected to be offered to a number of staff at HMP Aberdeen which is due for closure when the prisoners are transferred to the new prison. A contingent liability of £0.9 million is included in the 2012/13 accounts to highlight the potential cost of this scheme.

## Prison population

50. The prison population continued to be a strategic risk which required ongoing management during 2012/13. During this period the overall prison population has shown a downward trend with an average daily prison population of 8,014, a decrease from 8,178 in the previous year.
51. Although the prison population has stabilised in 2012/13 long term projections suggest the population will rise in future years. The Scottish Government's position remains that no further capacity will be provided and SPS needs to ensure it maximises the use of the estate in order to minimise the negative impact of population pressures. Work is currently being taken forward by the Head of Legal Policy in conjunction with Justice partners to review the dynamics of the prison population and the findings from this study will help design the service for the future.
52. Any overcrowding presents risks which need to be managed by SPS. These include the potential for successful legal challenges, operational incidents and infrastructure failure. There is also a financial impact associated with increasing prisoner numbers as pressure is placed on revenue costs to provide additional services whilst maintaining quality and continuing to deliver improvement programmes.
53. Population risks are being managed through the upgrading of the prison estate and initiatives to reduce re-offending and strengthening alternatives to custody. SPS has a number of operational systems in place to manage the prison population on an ongoing basis. The organisation will need to continue to actively manage the prison population within the constraints of the service.

**Refer Action Plan No. 3**

## Redevelopment of the prison estate

54. Since 2008, significant investment has taken place across the prison estate. HMP Low Moss was opened in March 2012 and HMP Shotts, HMP Edinburgh, HMP Glenochil, HMP Perth and HMYOI Polmont have all benefitted from modernisation in recent years. Such improvements need to respond to changing demands and expectations placed on the service, and support its overall strategic direction.
55. The Scottish Government's Infrastructure Investment Plan 2011 (updated in February 2013) and the Scottish Government's Draft Budget 2013/14 sets out a commitment to further modernise and improve the prison estate. Current developments include:
  - the completion of HMP Grampian (see paragraphs 58 - 61), SPS' first fully community facing prison, which is due to open in March 2014 as a replacement for the current prisons in Aberdeen and Peterhead
  - short term improvements to HMP Cornton Vale which are expected to be completed around Autumn 2013
  - taking forward the preparatory work for the women's prison at HMP Inverclyde to replace HMP Cornton Vale from 2016

- acquiring a site for the construction of HMP Highland which will replace HMP Inverness
  - taking forward work to plan HMP Glasgow as a replacement for HMP Barlinnie.
56. Budget provision in the medium to longer term remains uncertain which could impact on SPS' ability to deliver a number of the projects currently planned.

**Refer Action Plan No. 3**

57. We are currently carrying out a review of arrangements to establish and review the prison estate capital investment programme (see paragraph 145).

### **HMP Grampian**

58. HMP Grampian is scheduled to open in March 2014 and be fully operational by mid April. HMP Peterhead will close in December 2013 with HMP Aberdeen closing in January 2014 resulting in a period of temporary capacity reduction.
59. Construction on HMP Grampian commenced in early 2012 however the planned timetable had slipped by approximately 9 weeks by the end of the year. This slippage didn't have any financial implications in terms of additional costs but resulted in a reprofiling of expenditure and contributed £12.0 million to the £20.6 million which was surrendered to the remainder of the Scottish Government Justice Portfolio at the Spring Budget Revision (see paragraph 35).
60. The project was subject to a Scottish Government Gateway Review in early 2013 and the review team considered the implementation of the new prison to be well led and managed. The review produced ten recommendations which required action at corporate, programme board and project level. It is anticipated that a further Gateway Review will be undertaken later in the year.
61. We have reviewed capital budget monitoring reports and Board minutes to ensure that the project is progressing as planned and SPS is confident that the planned dates will be achieved.

## **Outlook**

### **2013/14 budget**

62. Draft budgets for the 4 year period from 2011/12 to 2014/15 were set by the Scottish Government Spending Review 2011. SPS has been allocated a revenue budget of £342.0 million and a capital budget of £22.5 million for 2013/14. This represents an increase of £16.9 million in the operating budget and a decrease of £53.0 million in the capital budget compared to the HM Treasury allocation for 2012/13. The capital allocation is a significant decrease from current levels and SPS have identified a net capital budget shortfall of £16.8 million which will need to be funded by switching current revenue to capital budgets via an in-year budget revision.
63. Revenue resources will be focussed on continuing with programmes to reduce the risk of prisoners reoffending on release from custody.

## Financial forecasts beyond 2013/14

64. SPS has been allocated a revenue budget of £366.2 million and a capital budget of £32.5 million for 2014/15. This is an increase of £24.2 million and £10.0 million in the operating and capital budgets respectively, compared to 2013/14. However, the capital budget includes £20.0 million which is ring fenced for the needs of Scotland's female prison population resulting in only £12.5 million being available for general capital expenditure. This allocation represents a further reduction from current levels. Capital budgets for future infrastructure projects will be determined by the Scottish Government in the next and subsequent spending reviews.
65. The stable nature of the SPS revenue budget is designed to support current staffing levels and service demand. However, in a period of reducing resources across the public sector as a whole, the challenge facing the organisation is to demonstrate efficiency and best value in its use of resources. Continuous improvement will be needed to respond to changing demands and expectations placed on the service.

## Significant financial risks

66. There is a long term risk that future court cases could be brought by prisoners concerning their right to vote which may result in a liability for compensation payments if such cases were successful. We have been informed that the Scottish Government is working with the UK Government to monitor and manage this issue.



# Governance and accountability

67. 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.
68. 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.
69. Consistent with the wider scope of public audit, we 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
70. In this part of the report we comment on key areas of governance.

## Corporate governance

### Overall effectiveness

71. We found that overall, corporate governance arrangements operated effectively during 2012/13.

### Processes and committees

72. The previous Chief Executive retired from his role on 27 May 2012 and the Permanent Secretary appointed a new Chief Executive, Colin McConnell, who took up the position on 28 May 2012. The new Chief Executive commissioned a strategic piece of work to undertake a high level review and realignment of the SPS vision, values and core business (see paragraphs 85 - 91). This will make recommendations on the revised roles, structures and responsibilities of the Board. Consequently, there were several changes to the composition of the executive group during 2012/13 and a number of Board and other senior appointments, including the Head of Finance and Head of Information Systems and Strategy, are currently vacant or filled on a temporary basis.
73. The frequency of meetings of the Chief Executive and executive members of the Board moved from weekly to "as required" during 2012/13. Board meetings reduced from approximately eight meetings annually to bi-monthly with effect from July 2013.

74. Non executive director appointments have been extended in the short term however one member, who was also Chair of the RMAC, resigned from his role in December 2012. The Deputy Chair of the RMAC was subsequently appointed to the position of Chair. The RMAC currently comprises two non executive directors and two independent members compared with three non executive directors and three independent members during 2011/12.
75. The terms of reference of the RMAC require a quorum of three members, one of whom must be the appointed Chair (or nominated Deputy Chair). The June 2013 RMAC was the second consecutive year in which the June meeting did not meet the required minimum attendance. Two non executive members of the Board, who are not regular members of the RMAC, attended the June 2013 RMAC in order to allow the meeting to proceed as planned. SPS have provided assurances that arrangements will be put in place to ensure that future meetings of the RMAC will be attended by the required minimum number of permanent committee members.
76. The RMAC carried out a review of its effectiveness during 2012/13 and the results of this review were presented to the March 2013 meeting of the committee. The review concluded that there are no significant issues that require to be addressed however a number of points were identified where performance of the RMAC could be further improved. This conclusion supports our view that the RMAC is generally effective with a good level of challenge from members. There is scope for more focus on conclusions and action points in committee papers and presentations.

**Refer Action Plan No. 4**

## Internal control

77. 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. The extent of this work is informed by our assessment of risk and the activities of internal audit.
78. Overall the systems of internal control were operating effectively during 2012/13. This enabled us to take the planned assurance on these systems for the audit of the financial statements. There were no major findings from our review of internal control systems however we identified a small number of control weaknesses where improvements could be made to existing arrangements.
79. Our assessment of internal audit, carried out by the SPS' Audit and Assurance Unit (AAU), concluded that the internal audit service operates in accordance with Government Internal Audit Standards and has sound documentation standards and reporting procedures in place. In line with best practice, the Head of AAU will report directly to the Chief Executive with effect from 2013/14.
80. As a result of our assessment we were able to take assurance from the work of internal audit in respect of a number of areas of the financial statements. We placed full reliance on internal

audit and carried out a comprehensive review of their working papers in respect of the AAU reviews of the payroll system and payment of creditors.

81. Based on his review of the corporate governance and control environment, management of risk and reliance placed on the work of other external assurance providers and review bodies, the Head of AAU provided an overall reasonable level of assurance for financial year 2012/13.

### Financial policy and guidance manual

82. We noted, during our testing of key control systems in 2011/12 that some chapters of the SPS Financial Policy and Guidance Manual had not been subject to review for a number of years. A major review of the manual was carried out during 2012/13 and an updated manual was re-issued to relevant staff in April 2013.

### Working practices

83. During 2012/13, AAU carried out a review of staff attendance, ex-gratia payments, time off in lieu (TOIL) and banked hours at two establishments. AAU provided limited assurance on the controls reviewed and reported that they had identified some working practices were in breach of the SPS Code of Practice. It was also identified, from one of these reviews, that there were risks that arrangements could be manipulated to the advantage of individuals. The RMAC has agreed that this is an area which should be kept under review.

### Relocation of SPS IT services

84. SPS has recently transferred its data centre from Calton House to a Scottish Government shared service facility at Saughton House. This transfer was supported by the development of SPS' own disaster recovery facility at a local government shared service facility in Lanarkshire. The new disaster recovery facility has replaced a commercial contract that commenced in 2008.

### Organisational change and capacity

85. The SPS organisational review, which commenced in November 2012, is intended to reshape the organisation by implementing firstly governance and then structural changes, leading to a wide programme of change being rolled out across the service in the longer term.
86. The Director of Partnerships and Commissioning was appointed as leader of the Organisational Review Team in November 2012 and terms of reference for the working group have been completed. The organisational review has been recognised as a strategic risk and was added to the corporate risk register during 2012/13.
87. The review is being taken forward in two overlapping phases which progressed during 2012/13. The first phase is concerned with redefining the Board and executive structure to efficiently support the operational business. An interim report on phase one was considered by the SPS Board in December 2012. Phase two is the development of the initial scoping work into a high level change programme and agreed change proposals. SPS intend to

support these proposals with clear plans, deliverables and products that will be taken forward over the next three years.

88. The project has been the subject of a Gateway Review which has provided assurance that it can successfully progress to the next stage of its lifecycle.
89. SPS will need to ensure that effective arrangements are in place to oversee the strategic review process and to manage the impact on the delivery and quality of services provided. Prevailing public sector pay policies mean that pay growth is likely to remain static or slow and this will contribute to challenges in terms of recruiting and retaining staff of the appropriate quality to deliver the improvements identified. Unlike many other parts of the public sector SPS is not reducing staff numbers and projected resource shortfalls have been identified in a number of areas.
90. A paper was presented to the Board, in April 2013, which focussed on leadership and succession planning and the work undertaken to provide a linked programme of courses and development opportunities to ensure SPS has the resources and strategy available to recruit and retain appropriate skills. A Leadership and Management Development Steering Group has been established with the purpose of ensuring a co-ordinated and integrated approach to recruitment and development of future leaders to meet the needs of new service demands. Significant progress has also been made in modernising the development of SPS recruitment activity including the introduction of e-recruitment in March 2012.
91. We have monitored progress of the strategic review process throughout 2012/13, including the operation of the management arrangements identified above. The initial reporting timescale for the review was May 2013 with a new Board structure in place by April 2013 however the review process is now expected to continue until late 2013.

### **Refer Action Plan No. 5**

## **Governance statement**

92. In accordance with Scottish Government guidance, the SPS governance statement for 2012/13 included a description and assessment of the essential components of corporate governance and details of any significant risk-related matters arising during the period. We are satisfied that SPS prepared a statement that complied with the guidance. However, the statement focussed on the articulation of risk management arrangements and there is scope to further develop the assessment of arrangements and evaluation of the organisation's risk profile.
93. Arrangements to prepare the statement, which was drafted by the Head of AAU and reviewed by the Chief Executive, are generally satisfactory. These arrangements include the statements of assurance process which has been in place for a number of years. This process involves twice yearly statements from each of the executive directors, supported by a memorandum on year end issues, covering the key systems for which they are responsible. These statements focus on the management of key risks and the identification of emerging issues which could impact on the systems of internal control. Statements are reviewed by the

Head of AAU and the Executive Group and the main issues identified are summarised for consideration by the RMAC. We understand that the Chief Executive intends to take a more direct role in preparing the initial draft of the statement in future years.

94. The draft governance statement was considered by the RMAC at its meeting in May 2013. The Head of AAU introduced the statement and there was a general discussion around the contents of the draft which included agreement on the inclusion of additional commentary.
95. There are two significant control issues identified in the 2012/13 governance statement. The organisational review which is covered at paragraphs 85 to 91 and the payroll business continuity plan. The 2012/13 AAU review of payroll ascertained that controls over payroll processing were operating as expected; however, there was an absence of a payroll business continuity plan. The significant risk of operating such a key system without a proper and well tested business continuity plan has been noted by management and the statement confirms that remedial action to address this matter will be completed by September 2013.

### ICT data handling and security

96. It is evident that SPS gives high priority to information security. The Chief Executive has appointed the Director of Finance and Business Services to be the organisation's Senior Information Risk Owner (SIRO). Information security within SPS is the responsibility of the SIRO and is governed by an Information Governance Forum which meets on a monthly basis. An Information Security Unit with two full time staff has been formed with a network of trained information security officers across establishments.
97. In June 2012, at the invitation of the SIRO, the Information Commissioner's Office conducted a data protection audit of SPS. The full audit report was published in March 2013 and gave SPS an overall score of reasonable assurance, while identifying areas of good practice and others where improvements would enhance the arrangements operated by SPS. An action plan has been agreed based on recommendations contained in the report. Progress on each of the actions will be monitored by the Information Governance Forum.
98. During 2012/13, no significant personal data related incidents were formally reported to the Information Commissioner.

### Prevention and detection of fraud and irregularities

99. SPS is responsible for establishing arrangements to prevent and detect fraud and other irregularity. We review and report on these arrangements.
100. The SPS Fraud Response Plan sets out the responsibilities, actions and arrangements for dealing with all circumstances relating to actual or suspected fraud. The Fraud Response Plan supports the SPS Fraud Prevention Policy. A major review of the Fraud Prevention Policy and Fraud Response Plan was carried out during 2012/13. The revised Policy and Plan were issued to all staff in January 2013.
101. In accordance with the Fraud Response Plan, SPS has established a Fraud Response Group (FRG), which met on four occasions during 2012/13. The purpose of the FRG is to have an

awareness of matters relating to alleged fraudulent activity at an early stage, review lessons learned and promote awareness of fraudulent activity and to influence policy development. The second annual report on the work of the FRG was presented to the RMAC in May 2013. This report summarised the investigations which had taken place during the year and confirmed that the allegations of SPS involvement in an alleged fraud in India had been brought to a satisfactory conclusion.

102. The SPS maintains a confidential whistle blowing hotline to which staff and members of the public can report areas of concern. Our *Review of internal controls* report noted that the Agency's whistleblowing policy had not been updated for a significant period of time. An updated policy was implemented in May 2013 and we will review the revised policy as part of our 2013/14 audit.
103. Overall the arrangements in place to help prevent and detect fraud and irregularities are satisfactory.

### National Fraud Initiative (NFI) in Scotland

104. SPS participates in the National Fraud Initiative (NFI). This is a counter-fraud exercise that uses computerised techniques to compare information about individuals held by different public bodies to identify circumstances that might suggest the existence of fraud or error (matches). Where matches are identified public bodies are expected to investigate these and if fraud and error has taken place, to stop payments and attempt to recover the amounts involved. The exercise also provides assurance on the effectiveness of arrangements and helps deter fraud.
105. The 2012/13 exercise commenced in October 2012 with the collection of payroll and creditor data from participants. Matches were identified in both the SPS creditor and payroll systems however no instances of fraud have been identified to date. The payroll matches included a number of cases where employees had undeclared secondary employment and these are subject to further review although there is no indication of fraud. There is one payroll to creditors match which is currently being investigated. Checks on potential duplicate payments, identified from the creditor matches, proved satisfactory with the exception of two transactions. One duplicate payment was confirmed and the other transaction is currently being investigated. An update on NFI was included in the annual report of the FRG presented to the RMAC in May 2013.
106. Overall the arrangements in place for investigating and following up data matches in the 2012/13 NFI exercise are progressing satisfactorily.

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

107. 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 consider whether bodies have adequate arrangements in place.

108. The SPS employee code of conduct has been collectively agreed by management and the Trade Union Side (TUS). The primary purpose of the code is to ensure that the high standards of conduct demanded of employees of the SPS are achieved and maintained. The SPS sets certain standards of conduct for its employees which in some instances are significantly higher than those expected in other employment relationships. Management and the TUS are currently working together to update the code of conduct.
109. A Conduct Investigation Unit (CIU) was launched in June 2010 and has a complement of four staff. The CIU is an independent unit set up within the SPS which is responsible for investigating allegations of gross misconduct involving employees. The unit also aims to re-enforce conduct and behaviour standards and provided input into the code of conduct review. Gross misconduct may include fraud, physical violence, serious negligence and alleged criminal activity.
110. The CIU annual report 2012/13 was presented to the RMAC meeting in May 2013. It was noted that the main reasons for investigations were a failure to follow procedures and inappropriate/ unacceptable behaviour.
111. The arrangements in this area of governance are well developed which reflects the importance that SPS places on good standards of conduct in the prison environment.

## Outlook

112. The SPS will need to continue to maintain business continuity during the transition to the new organisational structure. The new Board structure is due to be in place by late 2013 with the organisational review scheduled for publication in autumn 2013, following a draft report and internal consultation programme in the summer. It is envisaged that 2013/14 will be a transitional year with the following three to four years being the timescale required to fully embed the identified changes.
113. A new Framework Document for the Agency with a supporting Governance and Performance Management Framework will be produced as part of the organisational review.

# Best Value, use of resources and performance

114. Audited bodies have responsibility to ensure that arrangements have been made to secure best value. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. Where such requirements are not specified we may, in conjunction with audited bodies, agree to undertake local work in this area.
115. As part of their statutory responsibilities, the Auditor General may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. We 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.
116. During the course of our audit appointment we also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years. We may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
117. This section includes a commentary on the best value and performance management arrangements within SPS. We also summarise headline performance measures used by SPS, highlight any relevant national reports and comment on the body's response to these.

## Management arrangements

### Best Value

118. Scottish Government guidance for accountable officers on best value in public services requires a systematic approach to self-evaluation and continuous improvement. The guidance identifies the themes 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.
119. The SPS reported its assessment of compliance with best value requirements in the governance statement. The overall assessment was that it has well developed arrangements for six of the seven themes. The remaining theme, effective partnership arrangements, was assessed as currently under development. A number of improvements relating to this theme have taken place during 2012/13.



## Partnership working

- 120.** The SPS is fully committed to the delivery of the *Strategy for justice in Scotland*. The SPS Delivery Plans for 2012/13 and 2013/14 include a commitment to work with the Scottish Government Learning and Justice Directorate, Community Justice Authorities (CJAs), NHS, local authorities, Association of Chief Police Officers in Scotland, the Association of Directors of Social Work (ADSW), and other partners in the public, private and voluntary sectors to improve the quality and delivery of offender services.
- 121.** SPS routinely works and cooperates with statutory and other partners to deliver improved justice outcomes. These initiatives include:
- Making Justice Work - a high profile, multi agency programme of reform which includes a range of projects to improve the efficiency and effectiveness of the justice system
  - Reducing Reoffending Programme - SPS is working with the ADSW, Scottish Courts Service and community based criminal justice social work on specific initiatives to improve the management of short term prisoners.
- 122.** We identified a risk relating to partnership working in our 2011/12 Annual Audit Report. During 2012/13 SPS continued to develop relationships with partner organisations. Support from partners and stakeholders will be essential to maximise the potential benefits that can be achieved through the implementation of proposals for maintaining the prison population at manageable levels, reducing reoffending and dealing with women offenders. Improved throughcare and alignment of services through partnership working is being addressed by the SPS organisational review and we have monitored progress as detailed at paragraph 91. The scope of our review of the prison estate capital investment programme arrangements (see paragraph 145) considers the extent of partner involvement.

## Reducing reoffending

- 123.** Reoffending is a continuing problem in Scotland and the number of persistent offenders is increasing. In 2008, the Scottish Government established the Reducing Reoffending Programme and phase 1, which concluded with the implementation of Community Payback Orders, was completed in 2011. Phase 2, which has an emphasis on making sure the right services are available to help offenders address their reoffending, was launched in April 2012 and the SPS is a major partner in delivering the improvements required.
- 124.** A key aim of SPS is to deliver offender management services, programmes and activities which address the causes of offending and reoffending ensuring that the opportunities provided maximise the potential for successful rehabilitation and reintegration. This objective is reflected in the work of the SPS Organisational Review Team and the programme of initiatives in response to the findings of the Commission on Women Offenders.
- 125.** During 2012/13 the Justice Committee launched an inquiry to consider issues around the opportunity prisoners have to engage in purposeful activity in prison. The Committee published its report on its inquiry in March 2013. The SPS and Scottish Government published a joint response to this report in May 2013. The SPS agrees that purposeful activity

is critical in reducing reoffending and have accepted the recommendations made in the report. These recommendations, together with the organisational review, will form the basis of a new strategic policy for purposeful activity.

126. Reducing reoffending in Scotland was the subject of a national performance audit report published in November 2012 (see paragraphs 139 to 141).

### Women in custody

127. The Commission on Women Offenders set up to find a more effective way of dealing with women in the criminal justice system published its report in April 2012. The Commission made six recommendations that have a direct impact on SPS, three of which relate to the way in which women are accommodated and managed whilst in custody. Following the outcome of a consultation exercise SPS is planning the construction of a new national prison for women at HMP Inverclyde, as a replacement for HMP Cornton Vale, and developing a new specialist unit at HMP Edinburgh, both to be completed by 2016. It is expected that the quality of existing facilities at HMP Cornton Vale will be significantly improved in advance of the replacement prison opening.
128. During 2012/13, the Chief Executive set up a National Steering Group for the Improvement of Services to Women Offenders. The Group, which is chaired by the Chief Executive, has established clear terms of reference to ensure that SPS' strategic framework reflects fully the findings and recommendations of the Women's Commission as they relate to women in custody and to oversee the delivery and implementation of specific recommendations. A project team has been set up to carry forward the improvements required.
129. Her Majesty's Chief Inspector of Prisons for Scotland (HMCIP) commented in his 2012/13 annual report that the reduction in the population at HMP Cornton Vale, by moving a number of prisoners to HMP Edinburgh, has improved access to activities and basic amenities. An update on the women offenders' project was provided to the Board in April 2013, this included a summary of the developments with the women's facilities at HMP Inverclyde and HMP Edinburgh.

### Performance management

130. The key elements of an effective performance management framework are in place within the SPS. The SPS Corporate Plan 2012 - 2015 sets out the aims and high level priorities for the SPS over the current spending review period and supports the Scottish Government's *Strategy for justice in Scotland*. The planned activities for delivering priorities in the current and subsequent year are detailed in the SPS Delivery Plan 2012/13 and the Interim Delivery Plan 2013/14.
131. SPS agrees a service framework with each public sector prison and manages private sector providers of prisons and prisoner escorting services under contract arrangements.
132. Key performance indicators (KPIs) are agreed by the Cabinet Secretary for Justice and set out in the annual delivery plan. There are no targets set but trend analysis and continuous

improvement drives the agenda. These measures cover the elements of custody, order, care, opportunity and value for money. Progress on performance against the SPS Delivery Plan 2012/13 was reviewed by the Board in December 2012 and figures for the full year were presented to the meeting in May 2013. Quality of service is measured through the achievement of KPIs, service indicator measures and the monitoring of private contracts. Annual performance is reported in the *SPS Annual report and accounts*.

## Overview of reported performance in 2012/13

133. Seventeen KPIs across ten performance areas are reported in the *SPS Annual report and accounts 2012/13*. Overall, KPIs show a general improvement on performance reported in the previous year however there are a small number of KPIs where performance is not consistent with an improving trend. A new measure recording average purposeful activity hours per week per convicted prisoner was introduced in 2012/13 to give context to the sum of purposeful activity across prisons.
134. The indicators confirm that SPS has maintained its performance in relation to secure custody. There has been a 4% increase in purposeful activity hours since the previous year and a reduction in the average annual cost per prisoner place from £32,420 in 2011/12 to £31,926 in 2012/13.

## Her Majesty's Inspectorate of Prisons for Scotland (HMIPS)

135. HMIPS is required to inspect all of the prison establishments throughout Scotland in order to report on conditions and the treatment of prisoners. During 2012/13, HMIPS published three full and one follow up inspection reports on establishments. David Strang, former Chief Constable of Lothian and Borders Police, has been appointed as the new Chief Inspector following Brigadier Hugh Munro's retirement in June 2013.
136. The outgoing Chief Inspector's fourth annual report, reporting on inspection year 2012/13 and summarising some of the issues identified over the period of his appointment, was published in June 2013. He paid tribute to the SPS and the work carried out by prison officers and commented on:
- the transfer of healthcare in prisons from SPS to the NHS
  - young people and the prevention agenda
  - female offenders including improvements in their treatment and conditions
  - family access
  - preparation for release
  - access to purposeful activity including the quality of the activities themselves and the appropriateness to each individual prisoner
137. The report identifies a number of areas for further improvement but recognises that significant progress has been made during the year. SPS actively reviews all reports and recommendations made by HMIPS with agreed actions set out in a published plan. SPS has

taken a number of steps in response to the annual report and previous recommendations in HMIPS reports, including:

- recognising that more needs to be done in relation to meaningful purposeful activity for prisoners
- work is being taken forward to build a new prison for women at HMP Inverclyde
- working collaboratively with Education Scotland, and the wider statutory and voluntary sectors to create a skills development and learning environment at HMYOI Polmont
- a national project has been set up to examine how prisoner access to IT can be enhanced
- the SPS organisational review will look at the role of the prison officer and their training and development needs.

## National performance reports

138. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed in Exhibit 1.

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### Exhibit 1: A selection of national performance reports 2012/13 and 2013/14

- |  |  |
|--|--|
| • The National Fraud Initiative in Scotland (May 2012)                             | • Managing early departures from the Scottish public sector (May 2013) |
| • Managing ICT Contracts: an audit of three public sector programmes (August 2012) | • Developing financial reporting in Scotland (July 2013)               |
| • Reducing reoffending in Scotland (November 2012)                                 |  |

Source: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

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## Reducing reoffending in Scotland

139. *Reducing reoffending in Scotland* was published in November 2012. This report looked at the efficiency and effectiveness of approaches taken to reduce reoffending in Scotland. It focused on adult offenders sentenced in court.

140. The report delivered the following key messages:

- reoffending is a continuing problem in Scotland
- £128 million was spent on reducing reoffending in 2010/11
- there is a mismatch between what is currently being delivered and what is known to work
- access and availability to services vary across the country

- CJAs were established to improve joint working and reduce reoffending. They have brought people together but the way they were set up and inflexible funding limit their effectiveness
- there needs to be stronger leadership at national, regional and local levels if reoffending is to be tackled effectively.

141. The report included a number of recommendations for the Scottish Government, SPS, CJAs and councils. The Public Audit Committee considered the report on 21 November 2012 and the SPS Chief Executive was invited to give evidence to the meeting. The Scottish Government subsequently launched a consultation on redesigning the community justice system with three options to be considered for the future.

142. We have reviewed SPS progress in responding to the recommendations in the Reducing reoffending in Scotland national performance report. SPS have advised that the report was considered and discussed at Executive level collectively and individually on a number of occasions.

### Arrangements to consider national performance reports

143. The findings of relevant Audit Scotland national performance reports are not routinely considered by the SPS Board or RMAC. However, SPS have advised that the appropriate governance body within the organisation reviews relevant reports together with any associated response and guidance issued by the Scottish Government.

**Refer Action Plan No. 4**

144. We are carrying out a targeted follow-up review of *Scotland's public finances - addressing the challenges* (see paragraphs 46 - 47) and intend to bring a summary of relevant national performance reports and findings to future RMAC meetings.

## Local performance report

### Review of capital programme

145. Our 2012/13 audit includes a local performance audit to carry out a review of arrangements to establish and keep under review the prison estate capital investment programme, considering how this is aligned to the overall strategic direction of the organisation and wider developments in justice policy. This review is currently in progress and a report will be presented to the RMAC in due course.

## Outlook

146. Ensuring that SPS performs well and meets its key business objectives within a changing internal and external environment and increasing expectations will be a challenge going forward. The Board needs to ensure that its management and governance structures are operating successfully to monitor and scrutinise performance effectively.

- 147. The organisational review will include consideration of future performance management structures and relevance of the current suite of KPIs. A report on the future of performance management is due to be published in September 2013.
- 148. The outcome of the Scottish Government consultation on redesigning the community justice system will have implications for SPS. A decision on the preferred option is planned for late 2013 with implementation in 2016.
- 149. The current lease on Calton House ends in October 2014 and preferred options are being considered.

# Appendix A: audit reports

## External audit reports and audit opinions issued for 2012/13

Title of report or opinion	Date of issue	Date presented to Audit and Risk Committee
Annual audit plan	28 February 2013	6 March 2013
Review of internal controls report	16 April 2013	21 May 2013
Report on financial statements to those charged with governance (ISA 260)	20 June 2013	26 June 2013
Audit opinion on the 2012/13 financial statements	20 June 2013	26 June 2013
Audit opinion on the 2012/13 consolidation templates and WGA worksheets	4 July 2013	NA
Scotland's public finances: addressing the challenges - follow up report	31 October 2013	4 December 2013 (provisional)
Review of arrangements to establish and keep under review the prison estate capital investment programme	31 October 2013	4 December 2013 (provisional)

# 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	20 - 22, 27	<p><b>Provision for demolition costs</b></p> <p>The Scottish Government's Infrastructure Investment Plan sets out a commitment to further modernise and improve the Scottish prison estate, including the replacement of a number of existing prisons. The estimated costs associated with the demolition of prisons to be replaced are recognised as a provision in the financial statements.</p> <p><b><i>Risk - As SPS continues with its programme of modernisation of the prison estate the provision for demolition costs will be subject to change. Provisions should be recognised on a consistent basis when there is sufficient evidence to support the existence, or continuing existence in the case of an established provision, of a constructive obligation.</i></b></p>	Approach discussed and agreed during 2012/13 audit. This approach will be carried forward and consistently applied in future years.	Chief Executive	Completed
2	39 - 41	<p><b>Transparency of reporting</b></p> <p>The section on financial performance in the management commentary is</p>	Additional wording to be included in the management commentary.	Chief Executive	May 2014



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>limited to a reference to the financial performance note in the annual accounts. There remain opportunities to further enhance commentary on budget.</p> <p><b><i>Risk - There is a risk that commentary on financial performance is not sufficiently transparent to provide a complete representation to stakeholders.</i></b></p>			
3	50 - 56	<p><b>Prison estate and population</b></p> <p>Although the prison population has stabilised in 2012/13 long term projections suggest the population will rise in future years.</p> <p>Rising population levels place a strain on the capacity of the estate and supporting services. A major programme is underway to improve the prison estate. Improvements are needed to respond to changing demands and expectations and to support the overall strategic direction of the service as well as specific initiatives including reducing reoffending and women in custody.</p> <p><b><i>Risk - There are financial and overcrowding risks associated with increases</i></b></p>	<p>SPS is already working closely with SG colleagues in Justice Policy and Justice Analytical Services to review and refine strategic population projections so as to better understand the likely future demand for custodial places. SPS regularly reviews the short term implications of population changes and the Chief Executive and the Director of Operations meet weekly to discuss and approve any necessary tactical adjustments. In our view these twin track approaches ensures that the associated risks are well managed and appropriately mitigated.</p>	Chief Executive	Ongoing review

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p><i>in the prison population as well as an impact on the quality of services provided.</i></p> <p><i>Capital funds have not yet been identified to fully meet the needs of the estate redevelopment plan, including those required to implement the recommendations of the Women's Commission</i></p>			
4	76, 143	<p><b>Effectiveness of RMAC</b></p> <p>In general, the RMAC is operating effectively with a good level of challenge from members. However, there is scope for a more focussed approach to the consideration of the agenda and the content of committee papers and presentations including the deliberation of Audit Scotland national performance reports.</p> <p><i><b>Risk - There is a risk that the agenda is not suitably aligned with the nature and timing of key issues. Committee papers and presentations, although informative, occasionally lack conclusions and action points.</b></i></p>	<p>The Chief Executive has instigated a review and refresh of the RMAC arrangements. Audit Scotland has provided early input and will provide further guidance and support as the review moves forward. In our view the risks identified and therefore mitigated.</p>	Chief Executive	March 2014
5	85 - 91	<p><b>Organisational change and capacity</b></p> <p>In July 2012 the Chief Executive announced a</p>	<p>SPS does not agree that the timescale for the Organisation Review has slipped. The current work stream is on-track</p>	Chief Executive	January 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>strategic review of SPS which is intended to reshape the organisation. The review is being taken forward in two overlapping phases which progressed during 2012/13. The first phase is concerned with redefining the Board and executive structure to efficiently support the operational business. Phase two is the development of the initial scoping work into a high level change programme and agreed change proposals.</p> <p><b><i>Risk - The SPS will need to continue to ensure that effective management arrangements are in place to oversee the review process and ensure there is no further slippage in the original timetable. There are specific risks associated with the current level of temporary and vacant senior posts as well as challenges relating to the retention and recruitment of staff of the appropriate quality to deliver the improvements identified.</i></b></p>	<p>and due to report in November 2013 when the review report will be published. The primary outcome is the refresh of the SPS Executive Team including the appointment of a change manager, which is due to be completed by the end of January 2014, the planning for which is currently well underway and similarly on track.</p>		