



## **SCOTTISH POLICE AUTHORITY**

### Annual Report on the 2013/14 Audit

Prepared for the Scottish Police Authority and  
the Auditor General for Scotland

December 2014

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## Key contacts

Gillian Woolman, Assistant Director  
[gwoolman@audit-scotland.gov.uk](mailto:gwoolman@audit-scotland.gov.uk)

Esther Scoburgh, Audit Manager  
[escoburgh@audit-scotland.gov.uk](mailto:escoburgh@audit-scotland.gov.uk)

Stuart Nugent, Senior Auditor  
[snugent@audit-scotland.gov.uk](mailto:snugent@audit-scotland.gov.uk)

Audit Scotland  
18 George Street  
Edinburgh  
EH2 2QU

Switchboard: 0131 625 1500

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

# Key messages

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## Financial statements

- An unqualified auditor's report has been issued on the 2013/14 financial statements.
- However, without qualifying the opinion on the financial statements, the auditor reported that aspects of the accounting records were not adequate in certain areas.

## Financial position

- An underspend of £2.5million was reported against Grant in Aid.
- There was total comprehensive expenditure of £1.7billion.
- The closing financial position is a negative net equity position of £12billion.
- The SPA reported efficiency savings of £64million.

## Governance & accountability

- The complete permanent senior executive team was only in place by July 2014.
- There was no permanent director of finance in the SPA during 2013/14. However with the permanent Director of Financial Accountability appointed in May 2014 the SPA is now in a stronger position.
- Governance arrangements evolved over 2013/14 and are now well-established.

## Best Value, use of resources & performance

- Best value is given significant prominence in the strategies of both SPA and Police Scotland.
- SPA and Police Scotland have made progress in agreeing a performance management framework for reporting police performance.

## Police reform follow-up

- Progress has been made in the areas of: relationships, the reporting of performance and benefits realisation and implementing the SPA organisational requirements.
- More requires to be done in the areas of: monitoring non-operational performance and developing a long term financial strategy (to 2025/26) underpinned by detailed cost savings plans.

# Key messages

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## Background

1. The Police and Fire Reform (Scotland) Act 2012 (the Act) created a new structure for providing police services in Scotland. The Act brought together ten bodies into two national bodies and the new structure became operational on 1 April 2013. The restructure transferred around £1.1billion of annual spending and over 24,000 people into the new bodies. It transferred responsibility for policing from local government to central government. It is one of the largest and most complex reforms of the Scottish public sector since devolution and the most significant change in policing since 1967.
2. Although not a stated objective of reform, one of the main drivers was to save money with savings of £1.1billion expected by 2026; the Scottish Government viewed the previous model of eight police forces as unsustainable in a period of reduced public sector spending. Under the Act one set of accounts was to be produced by Scottish Police Authority (SPA) which would include the financial performance of Police Scotland.

## Financial Statements

3. We have given an unqualified audit opinion on the financial statements of the SPA for 2013/14. However, because aspects of the accounting records and access to information

and explanations in the areas of property, plant and equipment, bank and cash, and for the computation of certain accruals were considered to be of poor quality, the auditor reported that adequate accounting records had not been kept in respect of these areas.

4. The 2013/14 overall budget of the SPA was £1,228million and the SPA have reported an underspend of £2.5million against this.
5. We reported weaknesses in some key systems of internal control and a number of findings from the final accounts audit to those charged with governance. A number of presentational and monetary adjustments were made to the financial statements. Recommendations for improvement are contained in [Appendix IV](#).

## Financial position

6. The SPA's reported financial position as at 31 March 2014 is a negative equity balance of £12billion. This is related to the £11.7billion police pension liability, arising from an unfunded pension scheme.
7. In respect of the total comprehensive expenditure for 2013/14, it is not possible to draw comparison with 2012/13 results from

these financial statements; it was effectively the first year of the new body and there was no requirement for equivalent prior year information to be disclosed.

8. During the year there was active monitoring of: staying within allocated resources, and thus securing efficiency savings of £63.9million; and application of the reform budget (of £59.7million) and capital budget (of £62.5million).
9. Looking ahead, the 2014/15 revenue budget identified a shortfall of £68.2million for which £58.4million of savings were identified when the budget was approved. Further savings have subsequently been identified in order to achieve a balanced budget. The 2015/16 revenue budget has identified a shortfall (baseline reduction, inflationary and salary pressures) and work is currently underway to ensure financial plans are in place to deliver this.
10. Police Reform funding of up to £70million is available in 2014/15 and 2015/16. Part of this funding has been used to support VAT, of approximately £24million, in recognition of the new body's liability in this respect. The SPA recognises the time limit of this additional funding and is building this into their consideration of future financial strategies.

## Governance and accountability

11. The Board, currently 12 members, is supported in discharging its duties with the support of four committees: Finance and

Investment, Audit and Risk, Human Resources and Remuneration and, Complaints and Conduct Committee.

12. There continued to be a high level of member involvement in 2013/14 as SPA continued to be established. Going forward member involvement is likely to diminish as the SPA permanent executive team has been recruited.
13. There was protracted discussion about whether responsibility for corporate services (including finance) should lie with the SPA or Police Scotland. This was ultimately concluded in August 2013, some four months after the commencement of 2013/14. Consequently a number of interim appointments, as well as permanent appointments, were made during the year. Of the 6 SPA executive posts only one executive held a permanent position for the full year.
14. The permanent SPA Director of Financial Accountability was appointed in May 2014 and prior to this there were interim appointments to this role. The interim appointment to the Police Scotland Director of Finance post was held by the former Director of Finance of Strathclyde Police. As stated in the Governance Statement there has been significant restructuring and reorganisation and it will be in 2014/15 that organisational structures for key corporate areas such as finance, procurement and HR will be finalised. This follows the conclusion of consultation processes in April 2014.

## Police Reform follow-up

15. Of the eight recommendations that related to the SPA and Police Scotland, we assess five as having been completed (although one was completed later than originally planned) and three as being in progress.
16. The SPA and Police Scotland are developing baseline data to assess non-operational functions. This data will be available from 2013/14. Financial and performance baseline data is not comprehensively available for the period before the formation of a national policing service. This is due to the complexity involved in accurately developing the dataset to ensure appropriate comparison could be drawn. Therefore it is still not be possible to assess the relative performance of aspects of these functions before and after the merger. The data available from the original base position will allow an assessment of savings made in non-operational areas from 1 April 2013.
17. At the SPA meeting in March 2014, the Board agreed a financial strategy for the two year period to 2015/16. Based on extrapolation of the savings secured by end of 2013/14, the SPA and Police Scotland are confident that the £1.1billion savings identified in the Outline Business Case that accompanied the Police and Fire Reform (Scotland) Act 2012 will be made by 2025/26. The original Outline Business Case did not incorporate additional cost pressures that will require the SPA and Police Scotland to make further savings over and above the £1.1billion. These additional cost pressures include inflation, pay awards and VAT liability.
18. The SPA and Police Scotland are aware of these cost pressures and the impact that they have on the future revenue budget and are developing a longer term financial strategy for the period beyond 2015/16 which will include the five underpinning strategies: workforce, procurement, ICT, fleet and estates. These strategies fall from the overall financial strategy and while being further developed, work in these areas has been included in the 2013/14 budget and will be part of the 2014/15 and 2015/16 budgets.
19. The completion of permanent executive appointments places the SPA on a sound footing for the future.

# Introduction

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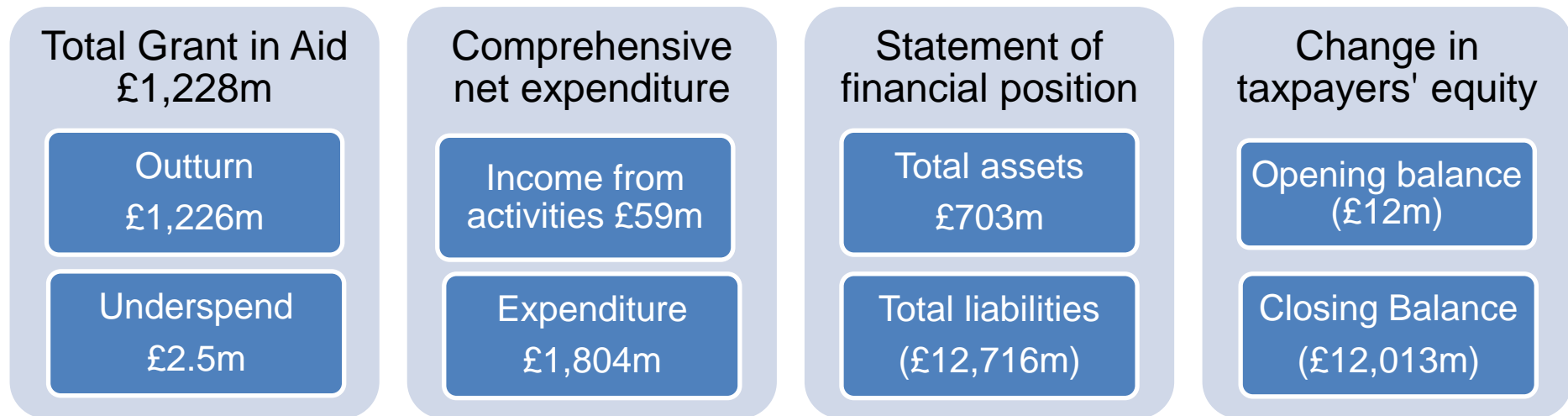
20. This report is a summary of our findings arising from the 2013/14 audit of the SPA. The Police and Fire Reform (Scotland) Act 2012 (the Act) established a new body corporate, the SPA, and a constabulary, the Police Service of Scotland (Police Scotland). Under the terms of the Act one set of accounts was to be produced by SPA, which would include the financial performance of Police Scotland. This is the first year of those new arrangements. The new bodies have been formed from ten predecessor bodies: the Scottish Police Services Authority (SPSA), the Scottish Crime and Drug Enforcement Agency (SCDEA), six joint police boards (Grampian, Northern, Tayside, Central, Lothian & Borders, and Strathclyde) and the constabularies of Fife and Dumfries & Galloway.
21. The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model.
22. Our responsibility as the external auditor of the SPA is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.
23. The management of the SPA is responsible for:
  - preparing financial statements which give a true and fair view
  - implementing appropriate internal control systems
  - putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based.
24. This report is addressed to the SPA and the Auditor General for Scotland and should form the basis of discussions with the Audit and Risk Committee as soon as possible after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting. This report will be published on our website after it has been considered by the SPA.
25. A number of local reports have been issued during the course of the year. These reports ([Appendix I](#)) include recommendations for improvements. 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 the SPA.

26. A summary of all Audit Scotland reports (local and national) for 2013/14 of relevance to the SPA is included at [Appendix II](#).
27. The concept of audit risk is of key importance to the audit process. During the planning stage of our audit we identified a number of key audit risks, risks which require application of judgement or may have significant impact on the financial statements. We set out in our annual audit plan the related sources of assurance and the audit work we proposed to undertake to secure appropriate levels of assurance for those areas. [Appendix III](#) sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.
28. [Appendix IV](#) is the action plan setting out the high level risks we have identified at the conclusion of the audit. Officers have considered the issues and agreed to take specific steps as recorded in the column headed “ Management response/action” .
29. We recognise that not all risks can be eliminated or even minimised. What is important is that the SPA understands its risks and has arrangements in place to manage those risks. The SPA and the Accountable Officer should ensure that they are satisfied with proposed management actions and have a mechanism in place to assess progress and monitor outcomes.
30. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
31. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.



# Financial statements

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## Audit opinion

32. We have given an unqualified opinion that the financial statements of SPA for 2013/14 give a true and fair view of the state of its affairs as at 31 March 2014 and of its net expenditure for the year then ended.
33. However without qualifying the opinion on the financial statements the following was reported in connection with matters that are required to be reported by exception. At a time of transition involving the merger of nine different financial systems and a reducing finance team, aspects of the

accounting records and access to information and explanations in the areas of property, plant and equipment, bank and cash, and for the computation of certain accruals were of poor quality. In the opinion of the appointed auditor, therefore, adequate accounting records had not been kept in respect of these areas for the 2013/14 financial year.

## Other information published with the financial statements

34. Auditors review and report on other information published with the financial statements, including the Management

Commentary comprising the Strategic and Chief Executive's Reports, the Governance Statement and the Remuneration Report. Whilst the content of the above met the minimum requirement of the Government's Financial Reporting Manual, there remain areas where SPA could further enhance the presentation and disclosures within the financial statements and SPA have advised that it is their intention to do so.

## Regularity

35. The Public Finance and Accountability (Scotland) Act 2000 requires auditors to certify that, in all material respects, the income and expenditure shown in the accounts was incurred or applied in accordance with relevant legislation and guidance issued by Scottish Ministers. We addressed the requirements of the Act through a range of procedures, including obtaining written assurances from the Accountable Officer. No issues require to be reported.

## Accounts submission

36. We received draft financial statements on 4 July 2014. It was an enormous task for the incumbent to prepare the first set of draft accounts. Whilst there were a number of key officers involved in the initial review, due to the enormity of the task of preparing the first set of draft accounts, for this the first year of the new national police force, a number of substantial changes were processed to the accounts, both non-financial and

financial information. These changes were initiated both by officers and as a result of audit findings during the course of the audit.

### Refer Action Plan No. 1

37. The accounts were finalised on 23 October 2014, and the Accountable Officer signed them on 30 October 2014.

## Accounting issues arising

38. A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with management who agreed to amend the financial statements. The net effect of these adjustments was to decrease the level of the general fund by £34million. The more significant changes related to impairment and revaluation of property, and corrections between payroll and pensions expenditure.

## Report to those charged with governance

39. We presented our report to those charged with governance (ISA 260) to the Audit and Risk Committee on 23 October 2014. The primary purpose of that report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. The main points, in summary, were:

## Property, plant and equipment

40. The accounting for and auditing of property, plant and equipment proved onerous in the absence of either keeping the legacy fixed asset registers up to date, or moving to a more consolidated fixed asset register(s).
41. Late in the audit process it became evident that three of the legacy forces had not revalued land and buildings in compliance with existing accounting policies, and in the case of a fourth one, the valuation exercise came to light six months after it had been conducted. There has been an issue in communications between Estates officers and Finance teams.
42. From our review of revenue expenditure we noted a number of items of equipment which are routinely charged to revenue despite having an economic life in excess of one year and, as they are purchased as a group of items, meet the de-minimus for capitalisation. We also note inconsistencies in accounting treatment between legacy forces for such equipment. However this matter was not sufficiently material to impact on the final audit opinion.

[Refer Action Plan No. 2](#)

## Accounting treatment of a liability

43. The balance sheet included an accrual for £12million in relation to severance payments for 277 specific posts which will be lost after year end as a result of the restructuring of the organisation. This is to be paid for out of the Police Reform

Budget. We had advised our preference that the amount be treated as a provision because under IAS37 'provisions can be distinguished from other liabilities...because there is uncertainty about the timing or amount of future expenditure required in settlement'. However management were of the view that there is greater certainty than the definition of a provision would suggest, and consequently accounted for this as an accrual.

## Pay related accruals

44. In calculating the untaken annual leave and 'time off in lieu' (TOIL) accrual, officers were unable to rely on data provided by the SCOPE HR system, and had to apply another form of estimation.

[Refer Action Plan No. 3](#)

## Provisions

45. Due to the nature of many of the provisions we were dependent on the assessment of in-house legal teams as to the probability of ongoing legal cases crystallising and for the estimation of the amounts involved, including legal fees.

## Pension liabilities

46. It is important for actuaries to be furnished with the most up to date information when calculating the IAS19 liability at year end. This was not the case for the police pension scheme, where the data provided was up until 31 December 2013.

47. Whilst the closing balance for the police pension liability is of primary importance to our audit opinion, we noted a £115million adjustment to the opening balance compared to the aggregate of the closing balances for the eight legacy police forces. By end of October 2014 officers had received a written explanation from the actuary as to what had given rise to this rebasing adjustment and were informed that it relates to different methodologies, assumptions, and estimates applied by the previous different actuaries.
48. On investigation of differences between the general ledger and figures quoted in actuarial reports we established that reclassification between wages and salaries and pension costs of £8million was required. This related to 'strain on fund' costs arising from the VR/ER scheme.

### **Governance Statement**

49. We reported that two former interim executive directors had not provided assurance statements prior to their departure. The Accountable Officer had to give due consideration to alternate means of gaining assurance for certain periods of 2013/14 prior to signing the Governance Statement.

### **Going Concern**

50. We reported that the financial position of SPA as at 31 March 2014 is a closing net liability position of £12billion. The primary reason for this position is the police pension liability of

£11.7billion; it is an unfunded pension scheme. By bringing together the ten legacy bodies (of which eight are legacy police forces) it is the first time that this figure has been aggregated together.

51. As disclosed in the Going Concern note in the financial statements the Scottish Government has advised that it has been considered appropriate to adopt a going concern basis for the preparation of the financial statements. *'The pension deficit will not be met from the SPA's source of income, but will be met by a future Grant in Aid from the SPA's sponsor department with the Scottish Government, the Justice Department. This is due to the normal conventions applying to parliamentary control over income and expenditure; such grants may not be paid in advance of need.'*

### **Whole of Government Accounts**

52. Whole of Government Accounts (WGA) are consolidated financial statements for all parts of Government in the UK. These are prepared by HM Treasury with the aim of providing improved data for fiscal planning, increasing transparency and improving accountability. The main legislative authority for WGA does not apply in Scotland. However Scottish Ministers have agreed that Scottish bodies will provide information to HM Treasury for the purposes of WGA.
53. The deadline set by HM Treasury for the submission of the unaudited WGA pack (30 June 2014) was met by SPA.

However, in line with many other Scottish public sector bodies, the deadline for the audited pack and audit certificate (29 August 2014) was not. This arises due to the different reporting timetables between England and Scotland. Further discussion is required at a national level, involving accounts preparers and auditors, to determine how best Scottish bodies can meet the HM Treasury timeframe.

## Police Pension Account

54. Up until 2012/13, the joint police boards produced a police pension account as a memorandum account, in the notes to their accounts. This was in compliance with the Police Pension Account (Scotland) Regulations 2010. At a late point in the audit we learned that the 2010 Act had been revoked, with effect from 2013/14. Through enquiry officers established, with the Scottish Government, that despite the revocation of the 2010 Act, the 2013 Update advises that the 2010 Guidance remains extant. Consequently we are content with the presentation of the police pension account in note 18 of the accounts.
55. It will be important for an SPA officer to be experienced in the area of pensions accounting, including the regulations and guidance, especially in anticipation of the move for the processing of police pensions to be undertaken by the Scottish Public Pensions Agency with effect from 1 April 2015, thus providing expert input on behalf of the SPA at that time of

change. The SPA Director of Financial Accountability is engaged in this process.

## Outlook

56. The financial statements of SPA have been prepared in accordance with the Government Financial Reporting Manual (the FReM). The main new standards to be adopted in 2014/15 are:
  - IFRS 10 - Consolidated financial statements
  - IFRS 11 - Joint arrangements
  - IFRS 12 - Disclosures of interests in other entities.
57. Compliance with FReM is mandatory. However, the impact of the adoption of the new standards is unlikely to be significant to the financial statements of SPA.
58. Through discussion with officers we are aware that the number of sub-ledgers for accounts payable (currently nine) will be reduced to one sub-ledger by the end of 2014/15, with accounts receivable following in due course.
59. We are also aware that a business case is being developed for a new corporate payroll system to be put in place. Such a system will replace the current arrangements of two internal systems and the use of six external systems for which there are service level agreements with local authorities.
60. With permanent appointees now in place in both the SPA and

Police Scotland, and the recent conclusion of placing legacy staff into the new finance structures, both organisations are better placed for the co-ordination, maintenance and improvement of accounting records during the remainder of financial year 2014/15.

# Financial position

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61. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
62. 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.
63. These are key areas in the current economic circumstances, and especially for a new national organisation with significant financial savings targets. This section summarises the financial position and outlook for the SPA.

## Financial results

### Outturn

64. The Budget (Scotland) Act 2013 made provision for financial

year 2013/14 and the final Grant in Aid awarded to the SPA was a cash grant of £1,172.6million (including £60million for Reform Funding) and a non-cash grant of £55.6million; a total of £1,228million. The total comprehensive expenditure was however a far greater sum of £1,745million. This is largely due to pension fund interest expense of £499million borne in 2013/14. This is a non-cash item and no Grant in Aid is awarded by the Scottish Government in respect of this. This is a normal accounting entry in respect of pension schemes; the Scottish Government budget recognises the cash payments in relation to the pension schemes. Note 18 to the accounts records that there was a Police Pension Grant of £259million (made up of £154million for employers' pension contributions and £106million for the deficit between contributions in and benefits paid out). This is over and above the Grant in Aid of £1,228million referred to above.

65. The SPA operated within the total resource budget agreed with the Scottish Government. The 2013/14 initial expenditure budget was £1,126million against an initial funding allocation of £1,062million resulting in a shortfall of £63.9million. As a result, budgets across all areas were reviewed to generate savings and thus deliver a balanced budget. During the year additional Grant in Aid of £92.0million was received from the Scottish Government. The majority of additional in-year

funding was provided to meet Police Reform objectives (£59.7million), LG committed reserves (£12.6million), and to cover depreciation and impairment charges (£14.1million) for those assets transferred to the SPA during 2013/14.

66. From the audited accounts it is not possible to draw comparison to the 2012/13 financial results. As this merger was a ‘machinery of government’ change, absorption accounting applied and no prior year comparative figures were required. The 2012/13 figures in these accounts relate solely to the SPA prior to the merger of the eight legacy forces.

### Budgetary Control

67. The SPA commenced 2013/14 with a savings target of £63.9million to achieve. In setting the budget an adjustment of £41.6million was initially devolved to budgets against various operational lines. By the end of February 2014 the remaining savings balance of £22.3million had been fully identified. The savings reported, which have been built into the budget baseline for 2014/15, are as follows:

Savings activity	2013/14 £m
Police officer costs	21.0
Police staff costs	21.7
Other people costs	0.4

Savings activity	2013/14 £m
<b>People (total)</b>	<b>43.1</b>
Property	3.1
Procurement	16.2
Income	1.5
<b>Total recurring cost reduction</b>	<b>63.9</b>

Source: SPA 2014/15 Revenue Budget proposal, March 2014 (these figures are not subject to audit)

### Reform Budget

68. The Scottish Government has allocated a three year funding stream to support the process of Police Reform. The outturn reported for 2013/14 is as follows:

Reform activity	2013/14 Budget £m	2013/14 Actual £m
Estimated non recovery of VAT	24.0	25.1
VR/ER costs	28.1	27.8
Modernisation programme costs	2.5	2.3
ICT – revenue cost of i6/C3 project	1.4	1.1



Reform activity	2013/14	2013/14
	Budget	Actual
	£m	£m
Redeployment costs of staff following service redesign	0.8	0.6
Other, including Scottish Government agency costs	1.0	1.1
Implementation of estates modernisation plan	1.9	1.7
<b>Reform totals</b>	<b>59.7</b>	<b>59.7</b>

Source: SPA Finance report for the period to February 2014 and Police Reform Budget 2013/14 presented to the Finance and Investment Committee (F&IC) on 28 July 2014 (These figures are not subject to audit)

69. The indicative allocation for the Police Reform budget for the next two years is up to £70million per year. As this is additional, reform funding, readers of the accounts will have an interest in how it has been applied. We therefore recommend further transparency in the non-financial information in the financial statements.

**Refer Action Plan No. 4**

## Financial Position

70. The Statement of Financial Position shows an overall negative equity position of £12billion. This is largely due to the unfunded police pension scheme (closing balance

£11.7billion). As well as the year on year cash flow requirement being monitored for Scottish Government funding requirements, it will be important for the overall IAS19 liability to be taken into account for strategic, long term financial planning, in both SPA and the Scottish Government; this is the single largest liability within the devolved Scottish public sector.

71. Aside from pensions, there are other significant items in the Statement of Financial Position: SPA has resources, in excess of £580million, tied in to fixed assets and therefore these must be managed in such a way that they are economically of value to the provision of police services; and on the last day of the year SPA was holding £83million of cash and cash equivalents. Whilst some trade and other payables would have been payable just after year end, this level of cash is high. The Government Financial Reporting Manual (FRM) states that Grant in Aid is provided to match the recipient's cash needs and is to be accounted for on a cash basis. Any exceptions to this treatment must be agreed by the sponsoring department.

**Refer Action Plan No. 5**

72. Long term loan balances of £118million with the Public Works Loans Board were transferred from local government bodies to the SPA in April 2014 and form part of the SPA's treasury management arrangements hereon.

## Capital Expenditure

73. The 2013/14 Capital Plan, originally approved in June 2013, was revised in March 2014. The outturn is reported below:

	Original plan £m	Revised plan £m	Actual £m
<b>Total funding</b>	49.4	65.1	62.5
<b>Expenditure:</b>			
ICT	13.7	16.4	13.5
Fleet replacement	4.0	4.8	5.8
Building works	4.0	4.8	2.6
Other capex	2.2	2.6	1.7
Legacy projects, inc. Gartcosh & Dalmarnock	25.5	36.4	35.0
Forensics	0.0	0.0	0
<b>Total expenditure</b>	<b>49.4</b>	<b>65.0</b>	<b>58.6</b>
<b>Under/(over)spend</b>	<b>0.0</b>	<b>0.1</b>	<b>3.9</b>

Source: SPA Finance & Procurement Update - 26 June 2013, Capital Plan 2014-16 – 26 March 2014, Capital Plan 2013/14 Financial Summary Report – F&IC 30 June 2014 (These figures are not subject to audit)

74. The main reason for the large increase in the actual level of expenditure from the budget relates to the Dalmarnock project; there was a late decision that ownership would transfer from

the Scottish Government to the SPA.

75. During 2013/14 slippage occurred on the i6 project and certain building works, and consequently expenditure planned for 2014/15, on other ICT and motor vehicles, was brought forward. Officers have recently informed us that i6 slippage has now been recovered.
76. The Capital Plan for 2014-16 (approved by the SPA Board in March 2014) shows reduced funding for the next two years at £45 and £40million respectively, and this is inclusive of funding transferred in from Police Reform monies, £10 and £5million respectively. The 2014/15 capital figure was recently amended to £49.6million as per a report to Finance and Investment Committee in October 2014. Investment in capital items required to secure service redesign will therefore have to be tightly managed.

## Financial sustainability

77. SPA's 2014/15 revenue budget indicates a shortfall position against Grant in Aid for both 2014/15 to 2015/16 and there is uncertainty over budget allocations beyond 2015/16.

	2014/15 £m	2015/16 £m
SPA baseline budget	1,057	1,028
Additional cost pressures	27	23

	2014/15 £m	2015/16 £m
Total assessed need	1,084	1,051
Scottish Government funding (revenue)	1,016	995
<b>Shortfall</b>	<b>68</b>	<b>56</b>

Source: SPA 2014/15 Revenue Budget Proposal March 2014

78. The Strategic Delivery Plan, issued March 2014 includes a cost reduction plan for the next two years, which includes cost reduction options in the areas of People, Property and Procurement, which will go some way to addressing the shortfall in funding identified above. Those options to make the most significant contribution in 2014/15, for instance, are: reorganisation of divisions/departments (£11.4m), funding of transitional projects from Reform Budget (£9.4m), full year savings from prior year VR/ER scheme (£6.7m), changes to police officer public holiday entitlement (£4.8m), and review of police supervisory ranks (£3.4m).
79. The cost reduction plan also indicates where there is less certainty of achieving those savings and only an amber status was self-awarded to the savings to be generated from reorganisation, changes in public holiday entitlement, delivering estate fit for the future and Proceeds of Crime Act (POCA) successful bids.
80. It has recently been confirmed that the likelihood of achieving

the £6million income flow from POCA has reduced. The risk registers of the SPA and Police Scotland have both been updated to reflect that there is a high risk of the 2014/15 and 2015/16 cost savings not being achieved based on the risk rating indices used.

**Refer Action Plan No. 6**

## Workforce reduction

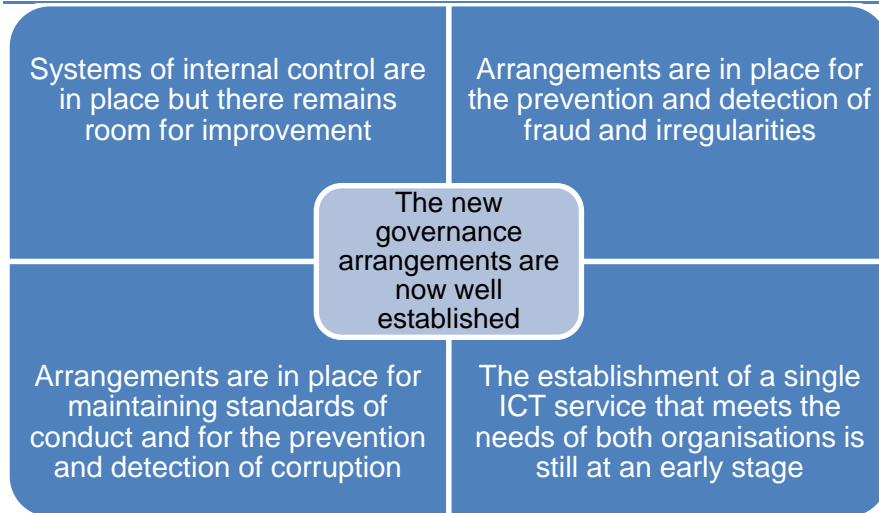
81. SPA is in the process of significant workforce reductions. This is a key pillar to achieving cost reductions. During 2013/14 SPA offered a formal exit scheme and 637 employees agreed to terms under a voluntary redundancy scheme with a further 277 posts identified and approved for release after year end. The VR/ER scheme is in place until the end of 2015/16.
82. The new organisational structures within SPA and Police Scotland (in terms of support staff) are currently being implemented and posts are being filled. We have observed that a number of posts have, therefore, been held in an interim capacity during the year, including the senior executive team of SPA where there were nine interim posts during 2013/14. Interim and temporary posts were also evident in the Finance functions. At a time of flux there is a risk of loss of clarity of responsibilities and clear lines of delegation.

**Refer Action Plan No. 7**

## Outlook

83. SPA's Strategic Police Plan sets out SPA's high level strategic objectives up to and including 2014/15. It is underpinned by the Police Scotland Corporate Strategy 2014. This, in turn, is supported by a two year Finance Strategy to 2015/16. The plans recognise the considerable work required to identify and achieve savings; additional reform funds are only in place until the end of 2015/16.
84. SPA will have to maintain strong financial management and budgetary control measures to ensure they have the right resources and capacity to ensure that plans are delivered.
85. 2013/14 is the first occasion that the aggregate liability of the police pension scheme has been brought into the public domain through one set of accounts. This was previously reported in the annual accounts of the ten legacy organisations. The actuary has placed a value of £11.7billion on the closing liability as at 31 March 2014. As the scheme, in common with other central government ones, is an unfunded one, there is no asset being built up from contributions received, instead they are paid out as benefits to retirees. This is the single biggest liability in the devolved public sector in Scotland and therefore must be taken into account in the long term financial planning and sustainability of both the SPA and the Scottish Government.

# Governance and Accountability



## Corporate governance

86. Overall responsibility for the governance of SPA rests with the SPA Board which currently comprises of 12 Members and it met 12 times during 2013/14. The Board has formally delegated some of its responsibilities to four committees. The governance structure supporting the SPA Board is:

- Finance & Investment Committee
- Audit & Risk Committee
- Complaints & Conduct Committee

- HR & Remuneration Committee.
87. The public minutes and public papers from all formal committee meetings are published on the SPA's website.
88. In addition to the normal cycle of meetings, working groups were held for the HR Committee (every six weeks) and the Audit and Risk Committee (monthly but ended in April 2014). These additional meetings helped inform the content of the formal meetings.
89. In December 2013 a member of the Audit and Risk Committee retired. This has left a gap in financial knowledge and experience of the Committee. The Scottish Public Finance Manual recommends that at least one member of the Audit and Risk Committee has recent and relevant financial experience. We note that the Scottish Government has commenced recruitment for new members. Were a similar vacancy to arise again we would strongly encourage that it be filled in a more timely fashion.
- Refer Action Plan No. 8**
90. Member involvement in 2013/14 (the first year of full operational responsibility) has been high. We reviewed members' expenses for 2013/14 and as a consequence established that many worked above the recommended ten days per month per Scottish Government guidance. The high

degree of member involvement arises from the many new policies, strategies and plans which have required development and approval for a new organisation, over and above the discharge of normal operational activity.

## Internal control

91. As part of our audit we reviewed controls in a number of the SPA's financial systems. This audit work covered payroll, general ledger, accounts receivable, accounts payable, and bank and cash. We issued an interim report on internal controls and governance arrangements in June 2014. At that time, due to the number of internal controls which were not fully operational consistently throughout 2013/14, we provided no overall conclusion on the operation of key controls.
92. From our final accounts audit work we found improvement in the application of key controls to key financial systems. However, there remains room for improvement, in particular in connection with some bank account reconciliations and the primary recording of fixed asset transactions and valuations.
93. In connection with aspects of record-keeping of fixed assets, at a time of transition and prior to the adoption of more consolidated fixed asset registers, the quality of the records maintained was not to the standard expected and as a consequence we revised our audit approach and undertook supplementary audit testing in order to gain assurance in this area. The additional testing provided assurance that the overall net book value for fixed assets was not materially

misstated.

94. We concluded that with the exception of fixed assets and certain aspects of bank and cash reconciliations, no material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

## Governance Statement

95. SPA included a governance statement in its annual accounts in accordance with Scottish Government guidance. The statement includes a description and assessment of the essential components of corporate governance and includes details of any significant risk-related matters arising during the period. The section entitled 'review of effectiveness and significant issues' highlights: the ongoing and significant restructuring and reorganisation, including changes to key personnel during 2013/14 and at the beginning of 2014/15. It also records that during 2014/15 organisational structures for key corporate areas such as finance, procurement and HR will be finalised. This follows the conclusion of consultation processes in April 2014.
96. Risk management has been subject to review by the Audit and Risk Committee and SPA and Police Scotland have worked towards aligning respective methodologies and Risk Registers.

## Internal audit

97. The purpose of Internal Audit is to provide the SPA and its Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit and to determine the extent to which we can place reliance on its work.
98. Our review of arrangements for the provision of internal audit was completed and reported in April 2014. We reported that, initially, there was limited senior management engagement in the formulation of strategic and operational plans and no internal audit reports were presented to the Audit and Risk Committee in the first six months, limiting the Committee's ability to be effective.
99. An option appraisal was then conducted and it was decided to operate a co-sourced arrangement between the residual in-house team and PricewaterhouseCoopers, the provider of internal audit services to one of the predecessor bodies, SPSA. We reviewed the organisational status, competency, audit methodology, and reporting of internal audit. We reported that the co-sourced arrangement operates in accordance with Public Sector Internal Audit Standards and has appropriate documentation standards and reporting procedures in place.
100. We placed formal reliance on aspects of the work of internal audit in respect of our financial statements audit responsibilities and also in terms of our wider Code responsibilities in relation

to governance and performance. We were recently informed that the SPA is in the process of tendering for an internal audit function.

**Refer Action Plan No. 9**

## ICT & Review of major projects

101. During 2013/14 we completed a high level review of the ICT internal control environment in SPA and Police Scotland. We also performed a follow up to 'Managing ICT Contracts' a national performance report first published in August 2012 by Audit Scotland. The key messages from this work are summarised below.

### ICT arrangements

102. In September 2014 we reported on the development of operational and governance arrangements to support a single ICT service aligned to the needs of the new organisation (ICT Blueprint). Our review identified several risks relating to: the pace at which governance arrangements are evolving for the effective monitoring of the ICT service; the challenge of moving from regional legacy networks to a national network; user/system access privileges; and the impact of rationalisation on the capacity of staff to remain resilient at a time of substantial change. Management have accepted our findings and set a timetable to implement action to address the points raised.

**Refer Action Plan No. 10**



## Follow up of the national report: Managing ICT contracts

103. The overall aim of the follow-up exercise was to establish whether SPA is familiar with this national report (published by Audit Scotland in August 2012) and have applied the lessons learned to their ICT contracts and arrangements, specifically i6.
104. The i6 Programme, which commenced in July 2013, is one of the largest and most high profile ICT projects in the public sector in Scotland. The i6 Project has two broad objectives:
- the development of national common policing processes aligned to operational priorities
  - the acquisition of a national ICT solution to support these processes and priorities.
105. Following a detailed competitive dialogue procurement process, the contract was awarded to Accenture in June 2013 with the Full Business Case (FBC) approved by the i6 Programme Board, the Police Scotland Leadership Board and the SPA Board. The Scottish Government Chief Technology Officer sits on the Programme Board to provide appropriate and relevant technical oversight. The SPA Board undertakes an important role in terms of strategic scrutiny, oversight and support of the i6 project.
106. The project has been subject to detailed risk assessment from the outset and robust risk management processes have been established through detailed planning, learning from others and using professional advisors when required. A dedicated fortnightly Risk and Issue Group was established with Accenture and a programme risks and issues register is submitted for regular review by the i6 Programme Board. A comprehensive independent review and challenge process exists with quarterly liaison visits by HMICS. i6 is also subject to regular Gateway reviews undertaken or commissioned by the Scottish Government. The most recent Gateway review found the overall delivery confidence assessment to be 'Amber/Green'.
107. The capital and revenue funding requirements of the i6 project were included within the FBC and these were subject to robust validation by senior finance representatives from SPA, Police Scotland and the Scottish Government. Financial information is reported regularly to the Programme Board, Finance and Investment Committee and is escalated to the SPA Board where necessary. A total of £9.8million was included within the 2013/14 Capital Plan for the development of i6.
108. The bespoke development work associated with the i6 project will be largely new and untested in an operational environment. This risk must be managed closely as the project moves forward from the design phase into the implementation phase.
109. The Senior Responsible Owner and i6 management team have a full and detailed understanding of the project being delivered, with a suitably resourced and experienced 'intelligent client' function established to manage the ongoing operation of i6. The role of Programme Manager is critical to the success of the project. Succession planning arrangements are in place in anticipation of the retirement of the current incumbent. As the



programme moves forward into the testing and implementation phases it is essential that formal and comprehensive succession planning is developed for the whole team; maintenance of programme knowledge is essential for the successful delivery of the project.

- 110. Following an initial delay to the project, which resulted in additional costs being borne by the supplier, a Contract Variation Agreement was completed and approved in May 2014. There is a revised delivery and milestone plan with the first phase of implementation now expected in September 2015, nine months later than the original plan. These negotiations led to the SPA withholding milestone payments and the rescheduling of some key milestone dates which has resulted in an underspend in the 2013/14 capital plan of £4.33million. The detail of this has been factored into a revision of the capital plan for 2014/15.
- 111. Whilst there are inherent risks in any large and complex ICT project to design and implement within budget to full specification, as illustrated above, detailed risk management processes are in place, with regular external validation.

**Refer Action Plan No. 11**

## **Arrangements for the prevention and detection of fraud**

### **National Fraud Initiative**

- 112. The National Fraud Initiative (NFI) is a bi-annual counter-fraud exercise that uses computerised techniques to compare

information about individuals held by different public bodies to identify circumstances (matches) that might suggest the existence of fraud or error. Investigation of matches is undertaken on a risk basis. 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 to deter fraud.

- 113. Audit Scotland's most recent NFI Report was published on 26 June 2014. Fraud and errors worth £16 million were identified as part of this study, the largest and most diverse detection exercise undertaken by Audit Scotland to date, which involved 127 public bodies across Scotland. In total, outcomes of £78 million have been achieved since NFI was introduced.
- 114. The SPA will participate in the NFI exercise for the first time in 2014/15. The current exercise will consider the SPA's payroll and creditor payments data. Given the use of six local authority payroll systems and nine sub-ledgers for accounts payable this may present a challenge for the SPA in terms of the volume of systems in use.

## **Arrangements for maintaining standards of conduct and the prevention and detection of corruption**

- 115. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct

and have 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.

- 116. In our Interim Review of Internal Controls and Governance Arrangements report (June 2014) we highlighted that fraud and corruption policies in the SPA and Police Scotland were, as an interim measure, rolled forward from legacy bodies. There is a risk of inconsistent practice. We also found that the communication of these policies in the newly formed organisations requires improved dissemination.
- 117. We note that work has commenced to ensure that there is one overall fraud policy in the SPA and Police Scotland and that it will be effectively communicated to all staff and officers.
- 118. There were no instances of internal fraud or irregularity reported by the SPA in 2013/14.

## Outlook

- 119. The SPA needs to ensure it continues to review and standardise policies and procedures across SPA and Police Scotland to ensure that staff are operating consistently. New policies and procedures must be clearly communicated to all staff to ensure they are understood, and implemented with confidence.
- 120. The internal audit function is a key part of the internal control framework in the SPA. As of October 2014, the SPA have

gone out to tender for an internal audit function and we will continue to monitor the outcome of the process.

- 121. ICT will remain a challenge as the ICT Blueprint continues to be implemented across the organisations. This aims to ensure that all systems are fit for purpose and that both organisations are working towards the same objectives. Moving from regional legacy networks to a national network combined with the impact of rationalisation will remain key risk areas. The capacity of staff to remain resilient at this time of substantial change is a key factor to ensuring the success of the project.
- 122. The i6 project presents an opportunity to transform common policing processes thus aligning them to operational priorities. Management of the risks associated with such a project will be key to securing its success. It will continue to be subject to a high degree of scrutiny due to the nature of the project.

# Best Value, use of resources and performance

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## Arrangements for securing Best Value

123. 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.
124. In the SPA the Accountable Officer has a duty to ensure that arrangements have been made by the Authority to secure best value. The Chief Constable also has a statutory duty to make arrangements which secure best value for the police service and, in respect of community planning, delegates this statutory duty to local commanders in each local authority area.
125. There are stated commitments to best value within both the SPA Strategic Police Plan and the Police Scotland Corporate Strategy. To support and demonstrate their commitment to best value, Police Scotland's Corporate Strategy 2014, have identified five key principles which they will work to in order to deliver best value to the public. These are:
- Our people will be motivated, flexible, feel empowered and

valued

- Our services will be delivered with a focus on quality, consistency and accessibility
  - Our engagement with our people, partners and stakeholders will be proactive in manner, and include the use of modern communication channels
  - Our assets will be managed in a way that will improve access to them, as well as improving their efficiency and sustainability
  - Our approach to governance will be modern, streamlined and proportionate.
126. An example of this during 2013/14 includes the commissioning of two reviews by the Chief Constable: a review focused on the level of public engagement at police offices/stations in order to determine the most efficient opening times; and a review related to the provision of traffic wardens across the country.
127. The SPA assesses its own performance using the Public Sector Improvement Framework and these assessments will consider eight overarching themes:
- Leadership and Governance
  - Planning

- People, Resources & Assets
- Partnership
- Key Processes
- Performance Results (Customer, People and Community)
- Outcomes (Keeping People Safe, Delivering the Aims and Benefits of Reform) and
- Continuous Improvement.

128. 2013/14 was the first year of operation for both the SPA and Police Scotland and going forward we will review the arrangements for demonstrating its commitment to best value and continuous improvement.

## Performance management

129. The SPA performance management framework is underpinned by four strategic policing priorities as set out by Scottish Ministers:

- Making communities safer
- Responding to major events and threats
- Delivering an efficient and effective service, including reform benefits
- Increasing public confidence and reducing fear of crime.

130. Progress and performance information is provided monthly to the Board.

## Overview of performance targets in 2013/14

131. In respect of policing performance, since February 2014, the SPA Board has been in receipt of 'Performance on a Page'. This report includes: a self-assessment programme to enable SPA to assess the delivery of its own functions; a set of strategic level corporate support indicators or business metrics; reports on progress against the Scottish Government's four Strategic Police Priorities; and a set of key policing performance indicators.

132. The Performance on a Page report contains qualitative and quantitative performance indicators. However making valid and meaningful comparisons across prior years is not always possible. We understand that work is ongoing to find a solution.

133. Key findings from the year end March 2014 report include:

- the number of crimes recorded has decreased slightly (0.9%) whilst the detection rate has improved slightly (by 0.2%).
- the number of Police officers has reduced slightly (by 1.4%) from the previous year whilst
- the number of support staff has reduced considerably (by

11.8%), in line with the staffing structure reorganisation

- sickness absence has remained unchanged for police and actually improved by 0.1% for support staff.
- a reduction in the percentage of reports submitted to the Procurator Fiscal within 28 days (down by 6.2%).

## National performance audit reports

134. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Progress against the recommendations in the national performance audit *Police reform: progress update 2013* is reported in the next section of this report. Two other national reports published in the last year of particular relevance to the SPA relate to workforce capacity, and financial planning.

135. [Appendix II](#) lists all of the national reports that may be of further interest to the SPA such as the Community Planning Partnership reports (x4), Commonwealth Games progress report and Reducing Reoffending in Scotland impact report.

### Scotland's Public Sector Workforce (published November 2013)

136. Public bodies have used a range of measures including workforce reduction, pay restraint, redeployment of staff and changing working patterns to manage staff numbers and costs.

137. Between March 2009 to March 2013 the Scottish public sector workforce reduced by 26,600 WTE (7%) to 373,400. These changes helped public bodies to reduce their staff costs by an estimated £1billion. However, continuing financial pressures mean current approaches are unlikely to deliver the savings needed in the future.

138. Central government bodies should:

- develop and use organisation-wide workforce plans, informed by a series of service or departmental plans that are consistent in their structure and content. Senior managers and boards or elected members should scrutinise and monitor these plans
- assess the impact of different terms and conditions on the likely costs and uptake of their departure schemes before they put a scheme in place
- collect information on the costs and net savings from their workforce programmes and report these details to boards and elected members
- forecast expected staff numbers, skill needs and costs on a rolling three-year basis, using scenario planning where necessary.

### Scotland's Public Finances follow up report (published June 2014)

139. This report was aimed at supporting those leading and

managing public services in making increasingly difficult choices about how to make best use of the money that is available. Alongside the report, Audit Scotland has published checklists designed to help non-executive directors with their crucial role in budget-setting and financial planning.

**140.** Public bodies should:

- implement an approach to budgeting that focuses more on priorities and links planned spending more closely with the outcomes they want to achieve
- develop a longer-term approach to financial planning that takes account of priorities, risks and liabilities and provides assurances on long-term affordability
- support effective scrutiny by ensuring that good-quality information is available and that councillors and non-executive directors have the right skills to carry out their scrutiny roles.

**141.** If not already done so, SPA members are encouraged to make use of these two national performance audit reports.

## Outlook

**142.** The SPA will need to continue to review its workforce and financial plans to ensure that it is able to achieve, and exceed

its service standards and Ministerial targets going forward. It will need to demonstrate that the new structures in both the SPA and Police Scotland are delivering the required efficiencies from the merger and are in line with best value objectives.

**143.** The Board needs to continue to review the SPA's workforce plans to ensure that there are sufficient resources in place to meet these demands and that it has effective processes in place to monitor and properly scrutinise performance and delivery to ensure continuous improvement and best value.

# Police Reform follow up

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## Follow up of the Police reform report (published November 2013)

144. As part of the 2013/14 audit we have followed up how the SPA and Police Scotland have progressed with implementation of the recommendations made in this report. In particular we have requested evidence to demonstrate progress. We are conscious at all times that both organisations are on a journey subsequent to one of the biggest reforms in the Scottish public sector since devolution. The new arrangements became operational on 1 April 2013 and much was achieved during the transition period.

145. We are grateful for the contributions of officers and staff in both organisations for the provision of material to enable us to evaluate the progress that has been made against the original recommendations, as follows:

**The Scottish Government, SPA and Police Scotland should continue to work together to develop positive and effective working relationships, based on a mutual understanding of and respect for each other's roles, including agreement on the responsibilities relating to sponsorship, governance and delivery of police services**

146. It is clear that there has been commitment from the top of all

three organisations to develop positive and effective working relationships, as evidenced by: the development of the SPA Scheme of Administration, the Engagement Framework, the Governance and Accountability Framework and Terms of Reference. These documents include details regarding the expected behaviour, working arrangements, requirements and jointly agreed principals of engagement for the SPA and Police Scotland. We are further advised that there is a new joint agreement on Police Policy engagement which will be taken to the December 2014 Board meeting.

**The Scottish Government, SPA and Police Scotland should continue to work together to agree how police performance will be reported to support effective scrutiny**

147. A suite of information relating to operational performance is now routinely submitted to the SPA to support effective scrutiny. This is evidenced by the Performance Framework, which is underpinned by Strategic Policing Priorities and Strategic Objectives. As well as operational performance, the framework also has indicators for expenditure against budget, and expenditure per resident. Operational Performance Reports show that the reporting of police operational performance is improving, with reports showing performance at a national and local level against a structured framework. A



Performance Steering group chaired by the Chief Executive exists and comprises the SPA, Police Scotland, HMICS, and the Scottish Government. This is supported by a Performance Practitioner Group chaired by the SPA.

**The Scottish Government, SPA and Police Scotland should continue to work together to agree and implement arrangements for monitoring and reporting progress on the benefits of reform by the end of March 2014 and take collective responsibility for delivering these**

- 148. A Post Implementation Benefits Review has been carried out and a detailed report was presented by Police Scotland to a public meeting of the Authority in April 2014. The report assessed progress towards the realisation of intermediate and operational benefits (measurable improvements) arising from the implementation of Police Reform. It considered the context, desired business outcomes, relationships between benefits and the evidence reviewed. Recommendations and conclusions were presented, and a summary of actions included.
- 149. An SPA board paper concluded that all intermediate benefits were partially realised, with full realisation anticipated by quarter four, 2016/17. The report contained ten recommendations for consideration and four actions for progression by Police Scotland.
- 150. Arrangements for the future monitoring and reporting of

benefits of Police Reform include: scrutiny by the SPA of Police Scotland's performance in relation to the realisation of intermediate and end benefits; continual review of the benefit monitoring and reporting arrangements adopted within Police Scotland; and, instigation of a formal review once the intermediate benefits are considered realised.

- 151. It has been agreed that the SPA Board will receive progress reports every six months, outlining the advances made towards the delivery of the benefits of reform. Progress reports will also be provided to private SPA members' meetings on a quarterly basis. The first quarterly report on benefits realisation was presented to a private SPA members' meeting on 2 September 2014.
- 152. Financial savings are reported monthly as part of the management accounts.
- 153. We have been advised that there will be a review of the method of benefits realisation recording in December 2014 by external consultants.

**The Scottish Government and the SPA should continue to work together to ensure that all the agreed proposals on the SPA's organisational requirements are fully implemented by the end of March 2014, including the appointment of permanent senior staff**

- 154. An indicative timeline was agreed by the Board in August 2013 for permanent appointments for the most senior SPA staff to be



made by the end of December 2013, and for permanent second and third tier managers to be appointed by the end of March 2014.

155. The completion of permanent Tier 1 senior staff was achieved by the end of July 2014. At the time of reporting, permanent Tier 2 and 3 appointments were being concluded. This recommendation is now nearing completion.

**The SPA and Police Scotland should continue to work together to identify accurate baseline data for non-operational areas such as finance, HR and procurement**

156. A number of corporate indicators are now routinely in use, for example the Police Scotland - People and Development Performance Report provides data on resourcing, attendance, overtime, equality and diversity, and employee relations. Information is also included for resource management, people management, strategy and specialist services, training, and leadership and development.
157. A number of other corporate indicators are under development by Police Scotland's Analysis and Performance Unit. As at September 2014, SPA had requested regular reporting by Police Scotland on 75 proposed corporate indicators, phased in as per the Corporate Strategy timetable: five are currently being reported, 41 due to be reported in Quarter 3 of 2014/15, and 19 to be reported by 31 March 2015. The remaining ten indicators are to come on line during 2015/16. Discussions are

ongoing to identify and prioritise the development of those strategic indicators considered to be of most value to the SPA Board.

158. The proposed corporate indicators cover a wider range of areas, including Human Resources, procurement, ICT, communications, departmental performance measures, health & safety. This will provide information not only for managing the application of resources, but also to support effective scrutiny. This is a recommendation which is clearly progressing.
159. We are aware that Police Scotland has made progress in establishing baseline data for its procurement function. A full assessment of the status of all contracts in place in legacy organisations has been collated and assessed.
160. Whilst we note the above developments, which will enable management to monitor non-operational performance from the time of the merger, we are not aware of a comprehensive suite of financial and performance pre-merger baseline data so that in due course the two organisations will be able to evaluate the impact of the merger on aspects of these functions.

**Refer Action Plan No. 12**

**The SPA and Police Scotland should continue to work together to agree a financial strategy by the end of March 2014, informed by evidence-based options for achieving savings, and take joint responsibility for its delivery. The**

**strategy should consider:**

- **the cost of policing across various activities, for example roads policing or serious crime;**
- **evidence-based options for achieving annual savings;**
- **details of one-off and recurring savings;**
- **scenario planning to outline best, worst and most likely scenarios of the financial position with details of assumptions used;**
- **details of assets and liabilities and how these will change over time;**
- **clear links to other strategies that are key to making savings such as the estates strategy (asset sales), or workforce strategy (voluntary redundancy and early retirement schemes); and**
- **the risks and timescales involved in achieving the savings.**

161. A significant amount of work was progressed to present to the Authority a Police Scotland Corporate Strategy, supported by four detailed strategic delivery plans: Our People; Our Technology; Our Organisational Support and Our Finances, at the Board meeting of March 2014. . Included within the 2014/15 Revenue Budget Proposal and Capital Plan 2014-16 were proposed areas for cost reduction, with their associated risk status. The Corporate Strategy shows the best, most likely

and worst case scenarios in relation to savings required over 2014-16 and details key assumptions and risks.

162. In the development of the Revenue and Capital Plans up to and including 2015/16 consideration was duly given to: the costs of policing across various activities; whether the proposed areas for cost reduction had been the subject of options appraisal exercises; and distinguish between one off and recurrent savings. These matters were and continue to be the subject of consideration by the officers' Finance Budget Group, the Business Change Working Group and the Finance and Investment Committee. Whilst only summarised assets and liabilities are included in the Corporate Strategy they are considered in more detail in private for the development of capital plans, treasury management and daily working capital requirements.
163. Based on an extrapolation of the savings secured during 2012/13 and 2013/14, the SPA and Police Scotland are confident that the £1.1billion savings identified in the Outline Business Case (OBC) that accompanied the Police and Fire Reform (Scotland) Act 2012 will be made by 2025/26. SPA and Police Scotland have identified additional cost pressures which were not incorporated in the OBC, including inflation, pay awards and VAT liability. The SPA and Police Scotland are developing a longer term financial strategy for the period beyond 2015/16. We would conclude therefore that this recommendation is still progressing.

### Refer Action Plan No. 13

**The SPA and Police Scotland should continue to work together to agree long-term strategies in the main areas that will contribute to savings including estates, workforce, procurement and ICT**

164. The longer term financial strategy which is currently being developed will be underpinned by five main strategies. Whilst these strategies are currently at various stages of development, detailed below, aspects of them have also been reflected in the financial plans of 2013/14 – 2015/16:
- A workforce reduction strategy has been in place and implemented from April 2013.
  - The final draft of the Procurement Strategy was re-presented to the Finance and Investment Committee on 27 October 2014. The Strategy sets a timescale of quarter 4 of 2014/15 to identify and prioritise procurement savings for 2014-2016.
  - The Fleet Strategy is currently being developed. Development of the national fleet management system, Tranman, is well underway with delivery expected in January 2015.
  - A clear timeline for the development of the Estates Strategy was presented to the Business Change Working Group in August 2014.

- We are aware that the implementation of the ICT Strategic Blueprint continues and scoping has commenced for the next ICT Strategic Plan, with a series of workshops to identify the operational priorities that would benefit from the application of technology. The Strategic Plan will include financial investments and associated efficiency savings.

### Refer Action Plan No. 14

**The SPA Board should clearly set out the information it requires from the SPA and Police Scotland in order to provide effective scrutiny, challenge and support**

165. As reported above, progress has been made with the reporting of non-operational performance, and a suite of corporate indicators is being developed by Police Scotland's Analysis and Performance Unit.
166. The Authority has selected operational areas for further scrutiny for special board meetings and we are aware that members have recently discussed and agreed a future programme of topics for detailed scrutiny. This continues to be an evolving area.

**The Scottish Government should carry out a comprehensive lessons learned exercise after the first year of the new policing arrangements and share findings within the Scottish Government and with other public bodies that are starting a merger process**

167. We note that an 'away day' was hosted by the Scottish Government, involving key members and officers of the new national police and fire and rescue organisations to conduct a post implementation review of both the new arrangements and the process for the establishment of them. A formal 'Evaluation of Police and Fire Reform' is to be commissioned by the Scottish Government over the summer of 2014. This evaluation will cover a four year period with an annual review of progress reported.

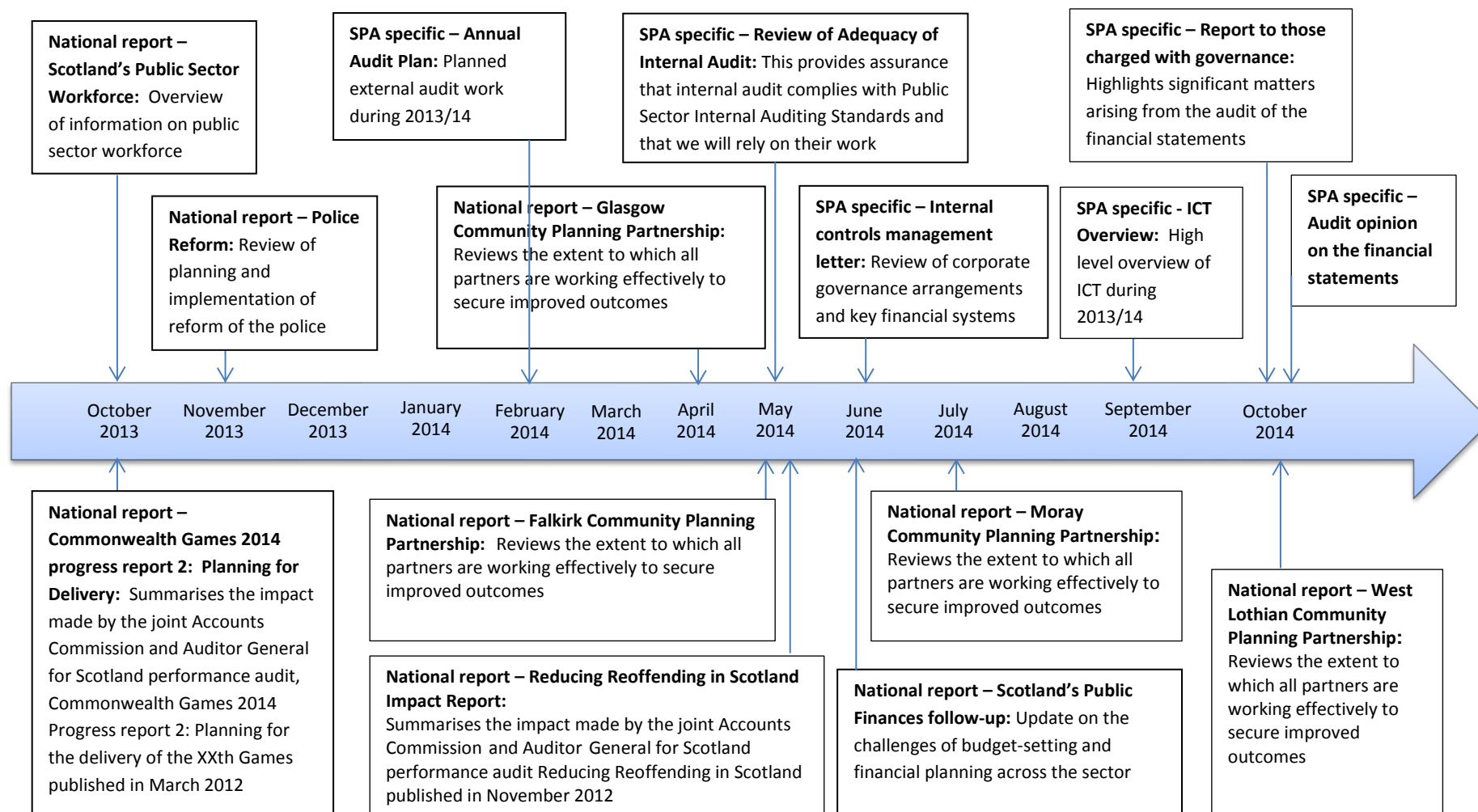
# Appendix I – 2013/14 reports issued to SPA

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Title of report or opinion	Date of issue	Date presented to Audit & Risk Committee
Annual Audit Plan	February 2014	March 2014
Review of Adequacy of Internal Audit	May 2014	June 2014
Interim Review of Internal Controls and Governance Arrangements	June 2014	June 2014
ICT Overview 2013/14	September 2014	October 2014
Report to Audit Committee in terms of ISA 260 (Communication of audit matters to those charged with governance)	October 2014	October 2014
Independent Auditor's Report on the Financial Statements	October 2014	October 2014
Annual Report to the Accountable Officer and the Auditor General for Scotland	December 2014	December 2014
Audit opinion on Whole of Government Accounts	o/s	n/a

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# Appendix II – Summary of Audit Scotland reports 2013/14



## Appendix III: Significant audit risks

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The table below sets out the key audit risks of material misstatement identified at the planning stage in the 2013/14 Annual Audit Plan and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure
<p><b>Period of transition:</b> Currently SPA is working with a number of interim appointments in senior management roles. This presents a risk in terms of accountability and ownership during 2013/14. There are also concerns over obtaining appropriate assurances.</p>	<p>The Chief Executive provided assurance, in writing, to the appointed auditor, in January 2014 that arrangements were being put in place for the production of the 2013/14 financial statements and that this would include the recruitment of temporary staff where necessary.</p> <p>Routine meetings held with senior management and key finance personnel throughout the 2013/14 audit, this included all interim Directors.</p> <p>The post of Director of Financial Accountability was filled on a permanent basis from May 2014.</p> <p><i>Issues which arose in connection with the quality of aspects of accounting records and information and explanations for certain account areas are reported in paragraphs 91-94 above.</i></p> <p>Management put arrangements in place to collate assurances, in light of the number of interim executive director posts.</p> <p><i>Issues which arose regarding obtaining assurances from management are reported in paragraph 49 above.</i></p>

Audit Risk	Assurance procedure
<p><b>Loss of finance officers:</b> As SPA attempts to reduce expenditure there may be insufficient finance officer resource in 2013/14 to prepare the accounts and support the audit.</p>	<p>As above</p> <p>In addition, in anticipation of the departure of key officers, external audit met with finance officers from the legacy forces in January 2014 to discuss and distribute the 'financial statements audit checklist'.</p> <p>Meetings were convened throughout the audit and information requests shared and responded to.</p> <p><i>Issues which arose in connection with the quality of accounting records and information and explanations for aspects of certain account areas are reported in paragraphs 91-94 above.</i></p>
<p><b>Preparation of the accounts for the new body:</b> The first compilation of the accounts for the 10 former bodies will be those presented for audit as at 30 June 2014.</p>	<p>The preparation of accounts was led by a key officer who is expert in central government accounts, with reference to the Police Scotland Director of Finance, who is expert in LG accounting.</p> <p>Our audit work included ensuring compliance with the Financial Reporting Manual, the Scottish Public Finance Manual, and the NAO checklist for CG bodies. Auditors experienced in both CG and LG accounting were selected for the audit team.</p> <p>Through our audit work on the transfer in of opening balances, see below, we also scrutinised the accounts of predecessor bodies for the completeness of information disclosed in the notes and other non-financial information.</p> <p><i>Issues which arose in connection with presentation are reported in paragraph 36 above.</i></p>
<p><b>Transfer in of opening balances:</b> At the time of planning the audit, the closing balances of the 10 former bodies had not yet been transferred in as opening balances to the SPA ledger.</p>	<p>We completed a specific audit programme dedicated to this area, reviewing the accuracy and completeness of the opening balances transferred in from the 10 former bodies</p> <p>Opening balances were subject to further testing during final accounts when opening balances were again checked to the trial balance and ledger.</p> <p>In the absence of shadow accounts, we also prepared a high level summary of primary financial statements (SoCNE and SoFP) to satisfy ourselves as to the accuracy of the opening balances.</p> <p><i>Issues which arose in connection with the transfer in of opening balances are reported in paragraphs 46-48 above.</i></p>



Audit Risk	Assurance procedure
<p><b>Accounting policies:</b> At the time of planning the audit one, harmonised set had not yet been approved. Once implemented retrospective adjustments may be required to the 2013/14 financial ledger.</p>	<p>We observed the review process conducted at the Heads of Finance meeting in January 2014, and approval process at the Audit &amp; Risk Committee meeting of 10 March 2014 of the draft accounting policies.</p> <p>Through the final accounts audit process we noted the extent to which there remains variation between the legacy forces for accounting treatment and where omissions exist in the policies. During the audit process this was reported to management.</p> <p><i>Issues which arose in connection with the application of accounting policies are reported in paragraphs 40-42 above.</i></p>
<p><b>Transition from LG to CG accounting rules:</b> There is a risk that the finance officers do not have an appreciation of the differences between the two sets of rules, including the accounting treatment of reserves.</p>	<p>The preparation of accounts was led by a key officer who is expert in central government accounts, with reference to the Police Scotland Director of Finance, who is expert in LG accounting.</p> <p>Our audit work included ensuring compliance with the Financial Reporting Manual, the Scottish Public Finance Manual, and the NAO checklist for CG bodies.</p> <p>Where appropriate consultation was undertaken with the Technical Services Unit of Audit Scotland.</p>
<p><b>Asset management:</b> It will be necessary for SPA to ensure that accurate records are held of the transferring assets, regarding proof of ownership and to ensure that any asset revaluations are carried out as required.</p>	<p>Extensive audit work was conducted on property, plant and equipment including verification, completeness, accuracy, existence and ownership on a sample of additions, disposals, assets held for sale, depreciation, loss/gains on sale, impairments, reserves, assets under construction and revaluations.</p> <p>We re-checked opening balances during final accounts to ensure the completeness of transferred asset information. Where errors were found, we followed these up either through enquiry or additional testing.</p> <p>We reviewed legacy forces audited 2012/13 accounts to determine the revaluation cycles and confirm if they were still in operation.</p> <p>We obtained and verified a sample of title deeds for property.</p> <p>We reviewed capitalised salaries associated with assets under construction.</p> <p><i>Issues which arose in connection with property, plant and equipment are reported in paragraphs 40-42 above.</i></p>

Audit Risk	Assurance procedure
<p><b>Transferring liabilities:</b> It will be necessary for SPA to ensure that complete records exist of all transferring liabilities such as accruals, loans, provisions and contingent liabilities.</p>	<p>We completed a specific audit programme dedicated to this area, reviewing the accuracy and completeness of the opening balances transferred in from the 10 former bodies. Opening balances were subject to further testing during final accounts as opening balances were again checked to the trial balance and ledger.</p>
<p><b>Pensions accounting:</b> The amalgamation of the former police bodies into the new SPA will require the reporting of complex arrangements in the 2013/14 SPA accounts.</p>	<p>We reviewed the (10) actuarial reports for the LGPS and the Police Pension Schemes.</p> <p>We undertook work in compliance with ISA500 to ensure we could place reliance on the experts employed.</p> <p>Reviewed and considered the work undertaken by the pensions expert commissioned by Audit Scotland.</p> <p>Opening balances transferred from legacy forces were reviewed and compared to the actuarial report. We sought and received additional explanation for a significant rebasing adjustment to the opening IAS19 liability. We consulted extensively with our Technical Services Unit.</p>
<p><b>Remuneration report:</b> The remuneration report should include all those officers who have the ability to exert strategic influence over an organisation. Some consideration will be required to ensure that the statement presented is in accordance with regulation.</p>	<p>Remuneration report subject to normal audit procedures and reviewed in line with FReM requirements and EPN 380.</p>
<p><b>Payroll systems:</b> SPA continues to use the systems used by the former police bodies, both stand-alone and those hosted by a local authority. Furthermore they operate to different reporting periods. There is a risk of omission and misstatement.</p>	<p>Reviewed the service level agreements for payroll where the system was hosted by a local authority and commented on their adequacy.</p> <p>We placed reliance on the work of the internal auditors for payroll.</p> <p>We then supplemented this by undertaking compliance and substantive testing of payroll as part of our interim and final accounts work across all legacy forces.</p>

Audit Risk	Assurance procedure
<p><b>Severance payments:</b> There is a need to ensure that these have been accurately calculated, duly approved and the policy criteria for release adhered to.</p>	<p>We placed reliance on the work of the internal auditors.</p> <p>We supplemented this by reviewing a sample of VR/ER named to ensure they were calculated correctly, approved in line with the policy and left according to the terms.</p> <p>We conducted appropriate audit work for the year end liability in this area. Consulted extensively with our Technical Services Unit in this area.</p> <p><i>Issues which arose in connection with the severance pay accrual are reported in paragraph 43 above.</i></p>
<p><b>ICT:</b> There is a risk of service interruption if there is undue loss of capacity, competency or PSN compliance measures are not achieved.</p>	<p>Conducted a high level ICT review and reported in September 2014 our findings.</p> <p>Completed our computer services review as part of normal audit procedures.</p> <p><i>Issues which arose in connection with ICT are reported in paragraph 102 above.</i></p>
<p><b>Managing police reform:</b> There is a risk that the recommendations of the November 2013 report have not progressed.</p>	<p>We have conducted a follow up review of the nine recommendations included in the national report on Police Reform.</p> <p><i>Our findings are reported in the section on Police Reform follow up (paragraphs 144-167 above).</i></p>
<p><b>Delineation of income and expenditure between two public sector bodies:</b> The Scottish Government has committed a budget of £61.7m to police reform in 2013/14. It will be important to ensure the accuracy of 2013/14 income and expenditure associated with police reform in the annual accounts of SPA.</p>	<p>We substantively tested income and expenditure across areas for both public sector bodies.</p>
<p><b>Managing ICT Contracts:</b> A follow up of the national study, published in November 2013 to determine how the SPA have considered and responded to the recommendations made in the original report.</p>	<p>We have conducted a follow up of the national ICT report, <i>Managing ICT Contracts</i>, specifically focussing on the i6 programme.</p> <p><i>Our findings are reported in paragraphs 103-111 above.</i></p>

# Appendix IV – Action plan

No.	Page ref.	Issue, risk and recommendation	Management response / action	Responsible officer / Target date
1	10	<p><b>Arrangements for the preparation of financial statements</b></p> <p>A number of substantial changes were processed to the accounts in 2013/14.</p> <p><b>Risk:</b> The accounts are materially misstated.</p> <p><b>Recommendation:</b> Appropriate staffing resources are allocated towards the production of the 2014/15 financial statements.</p>	<p>Appropriate actions will be taken to produce the SPA 2014/15 accounts by 30 June 2015 and supporting audit documentation. The new PS Finance Structure which went live on 1 November 2014 confirms the Tier 2 roles with the appointment of the Head of Management Accounts, Head of Financial Accountancy and Head of Exchequer Services.</p>	<p>Director of Financial Accountability</p> <p>30 June 2015</p>
2	11	<p><b>Property, plant and equipment (PPE)</b></p> <p>During our audit work we established that fixed asset registers were not up to date, the re-valuation policies were not fully adhered to, and full consideration had not been given to consistent capitalisation of certain equipment.</p> <p><b>Risk:</b> The accounts are materially misstated.</p> <p><b>Recommendation:</b> SPA should progress with the establishment of a fixed asset register(s), and apply accounting policies consistently.</p>	<p>The fixed asset record keeping will be more consolidated in the 2014/15 financial year.</p> <p>Accounting policies will be appropriately exercised in the area of fixed assets and property valuations are currently being undertaken by RICS qualified surveyors.</p>	<p>Director of Financial Accountability</p> <p>31 March 2015</p>

No.	Page ref.	Issue, risk and recommendation	Management response / action	Responsible officer / Target date
3	11	<p><b>Untaken leave accrual</b></p> <p>The HR systems in place within SPA could not produce reliable figures on which to base the untaken leave accrual upon.</p> <p><b>Risk:</b> The accounts are materially misstated.</p> <p><b>Recommendation:</b> The HR records in place are improved to allow for the future production of accurate reports of untaken leave at year-end.</p>	<p>It is intended that the National HR System, Scope, is used to produce the Annual Leave accrual as at 31 March 2015.</p>	<p>Director of Financial Accountability</p> <p>31 March 2015</p>
4	17	<p><b>Reporting of activity funded by reform budget</b></p> <p>The non-financial information in the financial statements does not provide a description of those activities which were funded through the reform budget rather than by the operational Grant In Aid allocation.</p> <p><b>Risk:</b> The financial statements do not provide full transparency on SPA's activities during 2013/14.</p> <p><b>Recommendation:</b> SPA should disclose further non-financial information in the 2014/15 financial statements to enable users of the accounts to comprehend the application of additional funding to support the reform of police services in Scotland.</p>	<p>We welcome the suggestion and therefore in the next set of annual accounts will provide additional disclosure in this regard.</p> <p>There was no attempt not to provide as much detail as was possible in the first set of statutory accounts but owing to the size of the task, particularly in the first full year of the SPA there are and will be improvements we can bring to the strength of this document in the 2014/15 year.</p> <p>The amount available from the Reform Budget is part of the SG Grant in Aid note and the use of the budget is part of the monthly management accounts. SPA actively seek to be transparent and accountable and value such feedback in this respect.</p>	<p>Director of Financial Accountability</p> <p>30 June 2015</p>

No.	Page ref.	Issue, risk and recommendation	Management response / action	Responsible officer / Target date
5	17	<p><b>Level of Cash and Cash Equivalents held</b></p> <p>SPA held £83million, a high balance, of cash and cash equivalents at year end.</p> <p><b>Risk:</b> Holding cash in advance of need puts unnecessary strain on the public sector borrowing requirement.</p> <p><b>Recommendation:</b> SPA should manage its cash position to ensure that the amount held at year end equates more closely to immediate cash requirements.</p>	<p>Cash is part of the working capital cycle. Grant in Aid from the Scottish Government is not requested in advance of need but as part of managing this overall position. Working Capital management is a key process of PS given the value of monthly payments which are required. Therefore the bank balance can vary however when the balance is considered in relation to the current liability position there will always be a matching.</p>	<p>Director of Financial Accountability.</p> <p>On-going.</p>

No.	Page ref.	Issue, risk and recommendation	Management response / action	Responsible officer / Target date
6	19	<p><b>Cost savings for 2014/15 and 2015/16</b></p> <p>SPA has identified funding shortfalls of £68million and £56million in 2014/15 and 2015/16 respectively whilst a savings plan for 2014/15 is nearing completion. There is currently no savings plan in place which fully addresses the 2015/16 shortfall.</p> <p><b>Risk:</b> SPA fails to meet its funding reduction targets and subsequently requires additional funding from the Scottish Government.</p> <p><b>Recommendation:</b> SPA produce an evidence based savings plan for 2015/16, and delivery of savings is monitored closely thereafter, taking remedial action where necessary.</p>	<p>The remaining financial savings target for the current financial year is £4.2m as at period 7 with an anticipated forecast breakeven position for the end of year result.</p> <p>The detailed budget work for 2015/16 is currently underway. The current Corporate Strategy has already highlighted the cost reduction areas which are being pursued and will form part of the overall budget assessment.</p> <p>The financial challenge of saving £63.9m was met in 2013/14. The savings target of £68.2m is on track to be met in the current financial year.</p> <p>The detailed 2015/16 budget work is currently underway and will be completed with the agreed timescales for reporting to both F&amp;IC and the Board. F&amp;IC will be kept up to date with this process through to March 2015 when the budget will be approved by the Board.</p>	<p>Chief Executive</p> <p>On-going</p>

No.	Page ref.	Issue, risk and recommendation	Management response / action	Responsible officer / Target date
7	19	<p><b>Organisational structure</b></p> <p>A new organisation structure for both SPA and Police Scotland (in terms of support staff) is currently being implemented.</p> <p><b>Risk:</b> The lack of such a structure has led to the requirement for interim staffing arrangements and does not best support clear lines of delegation and responsibilities within the bodies.</p> <p><b>Recommendation:</b> The structure is implemented efficiently.</p>	<p>Work is on-going in this area, The HR and Remuneration Committee have been approving the new organisational structures following agreement with the JNCC. As part of this process communications with staff have been on-going in order to ensure the new structures are successfully implemented.</p>	<p>Chief Executive</p> <p>On-going.</p>
8	21	<p><b>Non-Executive member (Audit and Risk Committee)</b></p> <p>In December 2013 a member of the Audit and Risk Committee with recent and relevant financial experience retired and has not yet been replaced. The Scottish Public Finance Manual states that Audit Committees should have at least one member with recent and relevant financial experience.</p> <p><b>Risk:</b> There is a risk that robust challenge and scrutiny over financial matters may be overlooked and the Accountable Officer may not be fully supported.</p> <p><b>Recommendation:</b> We recommend that the SPA begin the process to appoint a new member with recent and/or relevant financial experience.</p>	<p>Scottish Government hold responsibility for Board Member recruitment and appointment however SPA is aware that additional member recruitment is underway, one of which, is expected to possess relevant finance experience</p>	<p>Chief Executive</p> <p>Quarter 1, 2015</p>



No.	Page ref.	Issue, risk and recommendation	Management response / action	Responsible officer / Target date
9	23	<p><b>Internal Audit</b></p> <p>Arrangements for the provision of internal audit were considered late in 2013/14, there was limited executive engagement in the formulation of strategic and operational plans at the start of the year, and the volume of reports coming to the Audit &amp; Risk Committee was erratic.</p> <p><b>Risk:</b> There is a risk that Internal Audit is not afforded sufficient organisational status to be fully effective, that there is insufficient linkage between the risk management process and development of internal audit plans, and that an erratic flow of reporting to the Audit &amp; Risk Committee limits their ability to be as effective as they might wish to be.</p> <p><b>Recommendation:</b> We recommend that, with the support of the Audit &amp; Risk Committee, the senior executive team is fully engaged in securing internal audit services, the development of strategic and operational plans, and in the timeliness of internal audit work.</p>	<p>SPA are currently in the process of tendering for future audit services for the organisation.</p> <p>Internal Audit is viewed as a valuable function within the SPA and appropriate resource will be afforded to this process.</p> <p>The Audit &amp; Risk Committee will be consulted appropriately as part of this process and the senior executive team will be fully engaged in this process.</p>	<p>Director of Financial Accountability</p> <p>31 March 2015</p>

No.	Page ref.	Issue, risk and recommendation	Management response / action	Responsible officer / Target date
10	23	<p><b>ICT Arrangements</b></p> <p>During the year our high level review of ICT arrangements in the SPA and Police Scotland concluded that progress has been made in establishing a single ICT service that meets the needs of both organisations. However this is still at an early stage with further improvements and developments underway such as further rationalisation, establishment of formal reporting structures and centralisation of standards, procedures and operational practices across both organisations.</p> <p><b>Risk:</b> Delays to establishing and implementing revised practices will slow the process of effective monitoring and embedding the new service into normal day to day procedures and working practices.</p> <p><b>Recommendation:</b> We recommend that the SPA continue to drive forward the ICT changes in line with organisational changes and development and continue to report on progress to the relevant committee.</p>	<p>SPA monitor ICT delivery and are members of the appropriate ICT scrutiny forums throughout the organisation including the i6 Programme Board which is attended by the Chief Executive.</p> <p>SPA have established an “ICT Governance and Scrutiny Forum” chaired by the CEO. This forum confirmed members of the SPA and PS together with member support and input. This forum reports directly to the F&amp;IC.</p> <p>This scrutiny and review is part of the SPA business as usual function and this will continue on an on-going business as usual manner.</p>	<p>Chief Executive</p> <p>On-going</p>

No.	Page ref.	Issue, risk and recommendation	Management response / action	Responsible officer / Target date
11	25	<p><b>i6 Programme</b></p> <p>The roll out of the i6 programme has now been extended by nine months from the original timescales as a result of further contract negotiations with the supplier. As with any large and complex IT project there are a number of risks associated with the project.</p> <p><b>Risks:</b> To not sustain ICT standards; to exceed planned capital investment; to fail to manage the external supplier and not be able to develop and maintain i6 technical expertise.</p> <p><b>Recommendation:</b> We recommend that the SPA continue ongoing dialogue with the supplier, ensure that appropriate expertise remains in place for the life of the project including robust succession plans for any key members of the team.</p>	<p>Accepted, SPA will continue the close monitoring currently established and in place.</p> <p>Audit Scotland will be aware of the recent i6 Gateway review conducted and reported to the Finance and Investment Committee in October 2014.</p> <p>The i6 Programme Board has been regularly attended by the CEO and Director of Strategy and Performance. Progress on i6 is reported in detail to the ICT Governance and Scrutiny Forum chaired by the CEO. “Exception” are appointed as consultants to support successful delivery of the project. A Scottish Government senior ICT staff member also attends the Programme Board to defer advice and scrutiny.</p>	<p>Chief Executive</p> <p>On-going.</p>

No.	Page ref.	Issue, risk and recommendation	Management response / action	Responsible officer / Target date
12	33	<p><b>Baseline data for non-operational areas</b></p> <p>In a number of areas this is still under development, for 2014/15 and 2015/16. However no comprehensive suite of such data, prior to the merger, is routinely referred to.</p> <p><b>Risk:</b> That there is no comparative data against which to evaluate the success of the merger, in respect of non-operational performance and expenditure.</p> <p><b>Recommendation:</b> We recommend compilation of a comprehensive suite of data which pre-dates the merger, to enable meaningful comparison.</p>	<p>We consider there to be a suite of data which measures performance against the outline business case. This was agreed as the most appropriate means of measurement given the complexity and difficulty surrounding this exercise.</p> <p>There is comprehensive financial analysis of the original baseline budget for the SPA and how this is allocated throughout the organisation. There is a considerable amount of detail behind this which was used to build to 2013/14 budget and subsequent years. With the savings targets being stretching and the areas for savings limited given the restriction of the 17,234 officers this exercise requires to be thorough for good reason.</p> <p>Audit Scotland have been made aware of the issues the organisation has in using pre-merger data. To use such data in a meaningful manner would require a significant data cleanse exercise, this would be time consuming and also the value from which would be questionable given the difference in operation between the 8 legacy forces, SPSA and SCDEA and the current National arrangements. If comparisons were drawn against such a set of data and the comparison was not valid any output would be potentially misleading. The SPA would like to take Audit Scotland through the work that has</p>	<p>Director of Financial Accountability.</p> <p>n/a</p>

No.	Page ref.	Issue, risk and recommendation	Management response / action	Responsible officer / Target date
			<p>been carried out on the pre-merger data to ensure there is a clear understanding as to why it is not possible to use such data as a valid basis of comparison for measuring the benefits realised through the consolidation of Scottish Policing.</p>	

No.	Page ref.	Issue, risk and recommendation	Management response / action	Responsible officer / Target date
13	34	<p><b>Long term financial strategy</b></p> <p>Whilst recognising the progress made to date, and the plans in place to secure the £1.1billion savings as intended in the original Outline Business Case (OBC), there are additional cost pressures outwith the OBC which the SPA and Police Scotland will have to manage.</p> <p><b>Risk:</b> That there is no long term financial plan to secure the financial sustainability of the delivery of police services to Scotland.</p> <p><b>Recommendation:</b> We recommend that the SPA and Police Scotland continue to work together to agree a long term financial strategy.</p>	<p>The detailed Financial Strategy forms part of the overall Corporate Strategy document and as Audit Scotland will appreciate there is a significant volume of data supporting this.</p> <p>The Finance Strategy is clear in its financial objectives and how these can be achieved. The 2013/14 financial year demonstrated that the strategy being employed was effective with £63.9m of revenue savings being delivered at the same time as maintaining Police Services to the people of Scotland whilst significant organisational change occurred in the consolidation of Policing and the supporting functions.</p> <p>The Corporate Strategy was approved by the Board in March 2014 and with it the Financial Strategy within this document. This Strategy developed with the requirements of the Outline Business Case for Police Reform being a key driver owing to the reduction in the core revenue budget. A clear strategy was required to deliver significant savings over a short period of time and therefore with a coherent and planned strategy such a task would be impossible.</p> <p>The Financial Strategy within the Corporate Strategy clearly references on page E4 that “We are also actively planning how we will meet the continuing and significant</p>	<p>Director of Financial Accountability.</p> <p>On-going</p>

No.	Page ref.	Issue, risk and recommendation	Management response / action	Responsible officer / Target date
			<p>financial challenges that exist beyond the period that this Corporate Strategy covers.”</p> <p>The Police Reform recommendation to which this point relates had no associated timeline. Audit Scotland have stated that a timeline was “implied”. SPA have considered this but cannot find that any timeline being associated with this recommendation other than the date of March 2014. In implying a timeline Audit Scotland are essentially creating a new recommendation. The original recommendation was closed in full when the Police Scotland Corporate Strategy was presented to the SPA Boards in March 2014.</p> <p>As was stated in the Corporate strategy work is actively being pursued on the long term strategy to 2026 of which finance forms a key part. We recognise the value that this work will bring and it is important for the SPA that Audit Scotland are engaged with us in this area so that assurance can be provided to the wider stakeholders of SPA.</p>	

No.	Page ref.	Issue, risk and recommendation	Management response / action	Responsible officer / Target date
14	35	<p><b>Long term strategies that will contribute to savings</b></p> <p>The five main underpinning strategies are at various stages of development.</p> <p><b>Risk:</b> That without these underpinning strategies the cost savings projected in the long term financial plan are not realisable.</p> <p><b>Recommendation:</b> We recommend the SPA and Police Scotland should continue to work together to conclude these long term strategies.</p>	<p>The fundamental strategic statements made by the SPA to ensure a more efficient model for Scottish Policing now and into the future are underpinned by specific actions which are already being delivered by the organisation as a whole and observed by the delivery of a balanced budget in 2013/14 and the very high degree of certainty over a balanced budget for 2014/15.</p> <p>These financial strategic outcomes are evidenced through the development of financial savings within the non-operational areas of the organisation. These areas are also part of the first Police Scotland Corporate Strategy which is underpinned by detailed financial plans. Although the detail of these plans associated with the outline business case currently run through to 31 March 2016 the organisation has a very strong understanding of the cost pressures and also future potential savings options which may be delivered within future plans.</p> <p>As noted earlier in the document SPA has publicly stated it will achieve the £1.1billion savings required by the Outline Business Case for Police Reform by 2026. This can be evidenced by SPA and Police Scotland. Work has already commenced on the required future medium and long term detailed financial strategy which will</p>	<p>Director of Financial Accountability.</p> <p>On-going</p>



No.	Page ref.	Issue, risk and recommendation	Management response / action	Responsible officer / Target date
			<p>provide further comfort to all stakeholders of the ability of the SPA to deliver a long term sustainable best value policing model.</p> <p>Current and emergent strategies will be further expanded across the non-operational and operational areas. It is important to note that end to end significant processes positively impact upon the operational areas of the National Force and that all changes will be not only to bring best value but best delivery of services.</p> <p>As planned, SPA and Police Scotland have begun Phase 2 of our strategic planning process. We will continue to work on the medium and long term financial strategy in the 2014/15 financial year. This is in accord with our set out process of Strategic Development which takes us to 2026; the final year associated with the outline Business Case.</p> <p>The strategic areas highlighted within this recommendation are well progressed:</p> <p>ICT – the ICT Strategic Blueprint has been approved.</p> <p>The i6 project, referred to earlier in the report, will bring future long term efficiency savings through transforming operational processes. C3, also a long term project, will deliver transformation and savings into the National Force. All tightly monitored and reported on to the</p>	

No.	Page ref.	Issue, risk and recommendation	Management response / action	Responsible officer / Target date
			<p>appropriate Scrutiny forums with the costs of delivery carefully tracked and managed so future savings can be realised and understood.</p> <p>Fleet – full strategy to be brought forward in March 2015, is already well progressed. National Tranman, vehicle management software to go live in January 2015, tracking of vehicles and usage will be enhanced.</p> <p>Purchasing of vehicles being performance under best value contracts with vehicle replacement being timed to reduce the higher maintenance costs of an older fleet.</p> <p>Procurement strategy – approved by F&amp;IC in October 2014, savings falling from the work will be realised in 2014/15 year.</p> <p>Estates strategy – will be brought to F&amp;IC in Spring 2015. This will supplement the work already performed in this area through the ending of expensive lease agreements and moving office accommodation to more cost effective locations. Property investment such as the new Police Building at Dalmarnock frees up additional leased accommodation and removes the higher running costs of the old Pitt Street Police Office.</p> <p>Workforce – it is acknowledged that the strategy in this area was implemented in April 2013 and such work is a key part of Reform.</p>	

No.	Page ref.	Issue, risk and recommendation	Management response / action	Responsible officer / Target date
			<p>These actions are also illustrated within current budgets demonstrating the ability of the organisation to deliver on set strategic plans. These plans will not fundamentally change but will be progressed as the process of Police Reform continues.</p>	