

The 2015/16 audit of the Scottish Police Authority

AUDITOR GENERAL 

Prepared for the Public Audit & Post-Legislative Scrutiny Committee by the Auditor General for Scotland
Made under section 22 of the Public Finance and Accountability (Scotland) Act 2000
December 2016

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Introduction

1. 2015/16 was the third full year of operation for the Scottish Police Authority (SPA) and the Police Service of Scotland (Police Scotland). This is the fourth report I have made to the Scottish Parliament on the progress made by the two bodies since their establishment on 1 April 2013.¹ The SPA's accounts include all expenditure by it and by Police Scotland. The chief executive of the SPA is the accountable officer for this expenditure, while the vast majority of the expenditure is made by Police Scotland.
2. This report draws the Parliament's attention to:
 - The auditor's opinion on the SPA's 2015/16 annual report and accounts (paragraphs 3 to 5)
 - Key findings from the 2015/16 audit of the SPA, in particular:
 - Financial leadership in the SPA and Police Scotland (paragraphs 6 to 8)
 - The appointment of internal auditors and the results of internal audit activity during 2015/16 (paragraphs 9 to 11)
 - The final outturn for 2015/16 in terms of the revenue and capital budget (paragraphs 12 to 13)
 - The process for setting the Police Scotland's budget for 2016/17 (paragraph 14)
 - The financial implications of the termination of the i6 programme in July 2016 (paragraphs 15 to 17).
 - An update on the long-term financial sustainability of the SPA and Police Scotland and progress on developing a long-term financial strategy (paragraphs 18 to 20).
 - A summary of progress in implementing the chair's review of governance which was published in March 2016 (paragraphs 21 to 24).

The auditor's opinion on the Scottish Police Authority's 2015/16 annual report and accounts

3. The SPA's accounts for 2015/16 are unqualified but the auditor has expressed a modified opinion on those matters on which she is required to report by exception, noting that:

“Aspects of the accounting records and access to information and explanations in the area of property, plant and equipment were of poor quality. In my opinion, therefore, adequate accounting records have not been kept in respect of these areas for the 2015/16 financial year.”
4. The auditor has previously expressed a modified opinion on the 2013/14 and 2014/15 accounts. The reason for the modified opinion in 2015/16 relates to a different aspect of property, plant and equipment accounting records. There was insufficient consideration given

¹ *Police Reform*, Audit Scotland, November 2013. *The 2013/14 audit of the Scottish Police Authority*, Audit Scotland, December 2014. *The 2014/15 audit of the Scottish Police Authority*, Audit Scotland, December 2015.

to the identification of surplus assets, and numerous errors were identified in the valuation of assets held for sale and investment properties as a result of assets being revalued under the incorrect asset category.

5. The auditor noted that:

"Whilst overall internal controls in key financial systems have improved relative to last year, there is still improvement required and arrangements for the financial accounting of certain aspects of fixed assets were below acceptable standards".

Key findings from the 2015/16 audit of the Scottish Police Authority

Financial leadership

6. The two previous section 22 reports on the 2013/14 and 2014/15 annual audits of the SPA have highlighted concerns about financial leadership. During 2015/16, there continued to be weak financial leadership in both the SPA and Police Scotland and a shortage of capacity and competency in key areas, such as capital accounting. This contributed to another unusually challenging audit that required significant additional work from the Audit Scotland team.
7. In February 2016, the SPA appointed an interim chief financial officer to address weaknesses identified in the audit of the SPA's accounts for 2014/15. This interim appointment was extended beyond its initial three-month period. After the end of 2015/16, in June 2016, Police Scotland's director of finance left the organisation and the SPA announced that the post of Director of Financial Accountability is under consideration and consultation in relation to the post potentially becoming redundant. Police Scotland also appointed an interim chief financial officer and, together with the SPA, announced a longer-term intention to appoint a single chief financial officer to lead the financial management of the two organisations. Recruitment to that post is ongoing. Together with the recent appointment of a chief operating officer to Police Scotland, this offers the potential to improve financial leadership and management across the two organisations.
8. There was also significant change in the most senior leadership of both the SPA and Police Scotland during 2015/16 with the appointment of a new chair of the SPA in August 2015 and a new chief constable in January 2016.

Internal audit

9. Internal audit is an important component of an organisation's system of governance. It can support the management of an organisation in its evaluation and management of risks, provides assurance about internal controls and provide recommendations for improvements.
10. During 2015/16, the SPA appointed a new internal audit provider, Scott Moncrieff, to work with its own internal audit team. Due to delays in the procurement and vetting processes, Scott Moncrieff was unable to begin work until November 2015. Scott Moncrieff presented their 2015/16 internal audit plan to the Audit and Risk Committee in January 2016. This plan was

based on a plan agreed with PwC, the previous internal audit provider, updated to reflect current priority areas, and with some audits carried forward to 2016/17.

11. Given the late start, only two out of seven internal audit reports from the 2015/16 operational plan were completed by the end of 2015/16. However all audit reports were completed by July 2016. In its annual internal audit report, Scott Moncrieff stated:

"In our opinion, the controls in place within the Scottish Police Authority are not yet robust enough to manage the organisation's key risks and provide assurance regarding the effective and efficient achievement of objectives".

The final outturn for 2015/16

12. The SPA's total Departmental Expenditure Limit (DEL) budget for 2015/16 was £1,089 million made up of £1,051 million revenue DEL and £38 million capital DEL. At the end of 2015/16, there was a £20.5 million overspend on the revenue budget (2014/15: £1.4 million overspend) and a £19.4 million underspend on the capital budget (2014/15: £3.1 million overspend). Exceptionally, in November 2016, the Scottish Government allowed the SPA's capital budget underspend to be offset against the revenue budget overspend, resulting in a £1.2 million overspend for 2015/16.
13. Last year's section 22 report on the 2014/15 audit of the SPA's accounts noted a lack of transparency about how reform funding provided by the Scottish Government had been used. The 2015/16 accounts do include more detail about the use of this money including the fact that a proportion of reform funds has been incorporated into recurring revenue expenditure.

Police Scotland's budget for 2016/17

14. For 2016/17, the SPA has a total DEL budget of £1,075 million. On 31 March 2016, the SPA allocated £972.9 million to Police Scotland for 2016/17. There was very limited publicly available detail provided to the SPA Board in its papers about what this allocation was to deliver. Consequently, financial monitoring reports which are reviewed at the public meetings of the SPA Board are very limited. This impedes effective scrutiny and transparency to the public.

Termination of the i6 programme

15. During 2015/16, the SPA and Police Scotland entered into an options appraisal process with Accenture to assess how to progress a major ICT programme (i6) which had begun in July 2013. As a result of this options appraisal process, the SPA terminated its contract with Accenture on 1 July 2016.
16. At the end of 2015/16, the accounts valued the i6-related asset at £19.3 million reflecting the total capital expenditure to that date. Following termination of the programme, this asset was revalued at £0.2 million. This revaluation reflects how little could be salvaged from the programme. Accenture are repaying a sum of money for non-delivery of the contract along with compensation in recognition of efficiency savings that will not now be realised as a

consequence of the failure of this project. Together these payments amount to £23.4 million. These payments will be made by the end of 2016/17. The auditor is satisfied as to the accounting treatment relating to the termination of the i6 programme as it relates to the 2015/16 accounts.

17. The termination of the i6 programme has implications for the benefits due to accrue from police reform. Audit Scotland is currently reviewing the i6 programme in detail and will report the findings of this work in early 2017.

Financial sustainability

18. Last year, I reported that the SPA and Police Scotland had not prepared a long-term financial strategy. I had originally recommended that they developed a long-term financial strategy in my November 2013 *Police Reform* report. The SPA prepared an initial long-term financial strategy in March 2016. This is a first step in understanding financial sustainability and ensuring effective long-term financial planning. The SPA is updating its long-term financial strategy in the context of the development of the long-term strategy for policing, *Policing 2026*, which it expects to consult on in early 2017.
19. To illustrate the scale of the financial challenge facing the two organisations, I have updated my projections of the potential deficit for the period to 2020/21 which covers the lifetime of the current Scottish Parliament and current Office of Budget Responsibility forecasts. These projections:
 - incorporate the Scottish Government's draft 2017/18 budget announced on 15 December 2016
 - recognise the Scottish Government's commitment to maintain a real terms increase in the policing budget for the duration of the current Scottish Parliament
 - include a continuing commitment to maintain a minimum number of police officers of 17,234
 - assume that the Scottish Government continue to pay the SPA and Police Scotland's VAT costs.
20. These projections reflect the forecast total £17.5 million overspend for 2016/17 reported to the SPA Board in October 2016. They suggest that the SPA could have a cumulative deficit of almost £0.2 billion (£188.248 million) in real terms by the end of the current parliamentary session (Exhibit 1, overleaf).

Exhibit 1

Projected Scottish Police Authority deficits, 2016/17 - 2020/21 (£million)

Year	Deficit
2016/17	(17.500)
2017/18	(59.666)
2018/19	(45.835)
2019/20	(37.436)
2020/21	(27.811)
Cumulative deficit	(188.248)

Review of governance

21. In September 2015, the Cabinet Secretary for Justice asked the new chair of the SPA to carry out a review of governance. The chair published his report on the review in March 2016.² There was a particular emphasis on improving the SPA's and Police Scotland's local interactions, in particular with local elected representatives. The report also focuses on strengthening the SPA's governance arrangements, clarifying the SPA's authority and reviewing how Police Scotland provides information.
22. The chair's report contained 30 recommendations for Police Scotland, the SPA and the Scottish Government. The SPA developed a plan to implement these recommendations and consolidated these into five key deliverables:
 - a governance manual setting out roles, responsibilities, standing orders, schemes of delegations and committee terms of reference
 - an operations manual to document SPA working practices
 - a review of SPA's corporate structure including options for service delivery
 - a proposal for an approach to enhance local accountability
 - a stakeholder engagement model and plan.
23. The Cabinet Secretary for Justice responded to the governance review and its recommendations in June 2016. In his response, he stressed the importance of establishing a protocol between the SPA and Police Scotland that clarified the relationship between the accountable officer (the chief executive of the SPA) and Police Scotland's finance function. The SPA agreed such a protocol in December 2016.
24. Following decisions made by the SPA at its meeting in December 2016, 12 of the 30 recommendations have been completed. Police governance is complex and it is right that the Scottish Government, SPA and Police Scotland ensure that they address this thoroughly but

² *Review of governance in policing*, Scottish Police Authority, March 2016.

the process must not continue indefinitely. HM Chief Inspector of Constabulary in Scotland plans to review progress in implementing the chair's review of governance as part of a wider inspection of the SPA during 2017/18.

Conclusion

25. Together, the Scottish Police Authority and Police Scotland are among the largest and most important public bodies in Scotland. I have reported to the Parliament on weak financial leadership and management in all three years of their existence.
26. There are major challenges facing policing including:
 - confronting emerging threats such as cybercrime and terrorism;
 - working more closely with other organisations, inside and outside the public sector to ensure community safety; and
 - reflecting the diversity of local policing needs across Scotland.
27. All this is taking place within the context of what will continue to be challenging financial circumstances, even with the Scottish Government's commitment to maintain a real terms increase in the policing budget for the duration of the current parliamentary session. This makes strong and effective financial leadership, long-term financial planning and good governance and scrutiny essential. The SPA and Police Scotland have begun to take steps to improve both financial leadership and management and governance arrangements but these have not yet had a chance to have an impact.
28. I will update the Parliament again on the SPA and Police Scotland's progress following completion of the 2016/17 audit.