



Scott-Moncrieff
business advisers and accountants

Scottish Prison Service

Interim audit report

For the year ended 31 March 2017

March 2017

Contents

Introduction.....	1
Summary of findings	3
Prior year action plan	6

1

Introduction

Introduction

1. Our External Audit Plan 2016/17 was approved by the Audit & Risk Committee on 28 November 2016.
2. The Plan summarised the work we will carry out as part of our 2016/17 external audit of the Scottish Prison Service ("the SPS"). The core elements of our work include:
 - an audit of the 2016/17 financial statements and related matters;
 - an interim audit, taking into consideration the work of internal audit, on accounting systems and corporate governance arrangements;
 - a review of arrangements pertaining to wider scope areas for governance and transparency, financial management, financial sustainability and value for money; and
 - any other work requested by Audit Scotland, for example, completion of local impact returns or targeted follow-up work.
3. This report concludes our 2016/17 interim audit of SPS and summarises the results of our review of SPS's key financial systems.
4. While this report is addressed to the Board, it will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Reporting to those charged with governance

5. ISA 260 (Communication of audit matters with those charged with governance) requires the auditor to make those charged with governance or management aware, as soon as practicable, and at an appropriate level of responsibility, of material weaknesses in the design or implementation of internal financial controls which have come to the auditor's attention.
6. A material weakness in internal control is a deficiency in design or operation which could adversely affect the entity's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
7. The results of our audits of the internal financial control framework at SPS are included in management reports submitted following our

audit visits and should therefore be seen as meeting the requirements of ISA 260.

Conclusion

8. Our audit work did not identify any significant deficiencies in the adequacy or design of internal financial controls over SPS's key financial systems. We consider these systems to be well designed.
9. We have performed our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs).
10. We would like to thank all members of SPS's management and staff who have been involved in our work for their co-operation and assistance during our interim audit visit.

2

Summary of findings

Summary of findings

Review of SPS's key financial systems

11. Auditors are required to carry out the audit of financial statements in accordance with ISAs. To comply with the requirements of the ISAs we consider SPS's key accounting systems and internal financial controls and determine whether these are adequate to prevent material misstatements in the financial statements.
12. During our interim audit we have reviewed SPS's key financial systems and controls to establish whether they provide adequate assurance to support the preparation of the annual financial statements. Reviewed key systems and controls are as follows:
 - Payroll
 - Operating Expenditure and Procurement
 - Cash and Bank
 - Prisoner Claims and Injury Benefit Provisions
 - Non-Grant Revenue
 - Financial Ledger and Journal Processing
13. Our audit work identified minor points which were fed back to management, however as these are not regarded to be significant they are not required to be reported to those charged with governance. We did not identify any significant deficiencies in the adequacy or design of internal financial controls over SPS's key financial systems.

Preparatory final accounts audit work

14. During our interim audit we undertook preparatory work for our final accounts audit. This included the following audit work:
 - review of prior year accounting policies;
 - review of opening account balances;
 - review of the internal audit function; and
 - review of Board and committee minutes.

15. From our review of prior year accounting policies, we recommended adding a revenue recognition accounting policy for the 2016-17 financial statements, as required by the FReM. We further identified minor improvement to the wording of the PFI accounting policy to include an appropriate reference to IPSAS 32. Both recommendations were accepted by the Head of Finance.

Wider scope audit

16. Our 2016/17 audit plan identified our plan to perform a review of the Best Value arrangements of SPS, in compliance with the Code of Audit Practice. During our interim audit, we initiated our review of governance and transparency; financial management and sustainability and value for money arrangements.
17. During our initiation of this work, we identified that SPS do not have a formally documented performance management framework to support the 6 strategic priorities defined in the 2014-2017 corporate plan. These priorities are then translated to 40 corporate deliverables, detailed in the annual delivery plan, which are then further divided into 18 key themes. The key themes are used to produce area/establishment annual business plans, which collectively total 600+ deliverables. The complexity of this framework has resulted in difficulty reliably measuring and reporting overall performance of SPS against its strategic priorities to the Advisory Board. We identified that performance reported in the 2015-16 annual report, is analysed using movement in 10 KPI's, which are not directly linked to SPS's 6 strategic priorities.
18. We are aware that a new outcome focused performance management framework is currently under development by the Strategy and Innovation directorate, to support the new 2017-2020 corporate plan. We will continue to monitor progress during our audit in order to ensure SPS's new performance framework is appropriately aligned and reported against the priorities of the 2017-2020 corporate plan.

19. We have not identified any further risks or significant issues at this stage, but we will review and complete this assessment during our final accounts audit work, and report best value conclusions within our annual audit report.

Follow up of prior year audit recommendations

20. Audit Scotland identified six actions from the 2015-16 financial statements audit. As part of our interim audit, we have followed up the recommendations raised by Audit Scotland and the actions taken by management in response to these. These recommendations, as well as a status update, are shown in the table below. We will update the progress against these recommendations as part of our final audit in May 2017.

Financial statements and the 2016/17 audit process

21. Audited central government financial statements must be submitted to the Scottish Government by 31 October 2017. We will continue to liaise with management to plan for our year-end audit and agree respective expectations and timetables. Our final audit visit is planned to start in May 2017, with the accounts being presented to the RMAC on 27 June 2017.

3

Prior year action plan

Prior year action plan – as agreed with Audit Scotland

1. Financial Sustainability	
Observation and Risk	<p>Financial planning is restricted to the period covered by the Scottish Government spending review. Planning to this timeframe, which can be as short as one year, is not sufficient to ensure long-term financial sustainability. Financial planning is not linked with workforce planning or the capital investment programme.</p> <p>Risk: There is a risk that SPS cannot demonstrate that it is financial sustainable in the longer term.</p>
Recommendation	<p>SPS should prepare a long-term financial strategy. The strategy should include:</p> <ul style="list-style-type: none"> - the cost of providing individual services - details of one-off and recurring savings - scenario planning - funding shortfalls and how to deal with these - clear links to other relevant strategies including workforce plans and the capital investment programme.
Original management response	<p>The SPS as an Executive Agency of Scottish Government (SG) works closely with core SG in terms of spending reviews and the number of years covered by a spending review is not within the gift of SPS. SPS's Corporate Plan is a three year plan which sets out the organisation's strategic priorities. The corporate plan for 2017/20 will set out our strategic intentions for that period and it will be derived from SG policy; firmly rooted in the SPS Organisational Review and will set out how SPS will deliver on our vision and mission. It will set out what resources SPS will deploy to deliver the strategic priorities for 2017/20. In terms of capital investment SPS does plan across more than one spending review period because of the timescales involved in building a prison which, from planning through to opening can take around 6 years. These major projects are reported through the SG Infrastructure Investment Board. In terms of workforce planning the Executive Management Group and SPS Advisory Board receive regular workforce planning updates which take account of trends and known variables such as opening a new prison. In addition an annual funding analysis of payroll is undertaken by Corporate Services which in turn is linked to the SPS budget.</p> <p>Responsible officer and Target Date: Chief Executive – March 2017</p>
Management response update	<p>It is the opinion of the Chief Executive Officer that this is not a viable or justifiable activity for SPS to engage in, given the fluid nature of Parliamentary finance and the annual allocation of resources to SPS.</p>
Completion date	-

2. Transparency	
Observation and Risk	<p>There is restricted access to Board minutes and papers and the Board members' register of interests.</p> <p>Risk: There is a risk that SPS is not sufficiently open and transparent.</p>
Recommendation	<p>SPS should improve its level of openness and transparency by making Board minutes and papers and the register of interests available to the public.</p>
Original management response	<p>Board minutes are already published on the SPS website. In terms of the Board papers the Chief Executive will discuss the audit recommendation with the newly appointed independent chair of the Board. The balance between transparency and the need to provide the Chief Executive as Agency Accountable Officer with clear, candid advice via the Board and the papers it considers will be fundamental to these discussions. Board members' register of interests will be published on the SPS website.</p> <p>Responsible officer and Target Date: Chief Executive & Independent Chair of SPS Board – 31 October 2016.</p>
Management response update	<p>As noted in paragraph 10 of the minutes of the Advisory Board meeting held on 28 September 2016, Brigadier Monro and Mr McConnell discussed this issue and whilst they noted Audit Scotland's recommendation, given the nature of the discussions, they did not feel it necessary to publish Advisory Board papers online.</p>
Completion date	-

3. Internal Audit

<p>Observation and Risk</p>	<p>Although we are able to place reliance on the work of internal audit, it does not fully operate in accordance with Public Sector Internal Audit Standards (PSIAS). A number of planned audits particularly on finance, risk and governance were not completed during 2015/16.</p> <p>Risk: There is a risk that the internal audit service does not comply with PSIAS or deliver all of the work necessary to provide adequate assurance to SPS management.</p>
<p>Recommendation</p>	<p>The internal audit service provided by the AAU should comply with the requirements of the PSIAS. The AAU should have adequate resources to deliver the planned programme of work, which is based on an annual risk assessment.</p>
<p>Original management response</p>	<p>The Finance, Risk & Governance area of AAU was hit by a significant loss of experience when both Finance, Risk & Governance Auditors left AAU early in the course of 2015-16. Since then, a qualified accountant has been recruited at F Band and a part-qualified accountant has joined the Section at E Band. A further qualified accountant resource has since been added to AAU and the recruitment process for this post is now underway. Other areas of non-compliance with PSIAS have been identified in the review of Adequacy of Internal Audit for the period to 31 March 2016 and are currently being addressed within the timetable supplied.</p> <p>Responsible officer and Target Date: Head of Audit & Assurance – September 2016</p>
<p>Management response update</p>	<p>A further F band CIPFA qualified accountant was appointed in January 2017 and so brings the Finance, Risk and Governance Audit team up to full strength</p>
<p>Completion date</p>	<p>January 2017</p>

4. Digital Strategy and Cyber Security

<p>Observation and Risk</p>	<p>The SPS digital strategy has not been reviewed or updated since 2014. There is no cyber-attack response plan for the organisation.</p> <p>Risk: There is a risk that SPS digital services do not support the delivery of the corporate plan and the national Digital Strategy for Justice. In the event of a successful cyber-attack there may be a lack of clarity how SPS staff should deal with the incident.</p>
<p>Recommendation</p>	<p>Management should ensure that the digital strategy is reviewed and updated. SPS should develop a cyber-attack response plan. A detailed timetable is required to monitor progress in developing IT strategies and plans.</p>
<p>Original management response</p>	<p>SPS have engaged with Scottish Government's Digital Directorate to review and update the Digital Strategy. A Statement of Works has been prepared for delivery of the Digital Strategy pending on-going discussions with Scottish Government. A cyber-response workshop is included in the ISS Business plan and includes a review of the provision of Cyber Security readiness through assessment of security arrangements and contingency planning</p> <p>Responsible officer and Target Date: Head of ISS - March 2017</p>
<p>Management response update</p>	<p>SPS are well advanced in the development of a Digital Strategy working in collaboration with Scottish Government Digital Directorate. This will ensure we align with the SGs Digital Strategy which is being refreshed. This work is also being aligned to the developing SPS Corporate Plan. ISS have also simulated cyber-attack and business continuity arrangements by reviewing systems for continuous improvement. This is being implemented in parallel with user training and updated user information to mitigate cyber intrusions. Further simulation of cyber-attack will enable further testing of staff threat appreciation and system resilience.</p>
<p>Completion date</p>	<p>To be reported</p>

5. Digital Procurement

Observation and Risk	<p>There is a lack of overall ownership for the digital procurement project which is required to implement e-invoicing. The project remains on hold as at June 2016.</p> <p>Risk: There is a risk that if SPS does not implement an e-procurement solution this will impact on fulfilling the requirements of the EC Directive on e-invoicing by 2018.</p>
Recommendation	<p>SPS should identify a clear lead for the implementation of e-procurement. A timeline should be prepared which ensures that e-procurement is achieved. This will support the implementation of e-invoicing by November 2018.</p>
Original management response	<p>SPS is aware of the EU Directive 2014/55/EU and the need to be able to accept e-invoices in the correct format by 27 Nov 2018. SPS has recently commissioned a system health check on its Agresso Finance System. Following this, e-Procurement will be considered alongside other competing IT priorities. This is with a view to establishing a plan for implementing electronic Purchase to Pay (Electronic P2P systems automate the full purchase-to-payment process) including the facility to accept electronic invoices in the future.</p> <p>Responsible officer and Target Date: Director of Corporate Services/Director of Operational Support Services. 31 October 2016 - to identify a lead. 30 April 2017 - for the completed time line to address the EU Directive plan.</p>
Management response update	<p>Kathleen Gallagher has been allocated as lead and has met with Procurement and Finance to plan this piece of work, with support from SG E-commerce</p> <p>Approach to be prepared by end of March for discussion at EMG on 17 May which will lay out methodical process and milestones to achieve implementation of e-invoicing.</p>
Completion date	<p>November 2018</p>

6. Workforce Planning

<p>Observation and Risk</p>	<p>Capacity concerns were raised by SPS management in the 2015/16 annual statements of assurance process. These concerns related to a number of headquarters functions, including the CCU.</p> <p>Risk There is a risk that insufficient staff capacity could impact on SPS's ability to deliver the services outlined in corporate and annual plans.</p>
<p>Recommendation</p>	<p>SPS should continue to improve workforce planning arrangements, including the development of annual and long term workforce plans which align with financial strategies and plans.</p>
<p>Original management response</p>	<p>Accepted. Detailed annual workforce planning and strategy will be aligned to the outcomes of the Shaping Our Future Project and any budget saving implications identified as part of the HQ2017 work, and be undertaken in consultation and partnership with our Trade Union Side.</p> <p>Responsible officer and Target Date: Director of Corporate Services - 31 March 2018</p>
<p>Management response update</p>	<p>The terms of reference for the Workforce Planning Management Group (WPMG) have been agreed and regular reporting is in place to both Executive Management Group and Advisory Board. Financial representation on the WPMG is now in place and a process for establishing sub-groups to address short-term, functional or specialist (non-operational) workforce planning actions is in place.</p> <p>A People Strategy project commissioned to 'Conduct a review of talent management and succession planning in Corporate Services Directorate to determine best practice and establish the beginnings of SPS-wide guidance for managers' is now complete and the recommendations are being taken forward by WPMG, with dedicated support from an internal Training Manager in Talent Development for 12 months. The key recommendation is the creation of an integrated workforce planning model which encompasses succession planning. This will require business units in SPS to produce an annual local workforce statement incorporating an analysis of capacity, capability and succession risks as well as associated mitigations and action plans. Business units will be supported to do this through workshops and self-audit tools, including a tool to identify, understand and address issues with role criticality. The information from the statements will be collated to provide greater organisational assurance and to inform an annual workforce plan.</p> <p>A revised suite of recruitment, development, deployment, and promotion tools (the Workforce Toolkit) will be collated in 2017/18. Work to consider job families in the SPS (aligned to wider organisational design activity) is underway and this is allowing for the design of a Toolkit that will better meet the needs of individual job families and those that are common across business units.</p> <p>A draft workforce plan is tabled for discussion at Executive Management Group on 5th April after which, the immediate priorities and staff/TUS consultation will be undertaken in Q1-3 2017 to allow for publication by 31st March 2018.</p>
<p>Completion date</p>	<p>On track for introduction of Workforce Plan by 31st March 2018 as per original Audit response.</p>



Scott-Moncrieff
business advisers and accountants

© Scott-Moncrieff Chartered Accountants 2017. All rights reserved. "Scott-Moncrieff" refers to Scott-Moncrieff Chartered Accountants, a member of Moore Stephens International Limited, a worldwide network of independent firms. Scott-Moncrieff Chartered Accountants is registered to carry on audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants of Scotland.