



Scott-Moncrieff
business advisers and accountants

Scottish Prison Service

Annual report on the 2016/17 audit
to the Board and the Auditor General for
Scotland

June 2017

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Summary

Annual accounts

The Scottish Prison Service 'SPS', is scheduled to approve the annual accounts for 2016/17 on 27 June 2017 and the accounts will be submitted, together with this report, to the Scottish Government and Auditor General by the deadline of 31 October 2017.

We intend to report unqualified opinions on the financial statements, the regularity of transactions and on other prescribed matters within our independent auditor's report. We also intend to report that the financial statements of SPS for 2016/17 give a true and fair view of the state of SPS's affairs and of its net expenditure for the year.

We confirm that the financial statements have been properly prepared in accordance with the 2016/17 Financial Reporting Manual (FRM) and the requirements of the Public Finance and Accountability (Scotland) Act 2000 and Ministerial directions.

- **SPS have a net 2016-17 underspend of £4.9 million (1.5%), components as follows:**
- The DEL resource limit was overspent by £0.018 million (0.1%), resulting from Scottish Government approved performance payments to operational staff in 2016-17;
- The DEL capital limit was underspent by £0.790 million (24.8%), resulting from slippage in the Women's Strategy capital project;
- The AME limit was underspent by £3.692 million (73.9%), resulting from greater than expected asset impairment reversals.

Wider Scope

The Code of Audit Practice frames the wider scope in terms of four dimensions. We summarise below our conclusions on each dimension.

Financial Management

SPS has effective budget monitoring arrangements in place for financial management. SPS should however consider the effectiveness of current financial reporting structures, with prison finance managers reporting to the Operations Directorate, as opposed to the Head of Finance within the Chief Executive Office.

Financial Sustainability

SPS has effective arrangements for short-term annual financial planning and monitoring.

Only 15% of SPS expenditure is on areas which are not considered core service delivery. SPS have developed a draft medium term financial strategy. Any significant change to funding would require redesign of services to achieve savings targets.

Wider Scope

Governance & Transparency

Governance arrangements at SPS were found to be compliant with the requirements of the Scottish Public Finance Manual (SPFM) and generally operating satisfactorily.

Value for Money

SPS have implemented improvements to their Performance Management Framework during the year, and continue to demonstrate commitment to continuous improvement.

Conclusion

This report concludes our audit for 2016/17. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International

Standards on Auditing (UK and Ireland) and Ethical Standards.

**Scott-Moncrieff
June 2017**

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Introduction

Introduction

1. This report summarises our findings from the 2016/17 audit of SPS.
2. We outlined the scope of our audit in our external audit plan, which we presented to the audit committee on 28 November 2016. The core elements of our audit work in 2016/17 have been:
 - an interim audit of SPS's key financial systems and governance arrangements;
 - an audit of SPS's 2016/17 annual report and accounts, including a review of the Governance Statement;
 - a review of arrangements as they relate to the four dimensions of wider-scope public audit: governance and transparency, financial management, financial sustainability and value for money; and
 - consideration of the Board's arrangements for taking part in the National Fraud Initiative data-matching exercise.
3. SPS is responsible for preparing annual accounts that show a true and fair view, and for implementing appropriate internal control systems. The weaknesses and risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
4. We discussed and agreed the content of this report with the Chief Executive and Head of Finance. We would like to thank all management and staff for their co-operation and assistance during our audit.
5. This report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management

should assess these recommendations and consider their wider implications before deciding appropriate actions. We give each recommendation a grading to help SPS assess their significance and prioritise the actions required.

Adding value through the audit

6. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Advisory Board through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Advisory Board promote improved standards of governance, better management and decision making and more effective use of resources.
7. We welcome any comments you may have on the quality of our work and this report via: www.surveymonkey.co.uk/r/S2SPZBX
8. This report is addressed to the Advisory Board, Accountable Officer and the Auditor General for Scotland, and will be published on Audit Scotland's website. www.audit-scotland.gov.uk.

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Annual accounts

Annual accounts

Introduction

9. SPS's annual financial statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. The respective responsibilities of SPS and the auditor in relation to the financial statements are outlined in Appendix 4.

Overall conclusion

Unqualified audit opinions

10. The annual accounts for the year ended 31 March 2017 are to be approved by SPS on 27 June 2017. We will report within our independent auditor's report:
- an unqualified opinion on the financial statements;
 - an unqualified opinion on regularity;
 - an unqualified opinion on other prescribed matters.
11. We are also satisfied that there are no matters which we are required to report to you by exception.

Administrative processes were in place

12. We received draft financial statements and supporting papers of a good standard, in line with our agreed audit timetable. Our thanks go to management and staff for their assistance.
13. Arrangements are in place to enable the annual report and accounts to be submitted to the Scottish Government and Auditor General for Scotland prior to the 31 October 2017 deadline.


Our assessment of risks of material misstatement

14. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our materiality threshold was revised from our audit plan, as discussed at paragraph 37. We designed our audit procedures relating to these matters in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. We outline our four audit risks below.

Audit Risk 1: Estates Valuation

As at 31 March 2016, the SPS held property, plant and equipment with a carrying value of c£1 billion.

The scale of the current estate, the continuing developments to the women's estate and the ongoing capital investment programme all create complexities and potential risks to the valuation of the assets as recorded within the annual accounts.

- 
15. SPS specialised assets were re-valued by the District Valuer as at 31 March 2017. As stated in our audit plan, we conducted testing on the re-valuations in order to gain assurance over the accuracy and reasonableness of the estates valuations.
16. We identified that SPS's estates were undervalued by £3.9 million as at 31 March 2017, due to the factors outlined below. [See appendix 2 for adjusted error journals.](#)
17. The £3.9 million net adjustment can be quantitatively split and explained as follows:

- **Transposition Errors:** Transposition errors occurred when processing estates re-valuations within the Fixed Asset System in relation to HMP Addiewell and HMP Kilmarnock. This resulted in the closing value of assets being undervalued by £1.36 million. We recommend that SPS implement further preventative controls (for example, supervisory review) to mitigate the risk of human error moving forward. [See appendix 1, action point 1.](#)
- **Date of Valuation Applied:** The valuations were performed by the District Valuer as at 31 March 2017, however the valuation adjustments were applied to the Fixed Asset System on the 1 of March 2017. This resulted in depreciation being charged for periods 1-11 on the correct asset value pre-valuation, instead of the full expected 12 months. Month 12 depreciation was inaccurately charged to the re-valued asset amount, and subsequently not written back as part of the revaluation adjustment. As a result, the depreciation charge for year was understated by £0.019 million, and accumulated depreciation valuation adjustment understated by £2.642 million. This resulted in a net understatement of fixed assets of £2.661 million.

- 18.** The Fixed Asset System used by SPS (Britannia), automatically applies indexation to land and buildings in line with the accounting policies as at 31 March 2017. As previously stated, to prevent indexation being applied on assets which have been revalued, SPS entered re-valuations at 1 March.

We recommend that SPS review the Britannia system along with the system provider, in order to identify a solution to enable accurate application of re-valuations moving forward. [See appendix 1, action point 2.](#)

- 19.** We performed depreciation and impairment testing to confirm that depreciation and impairment has been correctly calculated and incorporated within the annual accounts. We identified that 68% of fixed assets within the Fixed Asset Register were held at a nil closing value. As part of our controls review, we did not identify any control deficiencies or weaknesses in SPS's asset verification procedures. This finding indicates the useful lives of assets applied by SPS's depreciation accounting policy may be understated.

We recommend that SPS conduct a review of the depreciation accounting policy for asset lives to better match experience. [See appendix 1, action point 3.](#)

- 20.** The adjusted errors to fixed assets resulted in a £0.004 million increase in DEL Resource Expenditure Limits and £0.015 million increase in ODEL Expenditure Limits. This increased the DEL Resource Expenditure overspend from £0.014 to £0.033 million (0.01% overspend). We have reviewed correspondence from the Scottish Government stating that the SPS budget is accounted for at parliamentary accountability level, therefore the minor overspend for 2016-17 can be absorbed.
- 21.** We continue to monitor decisions announced by the Scottish Government and SPS regarding the closure of HMP & YOI Corton Vale, in order to ensure the asset valuation remains appropriate. At the time of writing this report, HMP & YOI Corton Vale remains in-use and has been valued as such. No issues were identified in regards to the valuation as at 31 March 2017.
- 22.** We reviewed Advisory Board minutes and conducted a media review to ensure all matters that may impact estates valuations have been considered within the year end valuations by the District Valuer. We did not identify any unaccounted for events impacting on estates valuations as at 31 March 2017.

23. We will continue to monitor SPS's progress in terms of the capital investment programme. In 2016/17, SPS agreed plans for the new HMP Inverness site and option appraisals remain on-going for the Women's Strategy and HMP Glasgow.

24. Further to the matters identified above, we have no further matters to report in relation to this risk.

Audit Risk 2: Timetable

In accordance with Audit Scotland timetable, the certification deadline for central government bodies' annual report and accounts is 31 October 2017.

As in previous years, SPS has again elected to work towards a pre-recess certification. Our proposed accounts production and audit timetable is set out in the 'Audit outputs, timetable and fees' section of this report. The final audit fieldwork is due to commence in early May and accounts to be provided during w/c 15 May. The RMAC is scheduled for the last week in June, providing a window of less than five weeks to complete the audit of the draft annual report and accounts and agree our annual report to enable papers to be issued one week in advance of the RMAC. This is an extremely tight turnaround and close monitoring of progress will be imperative.



25. We received the draft financial statements and supporting working papers in line with expected deadlines. We worked closely with SPS to ensure matters were communicated on a timely manner which allowed the set timetable to be adhered to.

26. We have no matters to report in relation to this risk.

Audit Risks 3: Management override of controls

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA 240 - The auditor's responsibilities relating to fraud in an audit of financial statements.



27. We reviewed the accounting records for significant transactions outside the normal course of business and obtained evidence to ensure that these were valid and accounted for correctly.

28. We have no matters to report in relation to this risk.

Audit Risks 4 : Fraudulent Revenue Recognition

Under ISA 240 - The auditor's responsibilities relating to fraud in an audit of financial statements there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the SPS could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.



29. Within our audit plan, we rebutted the risk of fraud in revenue recognition being material to the annual accounts. We have reviewed this position throughout the audit and have concluded that this position remains appropriate.

30. We conducted an analysis on SPS's revenue streams and reported no control weaknesses or deficiencies in our Interim Audit Report. We conducted substantive sample testing and identified no errors or matters to report.
31. We have no matters to report in relation to this risk.

An overview of the scope of our audit

32. We detailed the scope of our audit in our external audit plan. We presented the plan to the Audit and Risk Committee on 28 November 2016.
33. Our plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Advisory Board. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.
34. At the planning stage we identified the significant risks that had the greatest effect on our audit. We then designed audit procedures to mitigate these risks. We base our standard audit approach on performing a review of the key accounting systems in place, substantive tests and detailed analytical review.
35. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work, we have applied the concept of materiality.

Our application of materiality

36. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.
37. Our initial assessment of materiality for the annual report and accounts during our planning

work was £3.23 million, being 1% of prior year SPS annual gross expenditure. Our assessment of materiality is set with reference to a range of benchmarks. On receipt of the draft 2016/17 accounts, we reassessed the materiality threshold to 1.5% of SPS's gross 2016/17 expenditure. This revision on threshold was a result of no control deficiencies being identified during the course of our interim audit, and the fact we were not aware of any significant issues that would warrant a lower threshold to be maintained. Our revised materiality is £4.99 million.

38. We set a performance materiality for each area of work which is based on a risk assessment for the area. We have performed audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we performed a greater level of testing on the areas deemed to be of significant risk of material misstatement. Our performance materiality and triviality thresholds were revised from our audit plan in line with the revised materiality figure stated above.

Area risk assessment	Weighting	Performance materiality
High	45%	£2.247 million
Medium	55%	£2.747 million
Low	68%	£3.371 million

39. We agreed to report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements;
 - Uncorrected misstatements over £99,000; and

- Misstatements below £99,000 we believe warrant reporting on qualitative grounds.

Accounting and Internal Control systems

40. SPS has adequate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any material weaknesses or governance issues in SPS's accounting and internal control systems during our audit.

The Governance Statement in compliance with the Scottish Ministers' guidance

41. We are satisfied that the Governance Statement complies with the Scottish Ministers' guidance and that the content is not inconsistent with information gathered during the course of our normal audit work.
42. We consider the coverage of the Governance Statement to be broadly in line with expectations.
43. We note that internal audit reported an overall reasonable assurance opinion. However internal audit reported 38 areas of limited assurance out of the 143 internal audit reviews conducted in year. Significant areas of limited assurance related to financial controls at 9 establishments, provision of social work services and learning skills in 2 prisons. Action plans have been developed for each area and progress will be reviewed in 2017/18.
44. The disclosures in the Governance Statement reflect internal audit's conclusion for 2016/17.

Areas of the Remuneration and Staff Report subject to audit opinion

45. In compliance with the FReM, the Remuneration and Staff report is reviewed in its entirety for consistency with the financial statements and to ensure disclosures are in line with the auditors understanding of SPS.
46. The following areas of the Remuneration and Staff report are subject to audit opinion:

- Remuneration policy
- Single total figures of remuneration and CETV pension figures for each director;
- Payments to past directors;
- Fair pay disclosures;
- Exit packages; and
- Analysis of staff costs and numbers.

47. We identified an error in the presentation of the CETV pension increase figure for one non-executive director. This has been updated in the draft financial statements. [See appendix 3.](#)

48. No other issues were identified.

Related Party Transactions

49. In compliance with ISA 550, we are required to perform audit procedures to identify, assess and respond to the risk of material misstatement arising from related party transactions. We conducted a review in order to identify any potential undisclosed related party transactions.
50. In order to verify the completeness of the board's declaration of interests, we conducted searches of all board members via Companies House.
51. We identified one undisclosed interest, however the interest was declared and recorded at Advisory Board meetings in 2016/17. No governance issues or material related party transactions were identified from this interest, therefore no additional disclosure in the financial statement is required.
52. In order to mitigate the risk of material related party transaction being omitted from disclosure, management should consider implementing a year end control to review the interest declarations within the board minutes. [See appendix 1, action point 4.](#)

53. No other issues were identified.

Regularity Opinion

54. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual

report and accounts. We did not identify any instances of irregular activity.

Other matters and audit adjustments

- 55. We identified minor disclosure and presentational adjustments that were reflected in the final financial statements. The adjustments, taken individually and in aggregate, did not have any effect on SPS's outturn for the year.
- 56. As part of the year 1 audit process, we reviewed the assumptions and methodology behind the accounting models for SPS's 2 PFI schemes for HMP Addiewell and HMP Kilmarnock, and concessionary arrangement contract with G4S.
- 57. The most recent accounting models date back to 2011, and apply annual inflationary uplifts. We identified that SPS do not review and update the inflation rates used within the accounting models, to reflect periodic movements in RPI inflation rates. This does not impact PFI balances within the primary financial statement, however will impact the estimated future payments which appear in note 14 of the financial statements.

58. We recommend that SPS conduct a review to ensure inflation rates used within the accounting models remain appropriate. [See appendix 1, action point 5.](#)

59. No other matters were identified.

Whole of Government Accounts

- 60. SPS is required to complete a Scottish Government consolidation pack that we are required to audit. This pack contains a section to detail information on the whole of government accounts (WGA), which are consolidated financial statements for the public sector in the UK.
- 61. We are not required to audit this section of the pack as SPS is below the de-minimus level of audit of £350 million of gross expenditure.
- 62. SPS are still required to submit an audited return to the Scottish Government by the deadline which has yet to be confirmed. It is likely the deadline will remain 30 September 2017. We have received the unaudited pack and expect to meet the Scottish Government submission deadline.

Other qualitative aspects of accounting practices and financial reporting

- 63. We have considered the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our findings are summarised below:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	Further to the advised review of SPS's depreciation accounting policy at paragraph 19, we consider the remaining accounting policies which are disclosed in the financial statements to be appropriate.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	The accounting estimates and judgements used by management in preparing the financial statements are considered appropriate. The principal areas of estimates and judgements have been asset depreciation and provisions for injury benefits and prisoner claims. Where appropriate SPS utilised the work of independent experts or industry practice to support the estimates made.

<p>The potential effect on the financial statements of any uncertainties, including significant risks and related disclosures that are required.</p>	<p>We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the financial statements.</p>
<p>The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.</p>	<p>From the testing performed, we identified no significant unusual transactions in the period.</p>
<p>Apparent misstatements in the annual report and accounts or material inconsistencies with the financial statements, particular in relation to Performance.</p>	<p>The annual report and accounts contain no material misstatements or inconsistencies with the financial statements.</p>
<p>Any significant financial statements disclosures to bring to your attention.</p>	<p>Apart from those already stated, there are no other significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.</p>
<p>Disagreement over any accounting treatment or financial statements disclosure.</p>	<p>While some disclosure and presentational adjustments were made through the audit process, there was no disagreement during the course of the audit over any significant accounting treatment or disclosure.</p>
<p>Difficulties encountered in the audit.</p>	<p>There were no significant difficulties encountered during the audit.</p>

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Financial management

Financial management

Overall conclusion

SPS has effective budget monitoring arrangement in place for financial management, however should consider the effectiveness of current financial governance structures.

64. Overall, SPS has effective arrangements in place for the financial management of resources. Our conclusion is based on a review of SPS's financial performance, underlying financial position, financial reporting and considerations of financial capacity and capability at establishment level. Key elements of these areas are discussed in more detail below.

SPS's financial performance in 2016/17

65. SPS has to operate within the departmental and annually management expenditure limits set by the Scottish Government. SPS's budget is accounted for at parliamentary accountability level, therefore the minor overspend of £0.018 million in DEL Resource expenditure, can be

absorbed. The overspend is a result of a performance payment to operational staff members in 2016/17. The payment was not forecast until the end of the financial year; hence it was not included within original budget allocations. This payment was however approved by the Scottish Government, and is in support of the additional role expectations required by SPS's new operational delivery model POPP (see paragraph 94). As shown in the table below, SPS had a net total underspend of 1.5% to budget in 2016/17.

66. The majority of the £4.92 million underspend is partly from the slippage in decision making of significant capital project expenditure (HMP & YOI Corton Vale and the Women's Strategy) into 2017/18. The variance is also mainly from the reduced requirement to use AME limits, from greater than expected asset impairment reversals. SPS identified that tender price indices were expected to increase hence estimated the net credit AME budget.

Expenditure	Actual Outturn £m	Revised Budget £m	Over/(Underspend) £m	Over/(Underspend) %
DEL Resource:	269.221	269.203	0.018	0.0%
DEL Capital:	2.400	3.190	-0.790	-24.8%
Outside DEL:	70.406	70.862	-0.456	-0.6%
AME:	-8.692	-5.000	-3.692	73.8%
Total:	333.335	338.255	-4.920	-1.5%

SPS has effective budget setting and monitoring arrangements

67. We have considered SPS's system of budgetary control and did not identify any significant deficiencies.

68. SPS is expected to manage its budget in accordance with its framework document and the Scottish Public Finance Manual. SPS budget setting and monitoring takes place at both a central and local prison level. Budgets are set based on the indicative funding

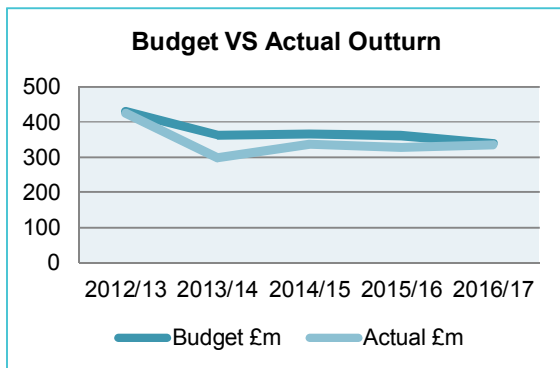
allocation from the Scottish Government. The central finance team create an annual budget, and issue budget packs to all 13 public establishments.

69. The Finance Manager of each establishment sets an annual budget. The budget template provided identifies the main cost driver (staff costs) which is required to be analysed and efficiencies identified where possible.

70. SPS have comprehensive financial regulations and policies in place, which are held within the

shared network of SPS. These policies are subject to regular review and were reviewed in 2016/17. Where variations in procedure are appropriate for an establishment, prison specific policies are constructed and held centrally.

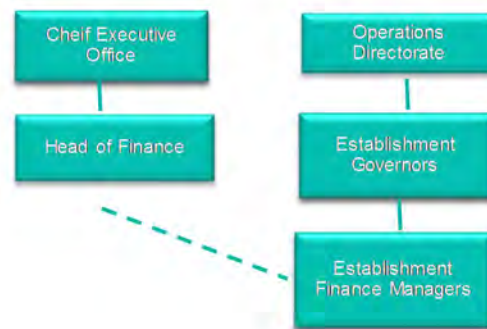
- 71. The establishment Finance Managers complete monthly expenditure monitoring returns for the Head of Finance, which are reviewed and used to prepare the overall monthly update report.
- 72. The Head of Finance prepares the monthly financial monitoring reports which are presented to the Risk and Audit Committee (RMAC), Executive Management Group (EMG) and the Advisory Board (AB).
- 73. The monitoring reports provide sufficient explanations for any significant variances to date and forecasted against budget.
- 74. Effectiveness of SPS's budgetary arrangements is demonstrated by the graph below, which shows that SPS has delivered against budget for the past 5 years. SPS delivered minor underspends, mostly relating to delayed capital DEL expenditure.



SPS should consider the effectiveness of current financial capacity arrangements

- 75. The HQ finance team is led by the Head of Finance, who is accountable to the Chief Executive Office.

- 76. All 13 public establishments have a Finance Manager, who has a varied and split role between local financial responsibilities (e.g. warrant calculations), and providing the Head of Finance with various monthly monitoring returns. Although not explicitly required for the role it was identified that only 2 out of the 13 Finance Managers are qualified accountants.
- 77. The Establishment Finance Managers are directly accountable to the Prison Governors, who is accountable to the Operations Directorate. Work requirements of the Establishment Finance Manger role is split between 2 SPS directorates. This is demonstrated by the chart below.



- 78. In 2015/16 and 2016/17, Internal Audit identified limited assurance reviews of financial controls at the 13 public establishments. In 2016/17, an employee of the Internal Audit function took on a pilot role to provide more one to one financial training and support to the Finance Managers.
- 79. There is risk that SPS have ineffective financial accountability at local establishment level, which directly impacts on the robustness of overall financial control and management.
- 80. In conjunction with movement in the governance structure, and in alignment with the new 2017-2020 SPS Corporate Plan, SPS should consider the core skills of finance professionals along with training and development needs.

81. SPS should also consider if the current accountability structure of the Establishment Finance Managers to the Operations Directorate is effective. [See appendix 1, action point 6.](#)

Prevention and detection of fraud and irregularity

82. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found SPS's arrangements for the prevention and detection of fraud and other irregularities to be adequate.

National fraud initiative

83. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies and external auditors to identify fraud and error.
84. The current NFI exercise has a completion deadline of 31 March 2018. The exercise released 1,115 identified matches for the Board in January 2017, of which 112 were recommended for investigation.
85. 38 of the recommended actions have been investigated and closed to date, with the remaining 74 planned to be actioned in advance of the February 2018 RMAC. No instances of fraud have been identified from the exercise to date.
86. Internal Audit plan to audit the completed exercise and present findings to the RMAC by February 2018.
87. SPS's overall arrangements in relation to NFI appear satisfactory.

4

Financial sustainability

Financial Sustainability

Overall Conclusion

SPS demonstrates effective arrangements for annual financial planning and monitoring. SPS have developed a draft medium term financial strategy in 2017, which considers scenario planning and key cost drivers. In 2017/18, SPS aims to develop a financial model for the 'Prison Officer Professionalisation Programme' (POPP).

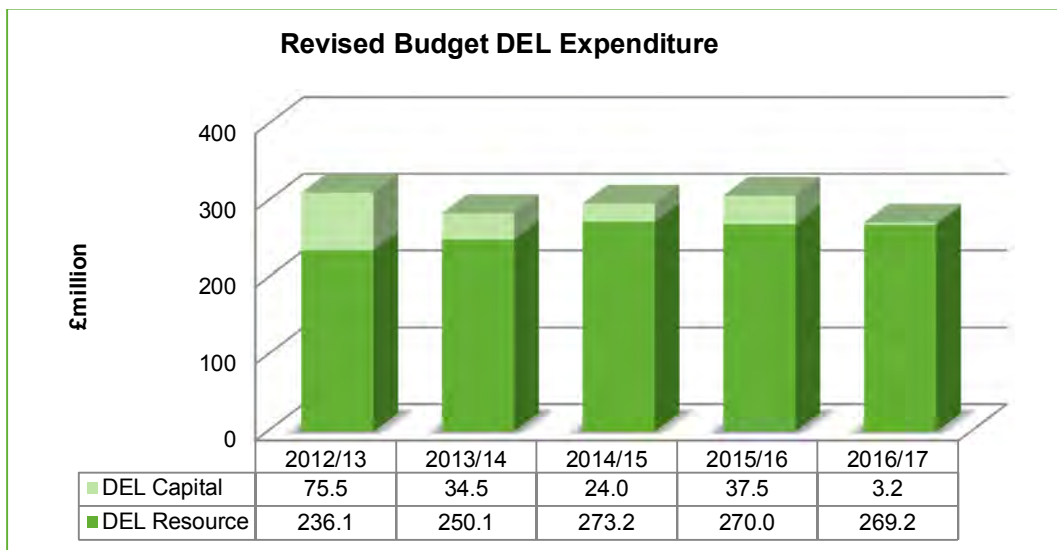
Financial Planning

88. Scottish Government cash funding comprises 98% of SPS's total income and funding, which is drawn down from the Scottish Consolidated Fund to meet cash requirements in year.
89. The SPS Framework document is based on the Direction of Scottish Ministers and was constructed with the Scottish Minister of Justice. SPS operated in 2016/17 within the final year of the 2014-2017 Corporate Plan. The 3 year Corporate Plan is supported by the 2016/17 Annual Delivery Plan, which includes high level budget information.
90. For resource expenditure, as previously stated detailed annual target budgeting takes

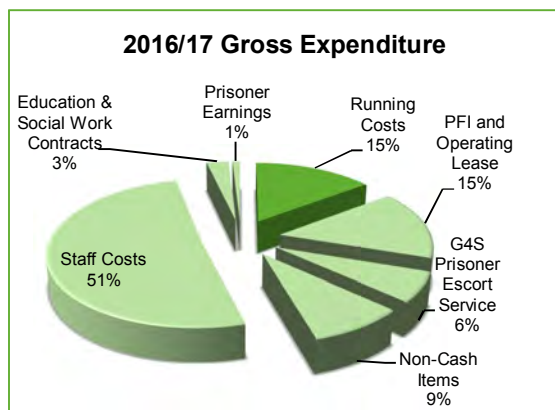
place centrally, followed by detailed budgets being set at local establishment level. Local budgets are supported by cost driver analysis on staff costs, which is the most significant cost within SPS. As shown by the table at the bottom of the page, SPS's resource allocation from the Scottish Government has not varied significantly in the past 3 years, signifying a stable funding environment.

91. For capital expenditure, SPS has a 3 year Infrastructure Investment Plan, as agreed with the Scottish Government. This Plan highlights 3 major capital projects due to start construction from January 2018, with estimated capital investment as follows:

- National Women's Facility - £45 million;
- HMP Glasgow - £170 million; and
- HMP Highland - £66 million.



92. We also acknowledge that 85% of SPS's annual expenditure is largely committed with limited room for fluctuation in the medium and long term, as demonstrated in pale green segments by the chart below.



93. With only 15% of SPS's expenditure being in relation to variable running costs, SPS's ability to make significant efficiency savings is limited without significant alterations to the service delivery model.

'Prison Officer Professionalisation Programme (POPP)

94. SPS's vision 'Helping to build a safer Scotland – Unlocking Potential – Transforming Lives' requires a highly skilled, professional and qualified workforce to unlock potential and transform lives. SPS published 'The Value Proposition' in December 2016, which highlights the need for SPS to become a 'Citizen Recovery' service, which prisoner officers are the main driving force. SPS's new 2017-2020 corporate plan has been built around this outcome focused vision.

95. In order to achieve this vision, SPS aim to change the operational model within prison walls, by expanding the role expectations of the Prisoner Officers and their First Line Managers. SPS are therefore re-designing the training and qualifications provided to the prison officer, to match the stretched role expectations.

96. POPP will be led by the Corporate Change Director, who has established a POPP Programme Board to carry out the 3 stage planning and scoping process, with delivery implementation forecast for May 2019. The 3 stages planning process and proposed deadlines are as follows:

- Initiation – June 2017;
- Definition, Design and Development – January 2018; and
- Negotiation and agreement – April 2018.

97. The Chief Executive of SPS has also initiated a POPP Oversight Board who will provide additional assurances over the programme. The financial modelling aspects of the new operational model will require significant financial investment. The financial model will be built on efficiency savings.

98. At the time of writing this report, SPS are within stage 1 of the planning process; however considerable work has been carried out to scope the professionalisation requirements of the prison officer, and new career development pathways. The successful implementation of POPP cannot yet be determined at this stage, until full planning and scoping is complete.

99. We will continue to review and monitor the progress of POPP, as part of the 2017/18 audit.

5

Governance & transparency

Governance & transparency

100. Governance and transparency is concerned with the adequacy of governance, leadership and decision making, and transparent reporting of financial and performance information. SPS is responsible for ensuring the proper conduct of its affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements.

Overall conclusion

SPS has appropriate governance arrangements in place.

101. Our wider scope risk assessment acknowledged the independent governance review that was performed by Polley Solutions Limited in 2015/16. From the review, all 24 recommendations have been successfully implemented by SPS; therefore we deemed appropriate a higher level review of governance and transparency arrangements. Our audit work included reviewing corporate governance arrangements as they relate to the corporate governance framework in place, the information provided to the Board and committees and the risk management arrangements in place.

SPS Governance Structure

102. The Chief Executive is SPS Accountable Officer, and is responsible for all matters delegated by the Director General for Learning and Justice, as set out in the SPS Framework Document.

103. The Chief Executive is a member of the Advisory Board, which is supported and advised by Executive Management Group and the Risk Management and Audit Committee (RMAC). The Advisory Board and RMAC are both chaired by a non-executive director.



104. SPS operates a 3 directorate model underneath the Chief Executive Office, which includes Operation, Strategy and Innovation and Corporate Services. The transformational focus of the new 2017-2020 Corporate Plan has resulted in on-going department and director movement within the organisation structure of SPS. SPS should ensure significant change is appropriately communicated and made fully transparent to SPS staff. **See appendix 1, action point 7.**

Risk Management

105. In 2016/17, SPS have continued to build and improve the Risk Management Framework. SPS has adopted a framework to focus the alignment of the transformational vision, mission and values of SPS, whilst supporting the wider Strategy for Justice in Scotland.

106. SPS refreshed the formally documented Risk Strategy and Risk Management Guide for staff in December 2016. The strategy sets basic compliance principles and approaches to risk management to be executed by responsible parties.

107. SPS defines risk appetite within the Risk Management Strategy. Risk appetite is split between strategic, operations, financial, legal/compliance and project risk. In December 2016, the board approved the following refresh risk appetite assessment:

- Strategic risk: medium appetite;
- Operational risk: low appetite;
- Financial risk: low appetite;
- Legal/Compliance risk: low appetite; and
- Project risk: medium appetite.

108. The risk management framework and corporate risk register is overseen by the SPS Corporate Change and Risk Manager, who now reports to the Corporate Change Director instead of the Head of AUU.

109. We will revisit risk management as part of the 2017/18 audit, to review the effect of the refreshed Risk Management Strategy and Guidance issued in December 2016.

Internal Audit

- 110.** An effective internal audit service is an important element of SPS's governance arrangements. SPS operates in-house internal audit function (AAU).
- 111.** We reviewed the internal audit function against public sector internal audit standards (PSIAS), and identified improvements that have been made in the planning risk assessment procedures and timetabled audit plans since 2015/16.
- 112.** We do however note that in line with PSIAS, AAU should be subject to an independent review every 5 years. It is acknowledged that AAU experienced staffing shortages in 2015/16; however AAU is now fully staffed and should put appropriate arrangements in place to obtain an independent review of the internal audit function. **See appendix 1, action point 8.**
- 113.** During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and make the most efficient use of SPS's audit resource.

Standards of conduct

- 114.** In our opinion SPS's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and for complying with national and local codes of conduct.
- 115.** As required by Audit Scotland we completed a follow up review of the 'Role of Board' in 2016/17. We did not identify any issues to report as part of this review.

6

Value for Money

Value for money

Introduction

116. Value for money is concerned with the appropriate use of resources and ensuring continuous improvement of services delivered.

Overall conclusions

SPS have demonstrated improvement to the new Performance Management Framework, which we will continue to monitor for reporting effectiveness in 2017-18. SPS continue to demonstrate commitment to continuous improvement and ensuring value for money, however we have identified potential to develop this commitment further.

SPS's 2016-17 Performance

117. SPS's 2016/17 performance is measured against actions presented in the 2016-2017 Annual Delivery Plan (ADP). These actions support the seven Strategic Priorities set out in the 2014-2017 Corporate Plan.

118. The 2016-17 ADP set 40 Corporate Deliverables, and reported successful delivery of 37 of these. Slippage relating to the following 3 deliverables has been incorporated into 2017-18:

- SPS's Carbon Management Strategy was not signed off by the reporting year end;
- Work remains in progress in response to the Scottish Governments commitment to a smoke free Scotland; and
- Work remains in progress in relation to the policy changes for the management of substance misuse in prisons.

119. We are pleased to note that the narrative provided within the performance report of the financial statements is sufficient to support scrutiny and challenge.

2017-2020 Corporate Plan

120. 2016/17 marked the final year of operation under the 3 year 2014-2017 Corporate Plan.

121. At the time of writing this report, SPS were in the final stages of publishing the new 2017-2020 Corporate Plan, which strives for continuing vision of:

'Helping to Build a Safer Scotland – Unlocking Potential – Transforming Lives'

122. In December 2016, SPS published the Value Proposition, which takes into account SPS's roles in the Strategy for Justice in Scotland, and details the next steps of implementing SPS's vision. The 2017-2020 Corporate Plan is therefore a continuation of SPS's vision, which takes an outcome focused approach to improvement and development.

123. SPS identify 4 strategic outcomes which express organisational priority, with a corresponding strategic outcome as follows:

- **Professionalism** – *Unlocking potential: we will have the right people, with the right skills, in the right place, at the right time*
- **Partnership** – *Unlocking Potential: our collaboration with partners results in enhanced services provision and between personal outcomes for those citizens in and leaving our care*
- **Purpose** – *Transforming Lives: Our communities are safer because those citizens in our care are supported to build on their assets and return to their communities as productive citizens*
- **Governance** – *Our Services are efficient, effective and provide value for money*

- 124.** 'Success Indicators' are set against all 4 outcomes, in order for SPS to now measure what success will look like. SPS's directorates support delivery by setting essential improvement actions against the success indicators.
- 125.** At the time of writing this report, SPS had not completed a final collation of directorate improvement actions; therefore it was not possible to evaluate how SMART the improvement actions will be. However, SPS's improvement focused approach, demonstrates SPS's commitment to continuous improvement and value for public money. As part of our 2017-18 audit, we will review the robustness of the new performance management framework.

Performance Management Framework

- 126.** We reported within our Interim Audit Report presented to the RMAC on 10 March 2017, that the performance management framework to support the delivery of the 2016-17 Corporate Plan was not robust or effective.
- 127.** We reported that the complexity of the performance framework, in measuring and reporting against 600+ detailed deliverables, resulted in difficulty reliably measuring and reporting the overall performance of SPS.
- 128.** We stated we would take a forward looking approach and evaluate SPS's new performance management framework to support the new 2017-2020 Corporate Plan.
- 129.** SPS has reduced the complexity of the new 2017-2020 Performance Framework which is demonstrated at appendix 5, through the segregation of core improvement actions, and business as usual actions. The improvement actions are set across SPS's Directorates only, with establishment actions filtering into those of the Operations Directorate.
- 130.** This appears to reduce the complexity of the reporting and monitoring arrangements, and aims to report on fewer focused improvement actions.

- 131.** A reporting timetable has been set for 2017-18, with progress against the improvement actions being reported quarterly to the RMAC, EMG and Advisory Board. The first performance report under the new framework is scheduled for July 2017.
- 132.** However, SPS's 2017-2020 Performance Framework is not formally documented. There is therefore a risk that SPS employees may be unclear on their role within the framework. It is therefore recommended that SPS formally document their new 2017-2020 Performance Management Framework. [See appendix 1, action point 9.](#)
- 133.** We reported within our Interim Audit Report that Scottish Government KPI's, which are reported within the SPS performance report, do not directly link to the strategic priorities of SPS's Corporate Plan. We understand that the KPI's reported have been historically agreed with the Scottish Government; however these have not been revised in several years.
- 134.** The KPI's remain unlinked to the new strategic priorities of SPS defined within the 2017-2020 Corporate Plan. We recommend SPS conducts a review alongside the Scottish Government; to refresh the KPI's in order to ensure they remain meaningful and appropriate. [See appendix 1, action point 10.](#)

Demonstrating Continuous Improvement and Evaluation Good Practise

- 135.** SPS continues to demonstrate commitment to continuous improvement through the new outcome improvement focused strategy and performance framework. From our continuous improvement review, we were pleased to identify a promoted improvement culture within SPS.
- 136.** SPS's commitment to planning and investing in the new operational delivery model POPP, demonstrates SPS is engaged with internal and external environment in which they operate. POPP demonstrates commitment to transformational change, which is a key component of the SPS Corporate Change Portfolio, and is overseen by the Change Portfolio Board.
- 137.** However, we identified that there are currently no operational benchmarking/comparative arrangements between the 13 public and 2 private establishments. We identified limited actions in place to encourage sharing of good operational practise between the public and the private prisons.
- 138.** SPS's public prisons have a monthly governors meeting where good practise has the opportunity to be shared, however the private prisons are not involved in these meetings.
- 139.** Quarterly Business Meetings (QBR's) are held with the Directors of the 2 private prisons, to keep them informed of activity within SPS. Monthly Board Reports are also shared with the Directors of the private prisons. Any potential learning from these QBR's is fed to the SPS Policy Leads within SPS, however this activity is limited.
- 140.** Internal Audit conduct 'key theme' audits at both private prisons to gain more limited assurances over operational control. There is therefore a risk that SPS are not learning from good operational practise to ensure maximum effectiveness across all 15 SPS prisons.
- 141.** We recommend that SPS review information sharing arrangements to ensure operational good practise and lessons learned are appropriately shared between the public and private establishments. [See appendix 1, action point 11.](#)

7

Appendices

Appendix 1: Management action plan

Our action plan details the control weaknesses and opportunities for improvement that we have identified during our audit.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist. The weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist.

Communication of the matters arising from the audit of the annual report and accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Action plan grading structure

To assist SPS in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. The rating structure is summarised as follows:

Grade 5	Very high risk exposure – major concerns requiring Board attention
Grade 4	High risk exposure – material observations requiring senior management attention
Grade 3	Moderate risk exposure – significant observations requiring management attention
Grade 2	Limited risk exposure – minor observations requiring management attention
Grade 1	Efficiency / housekeeping point

Action plan point	Issue & Recommendation	Management Comments
1. Fixed Asset Valuation Control	<p>Observation Transposition errors occurred when processing the re-valuations within the Fixed Asset System in relation to HMP Addiewell and HMP Kilmarnock. This resulted in the closing value of assets being undervalued by £1.36 million.</p> <p>Recommendation We recommend that SPS implement further preventative controls to mitigate the risk of human error moving forward.</p>	<p>Action owner: Head of Financial Policy & Services</p> <p>Due Date: 31st December 2017</p> <p>As part of the review of Britannia Fixed Asset System (see point 2 below) procedures for review and assurance of significant changes to asset valuations will be implemented.</p>
Rating		
Grade 3		
Paragraph ref		
17		

Action plan point	Issue & Recommendation	Management Comments
2. Fixed Asset System Review	<p>Observation Historically, the Fixed Asset System used by SPS 'Britannia', automatically applies indexation to land and building in line with accounting policies as at 31 March 2017. To stop indexation being applied on top of asset re-valuations, SPS entered re-valuations at 1 March. This resulted in a £3.9 million understated of fixed assets at 31 March 2017.</p> <p>Recommendation We recommend that SPS review the Britannia system along with the system provider, in order to identify a solution for accurate application of re-valuations moving forward.</p>	<p>Action owner: Head of Financial Policy & Services</p> <p>Due Date: 31st March 2018</p> <p>Agreed. The Britannia system will be reviewed to ensure it is fit for purpose going forward.</p>
Rating		
Grade 4		
Paragraph ref		
18		

Action plan point	Issue & Recommendation	Management Comments
3. Review of Asset Useful Lives Accounting Policy	<p>Observation</p> <p>We identified that 68% of fixed assets within the Fixed Asset Register were held at a nil NBV. As part of our controls review, we did not identify any control deficiencies or weaknesses in SPS's asset verification procedures. This indicates the useful lives as per SPS's depreciation accounting policy could be understated.</p> <p>Recommendation</p> <p>We recommend SPS conduct a review of the depreciation accounting policy for reasonableness.</p>	<p>Action owner: Head of Financial Policy & Services</p> <p>Due Date: 31st March 2018</p> <p>Agreed. The overall depreciation policy will be reviewed and any proposed changes suggested will be considered prior to year-end March 2018.</p>
Rating		
Grade 3		
Paragraph ref		
19		

Action plan point	Issue & Recommendation	Management Comments
4. Related Party Transactions	<p>Observation</p> <p>We identified one undisclosed interest, however we identified that the interest was declared and recorded at board meetings in 2016/17. No governance issues or material related party transactions were identified from this interest.</p> <p>Recommendation</p> <p>In order to mitigate the risk of material related party transaction being omitted from disclosure, management should consider implementing a year end control to review the interest declarations within the board minutes.</p>	<p>Action owner: Director of Corporate Services</p> <p>Due Date: In place</p> <p>The risk of material related party transaction being omitted from disclosure is mitigated under existing process; our HR team request each member to disclose any relevant interests yearly, and this is then kept on our register of interest, which is reviewed/updated with each member annually.</p>
Rating		
Grade 2		
Paragraph ref		
52		

Action plan point	Issue & Recommendation	Management Comments
5. PFI Accounting Models	<p>Observation The most recent accounting models date back to 2011, which apply annual inflationary uplifts. We identified that SPS do not review and update the inflation rates used within the accounting models, to reflect periodic movements in RPI inflation rates.</p> <p>Recommendation We recommend that SPS conduct a review to ensure inflation rates used within the accounting models remain appropriate.</p>	<p>Action owner: Head of Financial Policy & Services</p> <p>Due Date: March 2018 onwards</p> <p>Agreed. The model was reviewed in 2011 and RPI inflation has been at a historically low rate subsequently, however current inflationary pressures suggest that an annual review would be prudent.</p>
Rating		
Grade 3		
Paragraph ref		
55-59		

Action plan point	Issue & Recommendation	Management Comments
6. Financial Management	<p>Observation SPS's 13 Finance Managers are directly accountable to the operations directorate of SPS; however the HQ Finance Directorate is accountable to the Chief Executive Office. Limited assurance financial control reviews were identified by internal audit in 2016/17.</p> <p>Recommendation In conjunction with movement in the governance structure in alignment with the new 2017-2020 SPS Corporate Plan, SPS should consider the suitability of finance professionals along with training and development needs. SPS should also consider if the current accountability structure of the Establishment Finance Managers to the Operations Directorate is most effective.</p>	<p>Action owner: Director of Operations / Head of Financial Policy and Services</p> <p>Due Date 31st March 2018</p> <p>A training package and professional development plan for Finance Managers will be developed between Operation Directorate and Corporate finance.</p> <p>The current line management and performance assessment of Finance Managers in prison will be reviewed. Structural options which offer closer technical oversight and professional development will be considered.</p>
Rating		
Grade 3		
Paragraph ref		
75-81		

Action plan point	Issue & Recommendation	Management Comments
7. Governance and Transparency	<p>Observation The new 2017-2020 Corporate Plan brings change to SPS's future operational service model, performance management framework and indicates movement in the governance structure and reporting lines.</p> <p>Recommendation SPS should consider constructing a Corporate Communications Strategy, to ensure all changes and movement in relation to the new 2017-2020 Corporate Plan are transparent and communicated effectively.</p>	<p>Action owner: Head of Corporate Affairs</p> <p>Due Date: 30th November 2017</p> <p>A Corporate Communications Strategy to ensure all changes and movement in relation to the new 2017-20 Corporate Plan will be constructed to maintain transparent and effective communication.</p>
Rating		
Grade 3		
Paragraph ref		
102-104		

Action plan point	Issue & Recommendation	Management Comments
8. Governance and Transparency	<p>Observation In compliance with Public Sector Internal Audit Standards (PSIAS), AAU has not yet had an independent review of arrangements.</p> <p>Recommendation SPS should put appropriate arrangements in place to obtain an independent review of AAU in compliance with PSIAS.</p>	<p>Action owner: Head of Audit and Assurance</p> <p>Due Date: 31st December 2017</p> <p>The Chief Executive is aware of the importance of compliance by the Audit and Assurance Unit (AAU) with PSIAS and is currently awaiting the results of a self-assessment exercise by the AAU examining compliance with PSIAS. Preliminary indications are that there are a number of areas for development for AAU but there are no areas of fundamental non-compliance with PSIAS. Once the AAU self-assessment has generated an action plan a formal PSIAS peer review will be undertaken to satisfy this requirement</p>
Rating		
Grade 3		
Paragraph ref		
110-112		

Action plan point	Issue & Recommendation	Management Comments
9. Value for Money	<p>Observation SPS have reduced the complexity of the new 2017-2020 Corporate Framework, through the segregation of fewer core improvement actions, and business as usual actions. However, SPS's 2017-2020 Performance Framework is not formally documented.</p> <p>Recommendation It is recommended that SPS formally document their new 2017-2020 Performance Management Framework.</p>	<p>Action owner: Director of Strategy and Innovation</p> <p>Due Date: 30th September 2018</p> <p>The Performance Management Framework will be further developed during the course of 2017/18 and formally consolidated into a single Performance Management Framework document which will be issued via a Governors and Managers Action Note for information to all staff. Explicit linkages will be made with the KPI Framework (See Recommendation 11 below).</p>
Rating		
Grade 3		
Paragraph ref		
126-132		

Action plan point	Issue & Recommendation	Management Comments
10. Value for Money	<p>Observation Scottish Government KPI's reported in the annual performance report do not feed into the strategic priorities of SPS's Corporate Plan. The KPI's are agreed and required by the Scottish Government, but have not been revised in several years. These KPI's remain unlinked to the success outcome/indicators within the new 2017-2020 Corporate Plan.</p> <p>Recommendation SPS should conduct an exercise in conjunction with the Scottish Government to refresh the KPI trackers reported, and link appropriately to the 2017-2020 Corporate Plan Success Outcomes.</p>	<p>Action owner: Director of Strategy and Innovation</p> <p>Due Date: 31st March 2018</p> <p>A process will be commenced in 2017/18 to review and refresh the KPIs in order to ensure that they are aligned with the Corporate Plan. The refreshed KPIs will require to take account of the major initiatives and change programmes set out in the Corporate Plan. It is therefore anticipated that this piece of work may extend across the life of the Corporate Plan.</p>
Rating		
Grade 3		
Paragraph ref		
133-134		

Action plan point	Issue & Recommendation	Management Comments
<p>11. Value for Money</p>	<p>Observation There are currently no benchmarking/comparative arrangements between the 13 public and the 2 private prisons. There are currently limited actions in place to encourage sharing of good operational practise between the public and the private prisons. The public prisons have a monthly governors meeting where they can share good practise, however the private prisons are no involved in this. Quarterly Business Meetings are held with the Directors of the 2 private prisons to keep them informed of activity within SPS. Monthly Board Reports are also shared with the Directors of the private prisons. Any potential learning from these QBR meetings is fed to the Policy Leads within SPS. Internal Audit conduct 'key theme' audits at both private prisons to gain limited assurances over operational control.</p> <p>Recommendation SPS should review its information sharing arrangements to ensure operational good practise/lessons learned are discussed between public and private establishments.</p>	<p>Action owner: Director of Operations</p> <p>Due Date: 31st March 2018</p> <p>The current Operational Directorate led Quarterly Business Review process will be reviewed, options to consider thematic and best practice issue sharing, across public and private prisons will be considered as part of this review.</p>
<p>Rating</p>		
<p>Grade 3</p>		
<p>Paragraph ref</p>		
<p>135-141</p>		

Appendix 2: Adjusted Errors

Adjusted Errors	SoCNE		Balance Sheet	
	DR £'000	CR £'000	DR £'000	CR £'000
Depreciation and Impairment Charge		2,039		
PPE – Accumulated Depreciation			2,039	
Being the reduction of the depreciation and impairment charge within the SoCNE and reduction in PPE accumulated depreciation (increase NBV of assets)				
PPE – Accumulated Depreciation				2,039
General Fund			2,039	
Being the revaluation adjustment to remove accumulated depreciation and transfer to the general fund				
PPE – Accumulated Depreciation				1,946
General Fund			170	
Revaluation Reserve			1,776	
Being the revaluation adjustment to remove accumulated depreciation and transfer to the revaluation and general fund				

Appendix 3: Misclassifications and Disclosure Changes

Adjustment type	Value of change £'000	Proposed new balance £'000	Account balance	Impact on the financial statements
Disclosure	23	16	Pension CETV Real Increase for M. Stoney	Error in CETV real increase calculation for M. Stoney. The increase has been adjusted from £-7k to £16k in the Remuneration and Staff report.

Appendix 4: Respective responsibilities of the Board and the Auditor

Responsibility for the preparation of the annual report and accounts

It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare financial statements in accordance with the Government Financial Reporting Manual (FReM) issued by HM Treasury and the accounts directors issued by Scottish Ministers under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000.

In preparing the annual report and accounts, the Board and the Chief Executive, as Accountable Officer are required to:

- apply on a consistent basis the accounting policies and standards approved by Scottish Ministers;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Financial Reporting Manual have not been followed where the effect of the departure is material;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Board will continue to operate; and
- ensure the regularity of expenditure and income.

Board members are also responsible for

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual report and accounts and give an opinion on whether they:

- give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of the board's affairs as at 31 March 2017 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016-17 FReM ;
- have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers;
- in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the 2016-17 FReM and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the 2016-17 FReM and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the FReM directions made thereunder by the Scottish Ministers.

We are also required to report by exception if, in our opinion

- adequate accounting records have not been kept; or
- the annual accounts and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

Wider scope of audit

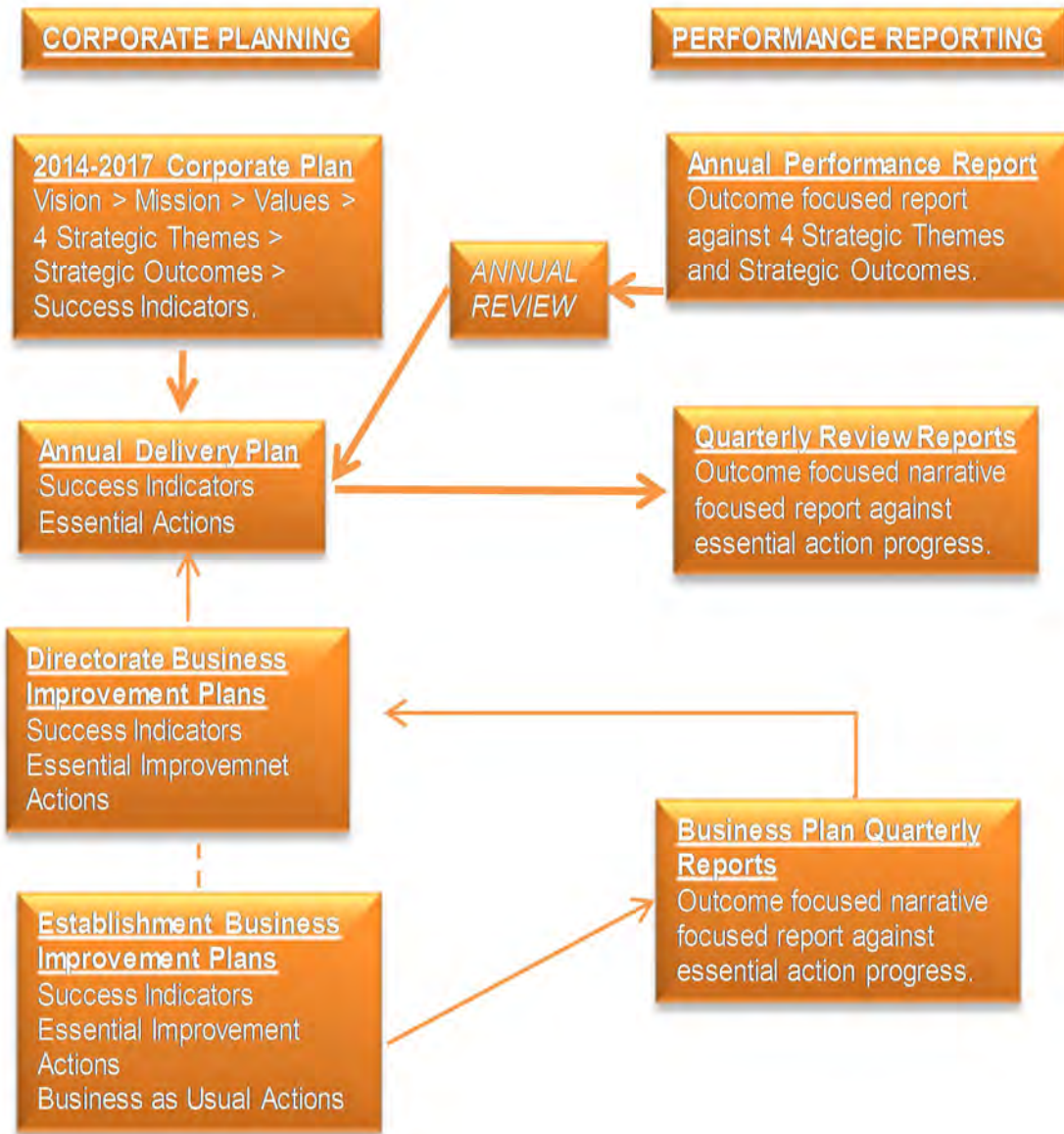
The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the annual accounts, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. As part of our annual audit we will consider and report against these four dimensions: financial management; financial sustainability; governance and transparency; and value for money.

Independence

We are required by International Standards on Auditing to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that we have complied with the Financial Reporting Council's Ethical Standard. In our professional judgement the audit process has been independent and our objectivity has not been compromised. In particular, there have been no relationships between Scott-Moncrieff and the Board or senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 5: 2017-2020 SPS Performance Management Framework





Scott-Moncrieff
business advisers and accountants

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