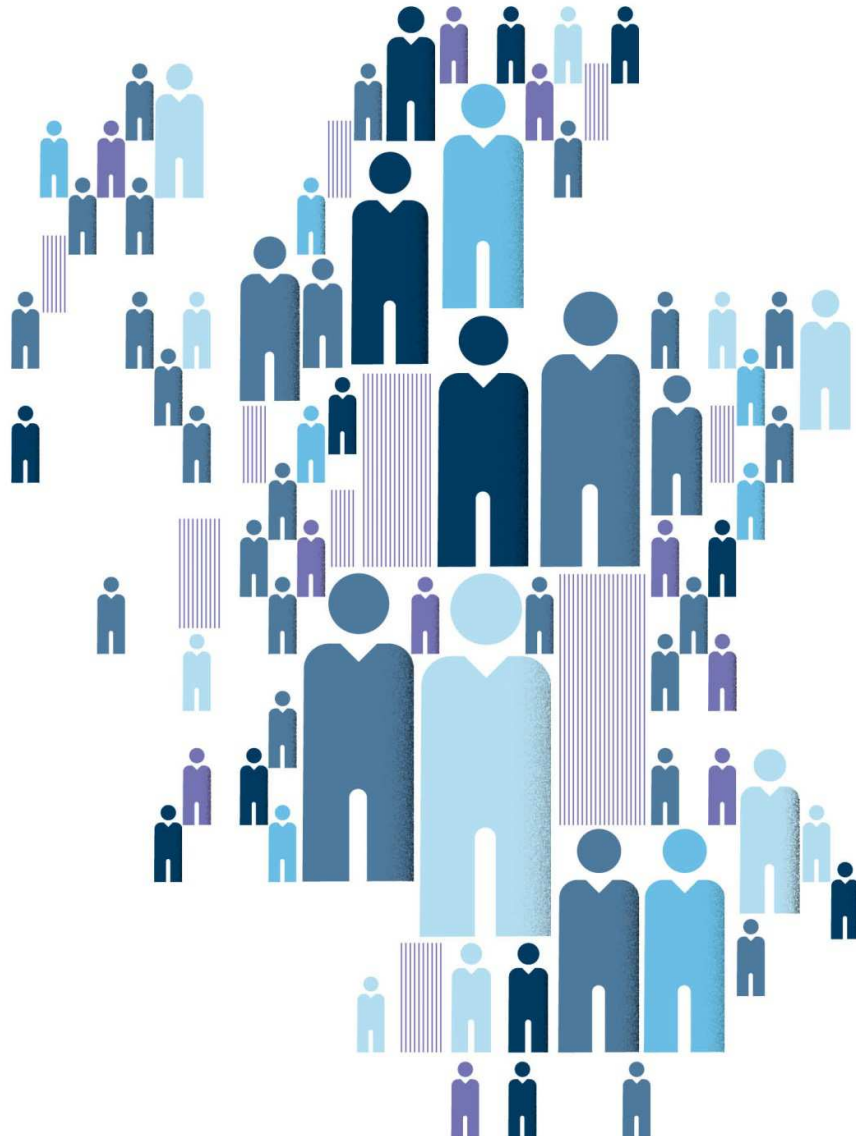


# Scottish Prison Service

2018/19 Annual Audit Report to the  
Accountable Officer and the  
Auditor General for Scotland

June 2019





# Table of contents

---

1. Key messages	<b>1</b>
2. Introduction	<b>3</b>
3. Annual report and accounts	<b>6</b>
4. Financial sustainability	<b>14</b>
5. Financial management	<b>18</b>
6. Governance and transparency	<b>23</b>
7. Value for money	<b>27</b>
8. Looking forward	<b>32</b>
9. Appendices	<b>36</b>



# 1. Key messages

---



## Annual accounts audit

The Scottish Prison Service reported an underspend of £6.368million against its Spring Business Revision budget (£358.192million total expenditure against budget of £364.560million). This underspend is comprised of:

- £7.258million underspend against the Department Expenditure Limit (DEL) expenditure;
- £0.796million overspend of Outside DEL Expenditure; and
- £0.094million underspent against Annually Management Expenditure (AME).

The annual report and accounts were approved by SPS on 26 June 2019. We report within our independent auditor's report unqualified opinions on the annual accounts, regularity and on other prescribed matters.

The annual accounts and supporting schedules were of a high standard. Our thanks go to staff at SPS for their assistance with our work.

## Wider scope audit

### Financial sustainability

The 2019/20 Scottish Government budget announcement resulted in a flat cash settlement outcome for SPS which translated to a c£20m funding gap based on current spending levels. SPS is currently operating with historically high levels of prisoner numbers putting significant financial and operational pressure on the organisation.

SPS has indicated that achieving financial balance in 2019/20 will not be possible within current funding. SPS' medium term financial strategy remains a work in progress.

### Financial management

SPS operated within budget, reporting an underspend of £6.368million in year.

Further enhancements could be made to the budget setting and monitoring processes, although budget reporting is considered reasonable.

We found the systems of internal control to be adequate with only minor areas for improvement identified.

### Governance and transparency

SPS complies with all key governance Requirements expected of a central government agency. Due to unanticipated challenges faced by the SPS, the Corporate Plan has been refreshed a year earlier than planned.

The 2019/20 Annual Delivery Plan setting out the core body of work for the year remains a work in progress.

### Value for money

The refreshed Corporate Plan 2019-22 looks to take forward critical corporate development projects to achieve longer term reform.

SPS' performance on nine of its 15 KPIs has deteriorated in year. During 2018/19, average working days lost across the service due to sickness stood at 16.3 per person. A new suite of KPIs aligned with the Strategic Themes of the Corporate Plan 2019-22 will be finalised in 2019/20.

Since 2014/15 SPS has paid over £16.3million to staff in driving forward organisational reform. In the absence of attached success criteria, value for money conclusions cannot be drawn.

## Conclusion

This report concludes our audit for 2018/19. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.



# 2. Introduction

---

**This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of the Scottish Prison Service for 2018/19.**

**We carry out our audit in accordance with Audit Scotland’s Code of Audit Practice (May 2016). This report also fulfils the requirements of International Standards on Auditing (UK) 260: Communication with those charged with governance.**

**The Accountable Officer and the Scottish Prison Service Advisory Board have designated the Risk Monitoring and Audit Committee as “those charged with governance” for the purposes of audit communication.**

---



## Introduction

1. This report summarises the findings from our 2018/19 audit of the Scottish Prison Service (“SPS”).
2. We outlined the scope of our audit in our External Audit Plan, which we presented to the Risk Monitoring and Audit Committee (RMAC) at the outset of our audit. The core elements of our work include:
  - an audit of the 2018/19 annual report and accounts and related matters;
  - consideration of the wider dimensions of public audit work, as set out in Exhibit 1;
  - monitoring SPS’ participation in the National Fraud Initiative (NFI); and
  - any other work requested by Audit Scotland.

### Exhibit 1: Audit dimensions within the Code of Audit Practice



3. SPS is responsible for preparing an annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified from our audit 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 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.
4. The 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 on appropriate actions. We give each recommendation a grading to help SPS assess their significance and prioritise the actions required.
5. We discussed and agreed the content of this report with the Chief Executive and Head of Financial Policy and Services. We would like to thank all management and staff for their co-operation and assistance during our audit.

### Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We confirm that we complied with the Financial Reporting Council’s (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.
8. We set out in Appendix 1 our assessment and confirmation of independence.



## Adding value through the audit

9. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to SPS 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 SPS promote improved standards of governance, better management and decision making and more effective use of resources.

## Feedback

10. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey:  
[www.surveymonkey.co.uk/r/S2SPZBX](http://www.surveymonkey.co.uk/r/S2SPZBX)
11. While this report is addressed to SPS and the Auditor General for Scotland, it will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)



# 3. Annual report and accounts

---

**SPS' annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.**

**In this section we summarise the findings from our audit of the 2018/19 annual report and accounts.**

---





# Annual report and accounts

## An unqualified audit opinions on the annual report and accounts

The annual report and accounts for the year ended 31 March 2019 were approved by SPS on 26 June 2019. We reported unqualified opinions within our independent auditor's report. We did not identify any significant adjustments to the unaudited annual report and accounts.

SPS has good administrative processes in place to prepare the annual report and accounts and the required supporting working papers.

### Overall conclusion

#### An unqualified audit opinion on the annual report and accounts

12. The annual report and accounts for the year ended 31 March 2019 were considered by the RMAC on 26 June 2019 and approved on the same date by SPS. We reported within our independent auditor's report:
  - An unqualified opinion on the financial statements;
  - An unqualified opinion on regularity; and
  - An unqualified opinion on other prescribed matters.
13. We are also satisfied that there are no matters which we are required to report by exception.

#### Good administrative processes were in place

14. We received the unaudited annual report and accounts and supporting papers of a high standard. Our thanks go to staff at SPS for their assistance with our work.
15. The annual report and accounts have been submitted to the Scottish Government and Auditor General for Scotland by the 31 October 2019 deadline.

### Our assessment of risks of material misstatement

16. The assessed risks of material misstatement described in Exhibit 2 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 audit procedures relating to these matters were designed 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. Our opinion on the annual report and accounts is not modified with respect to any of the risks described in Exhibit 2.



## Exhibit 2 – Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

### 1. Management override

In any organisation, there exists a risk that management has 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 financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

*Excerpt from the 2018/19 External Audit Plan*

17. We have not identified any indication of management override in the year. We did however identify one journal which had not been subject to secondary review. We raised a recommendation in relation to this matter in our 2017/18 Interim Audit Report. Details are included within Appendix 2 (Follow up of prior year recommendations), point 5.
18. We have reviewed SPS' accounting records and obtained evidence to ensure that transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

### 2. Revenue recognition

Under ISA (UK) 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 SPS could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

As part of our planning process we considered the nature of the revenue streams of the SPS against the risk factors set out in ISA (UK) 240. We identified that for Scottish Government grant funding the risk of revenue recognition can be rebutted due to a lack of incentive and opportunity to manipulate revenue of this nature. We concluded that the risk of fraud in relation to revenue recognition is present in all non-government revenue streams. We evaluated each type of revenue transaction and documented our conclusions.

*Excerpt from the 2018/19 External Audit Plan*

19. We have gained reasonable assurance on the completeness and occurrence of non-government revenue streams and we are satisfied that income is fairly stated in the financial statements. To inform our conclusion we evaluated SPS' key revenue streams and reviewed the controls in place over revenue accounting. We also carried out testing to confirm that the revenue recognition policy is appropriate and that it was applied consistently throughout the year.



### 3. Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 “The Audit of Public Sector Financial Statements” which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

*Excerpt from the 2018/19 External Audit Plan*

20. We have evaluated each type of expenditure transaction and documented our conclusions. We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the annual accounts. To inform our conclusion we carried out testing to confirm that SPS’ policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

### 4. Estates valuation

As at March 2018, the SPS held property, plant and equipment with a carrying value of £1,142million. The scale and age of the current estate combined with revisions to the on-going capital investment programme create complexities and potential risks to the valuation of the assets as recorded within the annual accounts.

Given the age of the HMP Barlinnie and the significance of this prison to the management of the overall prisoner population, significant maintenance is required to keep this prison operational. As a result, there is a risk that the valuation of this site could be incorrectly recorded within the annual accounts.

This establishment alone held a carrying value of £48million as at March 2018, therefore a misstatement of its valuation has the potential to result in a material misstatement in the annual accounts.

*Excerpt from the 2018/19 External Audit Plan*

21. SPS revalues land, dwellings and other buildings at five yearly intervals. In the intervening years, both specialised and non-specialised assets are valued on a rolling programme. A full valuation was undertaken two years ago in 2016/17. In 2018/19 the District Valuer revalued approximately 25% of land, dwellings and buildings. The revaluation included HMP Castle Huntly, HMP & YOI Cornton Vale, HMP Dumfries, HMP Perth and HMYOI Polmont. We conducted testing on the re-valuations and gained reasonable assurance over the accuracy of the estates valuation and that assets were accounted for appropriately.
22. SPS applied indexation to land, dwellings and other buildings which were not revalued during in the year to ensure the valuation of these assets continue to reflect their fair value. We performed testing to ensure indexation had been correctly calculated and accounted for within the annual accounts.
23. In 2018/19 we have identified that approximately 76% of non-current assets within the Fixed Asset Register were held at a nil closing value. In 2016/17 and 2017/18 we also identified a significant proportion of non-current assets were held at nil closing value (approximately 65% in both years). As part of our controls review, we did not identify any control deficiencies or weaknesses in SPS’ asset verification procedures. This finding indicates the useful lives of assets applied by SPS’ depreciation accounting policy may be understated.
24. In 2016/17 and 2017/18 we recommended that SPS conduct a review of the depreciation accounting policy for reasonableness as noted in Appendix 2 (see Follow-up of prior year recommendations), point 1. Due to the volume of assets held at nil carrying value, a



longer term exercise is being undertaken to confirm their status and the revised elements of the policy will be derived from this exercise. We will continue to monitor SPS' progress with this exercise.

25. We reviewed Advisory Board minutes and conducted a media review to ensure that there was no evidence of any significant events that would affect the valuations obtained.
26. SPS undertook an impairment review at the end of 2018/19 in order to identify any impairment indicators. This review included discussions with the Estates team regarding their awareness of evidence of obsolescence or physical damage. The Estates team is responsible for prison maintenance programmes and are notified by the prison Governors of unexpected decline in the condition of prisons. SPS recognised two impairments in 2018/19 in relation to HMP Greenock and HMP Cornton Vale. SPS recognised a net impairment loss of £0.877million charged to the Statement of Comprehensive Net Expenditure.
27. We will continue to monitor SPS' progress in terms of the capital investment programme. In May 2019, tenders to build the Women's National Facility were received and are being evaluated. It is anticipated that the new facility will open in 2021. SPS' capital investment strategy is discussed in further detail in section 4: Financial Sustainability.

## Our application of materiality

28. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the financial statements.
29. Our initial assessment of materiality for the financial statements was £6.345million. On receipt of the 2018/19 draft financial statements, we reassessed materiality and maintained the £6.345million threshold. We consider that our updated assessment has remained appropriate throughout our audit.
30. Our assessment of materiality is set with reference to SPS' expenditure. We consider this to be the principal consideration for the users of the financial statements when assessing the financial performance.

### Performance materiality

31. Performance materiality is the amount set by the auditor for each financial statement area, to reduce to an appropriately low level the probability that collectively any uncorrected and undetected misstatements are less than materiality for the financial statements as a whole.
32. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we are

performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

	Area risk assessment		
	High	Medium	Low
Performance materiality	2.855	3.490	4.283

33. We agreed with the RMAC that we would report on all material corrected misstatements, uncorrected misstatements with a value in excess of £0.127million, as well as other misstatements below that threshold which, in our view, warranted reporting on qualitative grounds.

## Audit differences

34. We are pleased to report that there were no material adjustments or unadjusted differences to the unaudited annual accounts.
35. Our audit work identified the following disclosure adjustments, which have been reflected in the final set of accounts:
  - £0.538million overstatement of buildings depreciation revaluation and corresponding understatement of dwellings depreciation (as disclosed in note 4 to the accounts – property, plant and equipment); and
  - £35.916million understatement of - minimum lease payments due later than one year and not later than five years (as disclosed within note 14)



– commitments under PFI contracts and other service concessionary arrangements ).

36. We identified some further minor disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts.

## An overview of the scope of our audit

37. The scope of our audit was detailed in our External Audit Plan, which was presented to the RMAC in March 2019. The Plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to SPS. 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.
38. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.
39. Our standard audit approach is based on performing a review of the key financial systems, substantive tests and detailed analytical procedures. 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, which is explained earlier in this report.

## Other matters identified during our audit

40. During the course of our audit we noted the following:

### Other information in the annual report and accounts

41. “Other information” in the annual report and accounts comprises any information other than the financial statements and our independent auditor’s report. We do not express any form of assurance conclusion on the “other information” except as specifically stated below.

#### The performance report

42. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It comprises an overview of the organisation and a detailed summary of how the entity measures performance.

43. We have concluded that the performance report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.

#### The accountability report

44. The accountability report is required in order to meet key parliamentary accountability requirements and comprises three sections: a corporate governance report (including the governance statement), a remuneration and staff report; and a parliamentary accountability report.

#### Governance statement

45. We reviewed the draft governance statement as part of our audit work and identified matters for potential inclusion. Management has subsequently revised the governance statement and we consider the coverage of the governance statement to be in line with our expectations.
46. We have concluded that the governance statement has been prepared in accordance directions from Scottish Ministers and is consistent with the financial statements.

#### Remuneration and staff report

47. We have concluded that the audited part of the remuneration and staff report has been prepared in accordance directions from Scottish Ministers and is consistent with the financial statements.

### Regularity

48. 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.

### Ex gratia payments

49. Ex gratia payments were introduced with the Fresh Start agreement. Ex gratia payments are made in exchange for operational prison employees working over their contracted weekly hours in order to maintain service (in 1987). The Fresh Start agreement changed the contractual terms and conditions of employment for operational prison staff. As a result overtime is only payable to non-operational employees for working in addition to contractual hours.
50. In 2017/18 ex gratia payments totalled £2.574million and £2.149million in 2016/17. In 2018/19 ex gratia payments made to operational staff increased to



£4.247million, an increase of 65% (£1.673million) on prior year. This increase correlates to the increase in SPS' sickness absence rates during 2018/19. For further details on sickness absence see section 7: value for money.

51. We tested a sample of ex gratia claims to ensure these payments were being made appropriately. Ex-gratia payments are subject to a two stage review and approval process (line manager review and approval followed by senior line manager review). We found that the sample tested was appropriately approved.
52. However, for five out of the ten claims tested we were unable to reconcile the amount claimed back to the hours recorded in source documentation. We recommend management do further work in this area to ensure ex gratia payments made can be reconciled to source documents.
53. We also reviewed of 2018/19 ex gratia payment statistics, we noted that there is a risk of error and/or duplicate payments being made despite the checks being undertaken by line managers and senior line managers. For example late approvals of ex gratia claims are not subject to senior line management checks.

#### Action plan point 1

#### Commitment payments

54. In December 2013, SPS published and launched its organisational review: Unlocking Potential, Transforming Lives. SPS has made three tranches of one-off payments (approved by Scottish Government) since 2014/15 to operational staff for their engagement and continued support of organisational development.
55. £13.906million commitment payments were made to operation staff in in pay range C, D and E:
  - £6.549million in 2014/15 (£2,000 to each relevant employee);
  - £3.696million in 2016/17 (£1,000 to each relevant employee); and
  - £3.661million in 2017/18 (£1,000 to each relevant employee).
56. An equal pay claim was raised in 2017/18 by non-operational staff in relation to the above payments. SPS settled these claims (£2.449million). A special payment was disclosed appropriately within the 2017/18 annual report and accounts.
57. A foundational component of the organisation review was the Prison Officer Professionalisation

Programme (POPP). POPP was developed by SPS and the Prison Officers Association (Scotland) (POA(S)). POA(S) recommended acceptance of the terms of the professionalisation proposal to its membership for an affirmative vote by way of national ballot. However in October 2018, POA(s) membership voted against the proposal.

58. The final version of the annual report and accounts has been updated to disclose these ex gratia payments within the Performance Summary and Parliamentary Accountability sections of the 2018/19 annual report and accounts.

#### IT control environment

59. As part of our interim audit we gained an overview of SPS' IT control environment. This review identified some weakness in the strength of password controls, GDPR compliance arrangements, and data back-up arrangements and we have made recommendations to strengthen these controls.

#### Action plan point 2

#### 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 £350million of gross expenditure.
62. SPS is still required to submit an audited return to the Scottish Government. We have received the unaudited pack and expect to meet the Scottish Government submission deadline.

#### Qualitative aspects of accounting practices and financial reporting

63. During the course of our audit, we consider 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 annual accounts. The following observations have been made:



Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the annual accounts, are in line with application and considered 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.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts. Significant estimates have been made in relation to the valuation of non-current assets, depreciation and provisions. These estimates have been informed by advice from qualified, independent experts. We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the expert is appropriate.
The appropriateness of the going concern assumption.	We have reviewed the detailed financial forecasts for 2019/20. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that SPS will continue to operate for at least 12 months from the signing date.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts.
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the annual report or material inconsistencies with the financial statements.	The annual report contains no material misstatements or inconsistencies with the financial statements.
Any significant annual accounts disclosures to bring to your attention.	There are no significant annual accounts 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.
Disagreement over any accounting treatment or annual accounts disclosure.	While disclosure and presentational adjustments were made during the audit there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.



# 4. Financial sustainability

**Financial sustainability looks forward to the medium and longer term to consider whether SPS is planning effectively to continue to deliver its services or the way in which they should be delivered.**



The 2019/20 Scottish Government budget announcement resulted in a flat cash settlement outcome for SPS which translated to a funding gap of c£20million based on current spending levels.

SPS has limited ability to influence day-to-day spending as a high proportion of expenditure is linked to the operation of the prison estate or to the employment of prison officers. SPS is also currently operating with historically high levels of prisoner numbers, putting further financial and operational pressure on the organisation.

An SPS expenditure review identified that c£6million of savings could be achieved in 2019/20, mainly by reducing planned maintenance spend on the prison estate, leaving a c£14million funding gap with no further savings plans in place to achieve financial sustainability.

SPS has indicated that achieving financial balance in 2019/20 will not be possible within current funding levels.

SPS' medium term financial strategy remains a work in progress.





## Significant audit risk

Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities.

### Financial sustainability: increasing financial pressures

SPS is currently operating beyond capacity in terms of prisoner numbers. The Scottish prison population has risen from 7,200 in April 2018 to 8,025 in February 2019. Management expect that the prisoner population will rise further by the end of the financial year, based on projected forecasts by Scottish Government's Justice Analytical Service. The operating capacity for SPS is 7,669. SPS has introduced emergency contingency measures to further expand the operating capacity of SPS beyond the design capacity to 8,150. This operating model is necessary to ensure the immediate delivery of services, but is not sustainable in the long-term.

SPS is also facing significant pressure on capacity in terms of the categories of prisoner being received within the Scottish Prison system. For example SPS has experienced the following:

- long-term prison sentences reduces 'turnover' within the system;
- older prisoners with higher personal care and healthcare management;
- increasing requirements for segregation and monitoring of prisoners (including management of the female prisoner population, historic sex offenders and violent prisoners).

These capacity issues place SPS under increasing financial pressure now and in the future as capacity demands are expected to rise further.

There are a number of other factors that are also contributing to increased financial pressure on the SPS in 2018/19 and future financial years including flat cash funding settlements which places significant pressures on existing budgets, the ending of the public sector pay cap in 2018, EU withdrawal uncertainty, the future affordability of Public Finance Initiative contracts where costs increase by RPI annually. It is essential for SPS to consider the potential effects of these cost pressures in order to remain financially sustainable.

As a consequence of recent funding settlements, SPS are projecting an operating deficit of approximately £17million for 2019/20. SPS is working through potential savings options to set a balanced budget for 2019/20. There is a risk that SPS may not be able to deliver the level of savings required for 2019/20 and in future years, or at the pace of change required. Due to the current financial landscape of public sector funding, SPS have advised they are concerned for future years.

*Excerpt from the 2018/19 External Audit Plan*

64. By 31 March 2019, the prison population was in excess of 8,150 and as at the middle of June 2019, was approaching 8,200. Current projections suggest that an ongoing population in excess of 8,000 is likely to be a long term feature of the SPS. This historically high prison population level presents a financial challenge to the SPS, but also has important operational implications such as prisoner and prison officer safety and security also become harder to achieve and maintain.
65. The design capacity of the service is 7,915 places, although the operating capacity for SPS is 7,669. With ongoing prisoner levels in excess of 8,000, many of whom have increasingly complex care needs, the increasing length of prison sentences for offenders, and limited spare capacity in public prisons, SPS is currently looking to purchase additional spaces from the private sector (HMP Addiewell and HMP Kilmarnock). A further 288 places could be purchased from these private prisons, although this outcome would carry significant financial implications.
66. During 2018/19, the SPS Executive Management Group (EMG) has been actively considering the risks to the service as a result of the growing prisoner population, and in May 2019, a new red risk (one of three new red risks) was added to the corporate risk



register in respect of population management. This red risk recognised that SPS would reach 'maximum' prison capacity at 8,459 prisoners. With no options available to SPS to limit prisoner numbers, coupled with wider financial pressures, the impact of this risk materialising would be significant.

67. The Scottish Government Draft Budget 2019/20 was published on Wednesday 12 December 2018. An overall flat cash settlement of £393.7million has been awarded to SPS for 2019/20: £312.2million for fiscal resource (baseline cash budget), £34million for non-cash items and £47.5million for capital.
68. A budget review has been undertaken across the service which has identified c£6million of savings which could be achieved in 2019/20, mainly by reducing planned maintenance spend on the prison estate, leaving a c£14million funding gap with no further savings plans in place to achieve financial sustainability.
69. There is a risk that the current funding shortfall is further widened once ongoing pay negotiations are settled and confirmation is provided by the Scottish Government as to how much of the forecast increased employer pension contributions SPS will be required to fund.
70. With no formal plan in place to realistically address the funding gap, the Accountable Officer wrote to the Scottish Government on 28 March 2019 to formally notify them that SPS would be unable to operate within its existing funding allocation for 2019/20. This correspondence sets out four potential options (as identified by SPS) for addressing the funding shortfall.
71. In June 2019, SPS received written confirmation from Scottish Government, reassuring that necessary financial cover will be in place to meet the current identified shortfall on the SPS revenue budget for 2019-20.
72. In May 2019, along with the recognition of a red risk in respect of population management, a red risk was added to the corporate risk register in respect of the unsustainable budget allocation. This risk recognises that SPS may be required to reduced or discontinue service delivery for those in SPS care, leading to increased operational risks, instability and reputational damage.

## Short term financial planning

73. Based on current funding levels from Scottish Government, SPS is forecasting a budget overspend in 2019/20.
74. During 2018/19, staff costs constituted 50.5% of total operating expenditure and Public Finance Initiative (PFI) service charges and prisoner escort service costs consisted a further 17%. Staff related costs are likely to continue to rise in future years following settlement of current pay negotiations and increased employer pension contribution rates, and PFI service costs will continue to rise with inflation. This will further restrict SPS' ability to make necessary efficiency savings without implementing a significant re-design of the current service delivery model. Whilst SPS has sought to identify 3.7% efficiency savings in order to achieve a balanced position, this process has identified only £0.7million of potential savings, well below the £8.5million target savings requirement.

## Longer term financial strategy

75. As part of the new budget process, Scottish Government published an initial five-year Medium Term Financial Strategy (MTFS) in May 2018. As advised by the Chief Executive, work is on-going to update the SPS Draft Medium Term Financial Strategy to the MTFS (covering resource and capital spend), taking into account the current economic and financial climate. We have had sight of a working draft which considers the period 2019-22, aligned to the revised Corporate Plan. However, there is currently no financial planning in place beyond this three year outlook.

## Long term capital investment programme

76. The long term capital investment programme constitutes two primary programmes of work: the Major Infrastructure Work programme which includes replacement and new prison development;



and the planned preventative Maintenance Programme, which is a rolling five year maintenance and replacement programme primarily based on asset condition and risk assessment.

77. The current key components of the Major Infrastructure Work programme for delivery over the next three years are:
- The Woman's National Facility including community custodial units which should be fully rolled out by the end of 2021/22;
  - Headquarters "Work smart" initiative which is anticipated to be delivered during 2020/21;
  - Redevelopment of HMP Glasgow including purchase of land and build; and
  - Redevelopment of HMP Highland including purchase of land and build, albeit the timing of this project and HMP Glasgow is largely dependent on funding being committed by Scottish Government.

## Workforce planning

78. The 2013 SPS Organisational Review included the development of workforce planning activity as a point for action. In December 2015, Audit Scotland conducted a review of workforce planning arrangements in SPS and one of the key recommendations from this review was the development of a detailed annual workforce plan which addressed medium to long term workforce structures. In April 2018 the EMG approved the final Workforce Plan.
79. Due to the unanticipated operational challenges and developments faced by the SPS during 2018/19, including the termination of POPP, increasing prisoner population, escalating sickness absence rates and the resultant refresh of the Corporate Plan one year earlier than planned (see section 6: Governance and Transparency for full details), work has been required, and continues, to refresh the workforce plan accordingly. Effective workforce planning remains a key strategic and operational priority.
80. There is Operations Directorate financial representation on the Workforce Planning Management Group that ensures close alignment of the operations budget and operational recruitment and all SPS recruitment is subject to a vacancy approval form. Further, any new posts (outwith complement or budget) require Chief Executive/EMG approval.



# 5. Financial management

**Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.**



SPS operated within budget during 2018/19, reporting an underspend of £6.368million in year.

Further enhancements could be made to the budget setting and monitoring processes, although budget reporting is considered reasonable.

We found the systems of internal control to be adequate with only minor areas for improvement identified.



## Significant audit risk

Our audit plan identified a significant risk in relation to financial management under our wider scope responsibilities.

### Financial management: financial planning and budget management

Our 2016/17 Wider Scope Audit raised an observation that SPS' 13 Finance Managers are directly accountable to the operations directorate of SPS; however the HQ Finance Directorate is accountable to the Chief Executive Office.

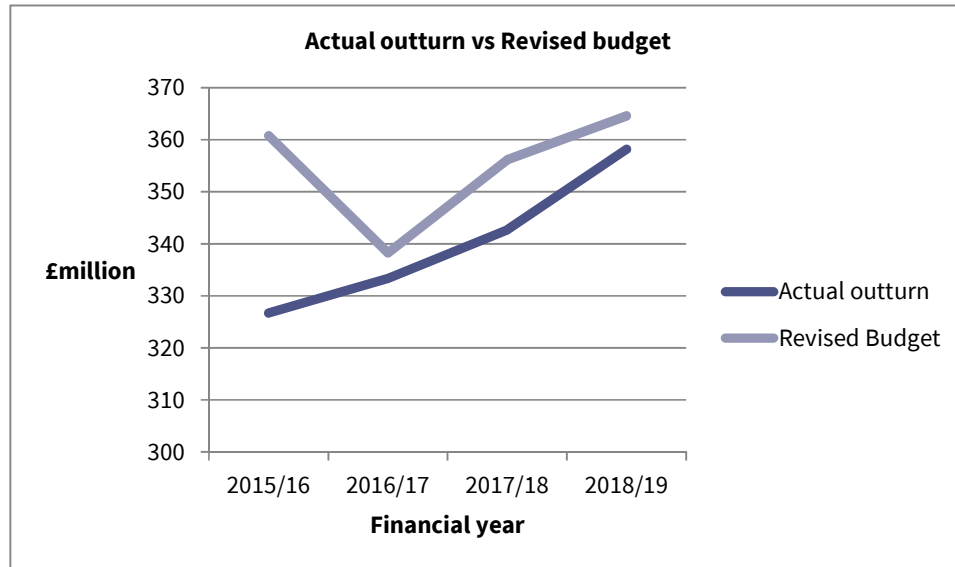
We recommended that in conjunction with movement in the governance structure in alignment with the 2017-2020 SPS Corporate Plan, SPS should consider the capacity and skills of its' finance professionals along with training and development needs. SPS should also consider if the current accountability structure of the Establishment Finance Managers to the Operations Directorate is most effective. In 2017/18 we also assessed these as continuing risks to SPS with limited progress to address these areas of weakness.

Internal Audit has completed two financial health checks during 2018/19. SPS has made improvements to the approach and consistency in financial performance. However, Internal Audit continues to report concerns regarding inconsistent application of low level processes and procedures and therefore there remains a challenge to embed the improvements already made.

SPS is faced with identifying significant efficiency savings to set a balanced budget for 2019/20. It is essential that these efficiency savings are identified and implemented, with effective financial management arrangements to monitor and manage SPS' financial position in 2019/20.

*Excerpt from the 2018/19 External Audit Plan*

81. A SPS review of the Finance Structure is currently underway to consider the issues and recommendations made in our 2017/18 audit and review the options for redefining the current structure, reporting arrangements, capabilities and resources associated with the management of finances at SPS establishments. The Head of Corporate Risk and Change, in conjunction with the Operations Directorate is taking forward this action. Progress is being made and the review is on target to conclude before 31 March 2021.
82. In support of enhancing training and development needs of financial professionals at establishment level, we also recommended that a full review of the Finance Manual was performed to ensure it remained appropriate and reflected current practice. Significant resourcing restrictions within the Finance Team in year have meant that this review is not yet fully complete and a revised target date of March 2020 has been set.
83. During 2018/19, Internal Audit completed four establishment financial health check audits with a total of 21 recommendations issued. We are satisfied that none of the findings and associated recommendations raised indicated major control deficiencies which require separate reporting to those charged with governance.
84. SPS has incurred an underspend of £6.368million in year. Over the last four years, SPS has repeatedly reported year end outcomes comfortably within budget. The graph below sets out these results. Budget setting and budget monitoring and reporting arrangements have been detailed within paragraphs 91 to 96 and 97 to 101 respectively.



## Financial performance

85. Despite the financial pressures felt by the SPS in year, an underspend was achieved. Total outturn for the year was £358.192million against the SBR budget position of £364.560million, giving rise to an underspend of £6.368million. The underspend arose primarily as a result of slippage with the capital investment programme, specifically, in

relation to: the acquisition of a suitable site for HMP Glasgow; and ii) the development of the Women's National Facility and two Women's Community Custodial Units in Dundee and Glasgow.

### 2018/19 Performance against SBR budget

	Revised budget £million	Actual outturn £million	Variance £million
Total Departmental Expenditure Limits (DEL)	286.187	278.929	(7.258)
Total outside DEL Expenditure	79.773	80.569	0.796
Annually Managed Expenditure (AME)	(1.400)	(1.306)	0.094
<b>Total</b>	<b>364.560</b>	<b>358.192</b>	<b>6.368</b>

### Operating expenditure

86. Operating expenditure of £343.396million incurred in year consisted £173.497million (50.5%) of staff costs and £68.900million (20.1%) of PFI service charges and prisoner escort service costs, with 29.4% of total operating expenditure therefore consisting of all other operating costs.

factor to the increase in other operating expenditure was in respect of depreciation and impairment charges. During 2017/18 impairment reversals of £7.146million were recognised in respect of HMP Addiewell, however during 2018/19 no impairment reversals have been required.

87. Staff costs have increased by 1.7% compared with 2017/18 and other operating expenditure has increased by 5.2% in year. The largest contributing

### Balance sheet

88. Total equity as at 31 March 2019 was £1,022.016million compared with a balance of £1,014.623million at the end of the prior financial



year. The increase of £7.393million to the balance sheet in year has stemmed, predominantly, from an increase of £1.867million in the carrying value of property, plant and equipment and a decrease in trade payables and accruals of £5.235million compared with prior year.

89. In January 2019, GEOAmev PECS Ltd commenced operation of the Scottish Court Custody and Prisoner Escort Services contract (previously delivered by G4S). On commencement of the new contract, £7.027million of GEOAmev PECS Ltd vehicles were capitalised, with a disposal of £0.954million recognised in respect of the G4S vehicles.
90. The decreases in trade payables and accruals in year primarily relates to three large liabilities recognised as at 31 March 2018 for which there were no equivalents as at 31 March 2019: backdated holiday pay, payments to officers and an equal pay claim.

## Budget setting

91. The SPS budget is set by the Scottish Government and the approach to financial planning is aligned with the Scottish Government's budget setting process. SPS is expected to manage its budget in accordance with the SPS Framework Document and the Scottish Public Finance Manual.
92. The SPS central finance team is responsible for the overall development of the annual budget with input from all Establishments and Directorates, however it is the Chief Executive who has responsibility for challenging submissions and holds ultimate authority as to what costs can and cannot be included.
93. Budgets are set based on the indicative funding allocation from the Scottish Government. On receipt of indicative funding levels, the central finance team create an annual budget, and issue budget packs to all 13 public establishments and HQ Directorates/Areas. The Finance Manager of each establishment is then responsible for setting an annual budget for their local area. Standard budget templates are used which prompt users to set out the main cost drivers for their area along with scope for identified efficiencies.
94. For 2018/19, SPS received a flat cash settlement against its 2017/18 allocation and as a result, the Chief Executive advised 2017/18 budgets were to be rolled forward taking into account the impact of inflation, spending plans and additional costs pressures and savings, where achievable. In developing 2019/20 budgets, the Financial Policy

and Services team have been advised to use 2018/19 spend as the starting point.

95. Whilst processes for managing the budget setting procedures are largely consistent year on year, the baseline level from which budgets are driven can vary. We understand that SPS has already commenced discussions with Scottish Government to explore alternative budgeting options going forward which may provide SPS with more accurate budget information.
96. As noted above, over the last four years the SPS has repeatedly reported financial outcomes comfortably within budget. The repeating trend indicates that continuing to roll forward prior year budgets to inform the following year budgets should be refined, although it should be recognised that the percentage underspend year on year continues to decrease. By implementing a revised approach, SPS could further improve their overall financial management arrangements.

## Budget monitoring and reporting

97. The establishment Finance Managers complete monthly expenditure monitoring returns for Operations Directorate and Financial Policy & Services, which are reviewed and used to prepare the overall monthly performance report. Variances in excess of £5,000 are subject to investigation.
98. The Head of Financial Policy and Services prepares the monthly financial monitoring reports which are presented to the RMAC, EMG and the Advisory Board. The monitoring reports provide sufficient explanations for any significant variances to date and forecast against budget.
99. From our review of papers, regular attendance at RMAC and observation of Advisory Board, financial monitoring reports are well received. The reports are considered to be succinct, logical and key points clearly set out for users' benefit.
100. Whilst a £6.398million underspend arose in year, we are satisfied that SPS' actual resource outturn was closely aligned to budget and forecasts.
101. As noted in paragraph 85 above, the underspend arose primarily as a result of slippage with the capital investment programme, specifically, in relation to the acquisition of a new site for HMP Glasgow and the development of the Women's National Facility and the two Women's Community Custodial Units in Dundee and Glasgow. A preferred site for HMP Glasgow has been identified and negotiations continue with current owners. The new national facility is now not expected to open until late 2021, following a request from the bidders



for a tender period extension and longer construction programme. We are satisfied that the capital underspend in year was clearly reported upon in finance papers as presented to both the RMAC and Advisory Board.

## Systems of internal control

102. SPS is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at its disposal.
103. SPS has comprehensive financial regulations and policies in place, which are held within the shared network of SPS. Where variations in procedure are appropriate for an establishment, prison specific policies are constructed and held centrally. The Finance Manual is currently going through a refresh and we will follow this up as part of our 2019/20 audit.
104. The central finance team has experienced resourcing constraints for a significant period of the year, operating under full complement. We are however satisfied that the skills and experience of the current team are appropriate.
105. SPS is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
106. 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' arrangements for the prevention and detection of fraud and other irregularities to be adequate.

## National fraud initiative

---

107. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.
108. Participating bodies were required to submit data in October 2018 and received matches for investigation in January 2019. Match investigation work should be largely completed by 30 September 2019 and the results recorded on the NFI system.
109. At this time we are continuing to monitor SPS' participation in the NFI exercise.





# 6. Governance and transparency

**Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.**

---



Due to unanticipated challenges faced by the SPS, the Corporate Plan has been refreshed a year earlier than planned.

The 2019/20 Annual Delivery Plan setting out the core body of work for the year remains work in progress.



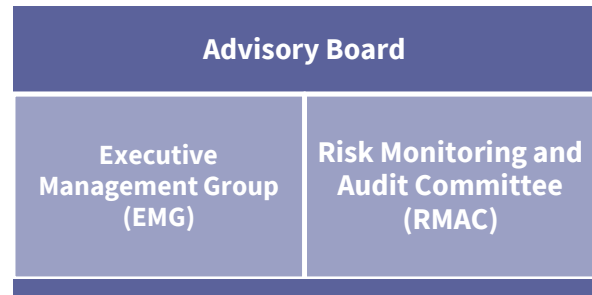
## Governance and transparency

### Corporate Plan Refresh

110. The Corporate Plan 2017-20 was developed to implement the vision for change that emerged from the Organisational Review (2013). However, over the course of 2018/19, SPS faced a number of significant and unanticipated challenges. The increase in demand for prisoner places, coupled with continued budgetary pressures, along with the termination of the POPP (see section 7: value for money for further details) has resulted in the Corporate Plan being refreshed a year earlier than planned: the Corporate Plan 2019-22 was published in April 2019.
111. The new Corporate Plan 2019-22 identifies a set of five Strategic Themes (Development, Engagement, Impact, Standards and Collaboration) and underpinning key aims and Strategic Outcomes which will define the work SPS will do over the next three years. In developing and rolling out these themes, aims and objectives, SPS is looking to take forward the critical pieces of the work from the POPP vision (e.g. core day, professionalisation) that will ensure continued progress towards longer term reform and development as set out in the Organisational Review.
112. For each year of the corporate plan, an annual delivery plan (ADP) is developed. The ADP sets out the essential actions which will be delivered during the course of the year in order to support and deliver the strategic outcomes. The ADP is further underpinned by Directorate business improvement plans and business improvement plans in each establishment and area.
113. Due to the recent refresh to the Corporate Plan, the 2019/20 ADP remains a work in progress. SPS anticipates that it will be finalised in July 2019, however at the time of completing the audit, we have been unable to review the document.

### Governance arrangements

114. The Chief Executive is a member of the Advisory Board, which is supported and advised by EMG and RMAC. The Advisory Board is chaired by a non-executive director and the RMAC is chaired by an independent member. No significant changes have taken place in year to the overall governance structure or members of the Advisory Board and supporting committees and groups.



115. Through regular attendance at the RMAC we can confirm that papers are complete, well collated and shared sufficiently in advance of meetings. The meetings provide an opportunity for members to actively challenge colleagues in attendance and ensure appropriate outcomes are achieved.
116. In May 2018, Scottish Government updated its guidance for Audit Committees in the public sector through an update to the Audit Committee Handbook. The revised handbook sets out the fundamental principles relating to the role, membership and work of Audit Committees. We are satisfied that SPS has implemented appropriate revisions in year to ensure it remains compliant with the revised requirements of the Audit Committee handbook.
117. During our 2018/19 audit, we attended one Advisory Board to observe its effectiveness. The meeting was well attended, and the non-executives were active in questioning and challenging management. We were satisfied that papers were circulated sufficiently in advance of the meeting to allow for appropriate preparation and management were able to respond to all lines of questioning during the meeting.

### Openness and transparency

118. There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny.
119. The last formal Corporate Governance review undertaken by SPS was in 2016. At that time, the decision was made to make Advisory Board minutes available to the public but due to the nature of business discussions there was considered to be no discernible benefit to being any more transparent in relation to publicly available material.
120. The SPS framework agreement is currently under discussion with the Scottish Government, having been due for review in March 2019. We have been



advised that internal arrangements, including the Corporate Governance Guide, will be reviewed thereafter. We will ensure to follow up this work as part of our 2019/20 audit.

## Risk management

121. Public sector bodies face increasing demand for quality service at a time of significant financial pressure. Well-developed risk management arrangements help bodies to make effective decisions and secure better use of resources.
122. SPS has an established risk management framework in place which sets out the risk management process and culture. Risk management reports are presented as a standing item to the RMAC and the Advisory Board are kept sufficiently abreast of developments.
123. Recent updates to the Corporate Risk Register have ensured that the significant operational and financial challenges currently faced by the organisation are appropriately recognised within.

## Internal audit

124. An effective internal audit service is an important element of SPS' governance arrangements. SPS operates an in-house internal audit function (AAU).
125. During 2018/19, 123 audits were undertaken. Limited or no assurance was offered in relation to 28 of these assignments. The Head of AAU has awarded an "overall reasonable level of assurance for the financial year 2018-19."
126. Whilst the workplan for 2018/19 was not fully completed, AAU's achievement to drive the plan to the degree of completion that they have should be commended given the significant resourcing constraints that have been experienced in year. The Chief Executive is however satisfied that the annual plan has been sufficiently delivered to support the annual opinion awarded.
127. We reviewed the 2018/19 AAU plan against their annual report to ensure that all planned work was appropriately reported on at year end. We note that this exercise identified two anomalies in respect of reviews included in the plan which had not been explicitly referred to at year end. AAU has advised that these have been errors of omission in drafting the annual report. Within the annual report, we also identified a number of reviews that had been performed in year which had not been explicitly listed in the original 2018/19 plan. AAU must ensure that they are reactive to the needs of the organisation and therefore it is to be expected that changes to the plan will arise in year.

128. Progression of the annual AAU plan along with key findings are reported to the RMAC on a half yearly basis. However, we do not believe that the progress reports provided during 2018/19 have provided a clear mapping back to the original plan, in part, as a result of the significant number of audits within the plan.
129. Further, current AAU reporting to the RMAC does not provide committee members and attendees with full sight of progress against previous AAU recommendations. Whilst this would not be considered necessary in respect of all audit findings and recommendations, the use of a tracker or equivalent for higher risk recommendations would allow the RMAC to better monitor progress of implementation.

### Action plan point 3

130. We have also reviewed the 2018/19 AAU plan against the corporate risk register (as at the time of developing the plan). This review identified seven risks on the register that did not appear to be addressed by the plan. Further, for 33 of the 54 reviews (control areas) identified in the plan, the relationship between the scope of the review and the corporate risk to which the work had been linked did not appear clear.
131. In light of the current operational and financial challenges that SPS currently faces, it is imperative that moving forward, the focus of each audit is clearly and closely aligned to the key risks of the organisation to ensure that every review is adding value for the organisation.

### Action plan point 3

## EU withdrawal

132. Audit Scotland has identified EU withdrawal as an emerging significant risk facing public bodies across Scotland. Three streams of potential impact were identified:
  - Workforce
  - Funding
  - Regulation.
133. SPS has continued to work to assess the overall impact Brexit may have on each of the above key areas. SPS was reasonably prepared for leaving on the original date of 29 March 2019 and has been able to demonstrate consideration of each of the above areas. We are satisfied that SPS has considered all key matters and action has been taken accordingly where it has been appropriate and value added to do so.



## Dependency on key suppliers

134. One of the sector risks identified by Audit Scotland for 2018/19 relates to public sector organisations reliance on key suppliers. Following the collapse of Carillion, it became apparent that public sector bodies face significant risks where suppliers are experiencing difficult trading conditions.
135. SPS has adopted a strategic approach to contract management: key suppliers that provide critical services, such as Prisoner Escorting (SCCPES) and the two private prisons are so critical to the SPS that it has a dedicated team managing these contracts within Operations with commercial / contractual support provided as required. In the event of key contract suppliers going into administration, SPS has identified necessary interim contingency arrangements to ensure service delivery is not compromised.



# 7. Value for money

**Value for money is concerned with using resources effectively and continually improving services. In this section we report on our audit work as it relates to SPS' own reporting of its performance.**



The refreshed Corporate Plan 2019-22 looks to take forward critical pieces of work to achieve longer term reform and development of the service.

During 2018/19, average working days lost across the service stood at 16.3 per person.

SPS' performance on nine of its 15 KPIs has deteriorated in 2018/19 compared with prior year.

A new suite of KPIs which will be aligned with the Strategic Themes of the Corporate Plan 2019-22 will be finalised during 2019/20.

Since 2014/15 SPS has paid over £16.3million to staff in driving forward organisational reform. In the absence of attached success criteria, value for money conclusions over these payments cannot be drawn.



## Significant audit risk

Our audit plan identified a significant risk in relation to value for money under our wider scope responsibilities.

### Value for money

There are a number of key challenges facing SPS' ability to demonstrate value for money. In recent years SPS has made significant progress in developing the POPP, which forms a large part of the organisation's vision for the future of the service and constituted their main value for money plan. In 2018, the Professional Trades Union for Prison, Correctional and Secure Psychiatric Workers membership rejected the recommendation of the Trade Union to accept and adopt the POPP offer therefore the programme plans have been abandoned. There was no detriment to 2018/19 financial performance with POPP not proceeding as proposed; however there is a concern over the operational impact of these developments. It is imperative that the SPS develop a new focus to ensure value for money is obtained through the use of their resources and delivery of effective SPS services are maintained as the POPP has now been aborted.

Sickness absence levels also present a risk to SPS as levels are currently very high amongst the prison officer workforce. In February 2019, prison officer sickness absence was 17 days per year. This places increased pressure upon SPS to deliver operational programmes and on budgets to compensate prison officers for overtime working. SPS' prison estate is also a significant risk from an operational and financial perspective. Four of SPS' prisons were built in the Victorian era resulting in high maintenance costs and prisons that are not fit-for-purpose in the modern context. HMP Barlinnie was built in 1882 and is very costly to maintain and operate in the safe and effective manner required of the modern prison service. The Victorian nature of this prison acts as a significant limitation on SPS current service capacity and carries the risk that elements of the building could fail (for example the sewage and drainage system) resulting in the required relocation of prisoners.

During 2017/18, the purchase of the land for HMP Highland was achieved. SPS continues to liaise with Glasgow City Council with a view to purchasing land for the future construction of HMP Barlinnie. Timescales and funding are yet to be confirmed. SPS is facing significant challenges to respond to the increasing capacity demands of the prison service, responding to the needs of the modern prison population and operating an effective, modern and safe prison service.

*Excerpt from the 2018/19 External Audit Plan*

136. In developing and rolling out the refreshed Corporate Plan 2019-22, SPS is looking to take forward critical pieces of the work (e.g. core day, professionalisation) that will ensure continued progress towards the ambitions set out in the Organisational Review in order to achieve longer term reform and development.
137. During 2018/19, average working days lost across the service stood at 16.3 per person, more than three quarters of which related to long term absence. This was an increase of 2.1 days on prior year. Whilst services have been maintained during 2018/19 primarily as a result of increased working hours, efforts to reduce levels of sickness absence have become a corporate priority and due to the scale of the concern, a red risk has been included in the corporate risk register in respect of sickness absence rates. Where the SPS is not operating at full complement, there is a risk of operational instability as well as continued financial implications.
138. We understand that the intended programme of work for HMP Highland has been postponed until funding can be made available from Scottish Government to successfully deliver the project. At the time of writing this report, negotiations continue on the old National Grid gas works site at Provanmill for the development of HMP Glasgow, with a pre-application notice for planning having been issued in May 2019. Neither replacement project will provide a long-term solution to SPS in respect of prisoner population management and therefore alternative approaches are required to manage prisoner numbers in the short and medium term.
139. The SPS programme of work to implement an ambitious new vision for the female custodial estate is well underway. The current programme is planned to run until 2021



and will involve the construction of a new Women's National Facility and two Community Custody Units in Dundee and Glasgow.

## Value for money

### Performance monitoring and reporting

140. The SPS approach to corporate planning and performance reflects the continuous improvement model identified in the Organisational Review (2013). There is a Performance Management Framework in place which describes the systems, processes, structures and supporting arrangements used by SPS to manage, monitor and report on performance and illustrates the accountability of SPS for performance to Scottish Ministers as an Executive Agency of the Scottish Government.
141. The process for the development and preparation of performance reports is managed by the Directorate of Strategy and Stakeholder Engagement. Overall performance is managed and monitored by Chief Executive in conjunction with the EMG. Advice and scrutiny is provided by the Advisory Board and the RMAC. The ADP forms the basis of performance reporting.
142. The EMG receives outcome focussed quarterly and year end outcome focused performance reports. These provide EMG with a narrative analysis of progress in meeting the Strategic Outcomes and an evaluation of progress against the critical Success Indicators. This analysis supports the Chief Executive and the EMG in strategic decision making with regard to:
- The allocation of resources towards achieving each Strategic Outcome; and
  - Prioritisation of Essential Actions where appropriate or necessary in response to new or changed demands placed upon SPS.
143. Quarterly performance reports are submitted to the Advisory Board for their information and advice after consideration by EMG and an annual performance report is submitted to RMAC after consideration by EMG.

### Key performance indicators

144. The current KPIs are grouped to cover areas of security, safety, personal development, rehabilitation and progression. It should be noted

that, although performance is compared against previous delivery in these measures, no annual targets are set against KPIs for individual prisons.

145. In our 2017/18 annual report, we noted that the Scottish Government KPIs reported in the annual performance report did not feed into the strategic priorities of SPS' Corporate Plan. We recommended that SPS should conduct an exercise in conjunction with the Scottish Government to refresh the KPI trackers reported, and link appropriately to the 2017-20 Corporate Plan Success Outcomes.
146. We understand that SPS' review of KPIs has progressed through 2018/19. Work has been overseen by a KPI Advisory Group comprising senior representation from across SPS and the Scottish Government. SPS is well progressed in developing its new suite of KPIs which will be aligned with the Strategic Themes of the Corporate Plan 2019-22 and will ensure the establishment of a value for money framework. This work is expected to be completed during 2019/20.

### 2018/19 Key Performance Indicators

147. The significant challenges faced by SPS during the year, with particular regard to the rising prisoner population levels, have impacted on the organisation's delivery against key operational performance indicators.
148. As included within Appendix 9a of the 2018/19 Annual Report and Accounts and as reported to the June meeting of the EMG, SPS' performance on nine of the 15 indicators has deteriorated compared with prior year (see red colour coding). Four indicators have improved in year (see green colour coding) and there has been no movement on the remaining two (see yellow colour coding). The table below sets out these results.
149. Full commentary on the managing of operational performance and associated KPIs can be found within the Performance Summary section of the SPS 2018/19 Annual Report and Accounts.



## Comparison of KPI performance for 2018/19 and 2017/18

		2018/19	2017/18
<b>KPI1a</b>	Extreme Risk Escapes	0	0
<b>KPI1b</b>	Escapes at other supervision level	0	1
<b>KPI2a</b>	Serious Prisoner on Staff Assaults	10	14
<b>KPI2b</b>	Minor & No Injury Prisoner on Staff Assaults	410	283
<b>KPI2c</b>	Serious Prisoner on Prisoner Assaults	135	94
<b>KPI2d</b>	Minor & No Injury Prisoner on Prisoner Assaults	2,994	2,120
<b>KPI 3a</b>	Purposeful Activity Hours	6,258,125	6,500,470
<b>KPI 3b</b>	Average Purposeful activity Hours per week per Convicted prisoner	20	21
<b>KPI4a</b>	% of education classes spent delivering literacy skills	36.0%	37.6%
<b>KPI4b</b>	% of education classes spent delivering numeracy skills	20.8%	17.3%
<b>KPI5a</b>	Vocational & Employment Related Qualifications	26,883	18,793
<b>KPI5b</b>	Vocational & Employment Related Qualifications at SCQF level 5 or above	1,781	1,976
<b>KPI8</b>	% of ICM Case Conferences with CJSW in attendance	86.7%	88.0%
<b>KPI9</b>	Average Annual Cost Per Prisoner Place**	35,601	35,293
<b>KPI10</b>	Reducing Carbon Emissions***	-	-

### Smoke free prisons

150. Following the publication of the Tobacco in Prisons Study in 2017, the decision was taken to accelerate the delivery of smoke free prisons. On 30 November 2018 this was successfully implemented and all Scottish prisons became smoke free. We are not aware of any significant incidents arising as a result of this ban.
151. SPS believes that Scotland is the first jurisdiction in Europe to successfully implement this policy in one go, and second internationally, with only New Zealand having successfully introduced it previously. This outcome is testament to the effective planning and project management arrangements SPS applied in implementing this important policy objective.

### Commitment payments

152. In December 2013, SPS launched its Organisational Review: Unlocking Potential, Transforming Lives. One of the core principles of this review was a drive to professionalise the Prison Officer role which was to be taken forward as part of POPP, a joint transformation and improvement enterprise,

supported and approved by the Scottish Government, between SPS and the POA(S).

153. The scope and scale of the proposed changes created a level of resistance from the operational workforce and therefore to manage this and secure the buy-in of the Prisoner Officers, whilst ensuring the ongoing safe delivery of the service, SPS made a series of recognition payments to the officers, with the support and approval of the Scottish Government.
154. Three tranches of approved one-off payments have been made to date to operational staff (in pay ranges C, D and E) totalling £13.906million:
- £6.549million in 2014/15 (£2,000 to each relevant employee);
  - £3.696million in 2016/17 (£1,000 to each relevant employee); and
  - £3.661million in 2017/18 (£1,000 to each relevant employee).





155. Further to these payments, an equal pay claim was raised in 2017/18 by non-operational staff in relation to commitment payments made to Prison Officers. SPS settled this claim, costing the service £2.449million, which was recognised as a special payment within the 2017/18 annual report and accounts.
156. By the summer of 2018, the POA(S) and SPS had completed the design and development phase of POPP and the POA(S) was ready to recommend acceptance of the terms of the professionalisation proposal its membership for an affirmative vote by way of national ballot. Despite a strong recommendation for acceptance of the proposals to their membership from the POA(S) National Council, in October 2018 the ballot returned a result in favour of rejection.
157. In the absence of any success criteria being attached to the approval of these commitment payments, it cannot be readily determined whether value for money has been attained.
158. We are satisfied that appropriate disclosure has been made regarding these payments in the Performance Summary and Parliamentary Accountability sections of the 2018/19 annual report and accounts.



# 8. Looking forward





## Looking forward

159. SPS is facing a number of significant strategic challenges impacting on its operations which combine to create a higher risk environment for the service. This section highlights these key challenges, many of which are complex and inter-dependent.
160. Management are fully aware of these challenges and actively developing plans and strategies to address the issues raised. The scale and number of the challenges currently facing SPS are however significant individually and collectively. SPS, as part of the wider justice system, is also often constrained in its ability to directly address some of these key issues. Key challenges include:

## Capacity

161. SPS is operating at historically high levels of prisoner population and is currently 'beyond capacity' in terms of prisoner numbers. During 2018/19, the average number of prisoners was 7,789. Over the reporting period there has been a steady increase in the population with the total number of people in custody reaching 8,158 on 28 March 2019.
162. The operating capacity of the prison service is 7,669. There is an acknowledged risk that prisoner numbers could continue to increase in the coming months, placing significant strain on the service's ability to manage effectively.
163. SPS is looking at a range of contingency measures to address this issue, however, there is some risk that the increased prisoner population could become 'the new normal' prisoner population level which would require more strategic policy intervention to resolve.
164. There has been a substantial shift in the makeup of the prison population in Scotland. On the one hand, the increased application of alternatives to imprisonment for those receiving shorter sentences is reducing the prisoner population. At the same time, there is a trend towards longer sentences for more serious offences which is increasing the prison population.
165. The fastest growing age group of inmates are those over 50 with a reduction in the number of young offenders in custody. This factor, combined with prison population levels, changes the operational demands placed on the prison service. As overall prison populations increase and with it the associated care and rehabilitation requirements, this presents a significant challenge to SPS with a need to adapt to reflect the different resources

needed to effectively care for and rehabilitate inmates across a range of groups. It is vital to engage effectively with partner agencies, including the NHS and social care providers, to ensure that the needs of the inmate population are appropriately met.

166. Linked to the aging nature of the prison population, there remains an ongoing issue in relation to the 'types' of prisoners being received into the prison system which impact on capacity to manage the entirety of the prison population. Examples of these key issues include:

- An increase in the number of prisoners with 'long term' prison sentences. This reduces 'turnover' within the system and acts as a limit on capacity. This outcome is linked to sentencing policy and practice within the wider justice system.
- An increase in the sex offender prisoner population – linked to an increase in sentences for historic sex offences. These offenders tend to be older men. This population requires to be segregated from the main prison population and presents capacity and management challenges.
- An increase in 'violent' prisoners and increased numbers of violent attacks between prisoners and on prison officers. In part, Police Scotland's success in tackling serious organised crime has increased the number of prisoners regarded as more likely to be violent. This increases the load on prison officers in terms of managing, monitoring and segregating the prison population.
- Recent media coverage of suicide and mental health risks for younger prisoners is resulting in increasing demands for greater monitoring of 'at risk' prisoners. This development is placing a further burden on the capacity of prison officers to manage overall workload demands.

167. All of these capacity factors are occurring at a time of historically high levels of prisoner numbers which presents increasing risks to the operating regime within prisons. For example, there is an increased risk of more prisoners inappropriately sharing cells or prisoners being locked down for longer with fewer opportunities for activities or for contact with relatives. These risks have the capacity to quickly escalate and translate into prisoner disruption.

## Staffing

168. Sickness absence levels are currently very high amongst the prison officer workforce and are above 16 days per year on average for each prison officer.



Current policies on managing prison officer sickness absence severely limit management action to address this issue. In the context of the 'demand' issues (referred to above) impacting on capacity, there is also a 'supply' issue of prison officer numbers.

169. POPP, which was two years in development and would have led to a more 'flexible' prison officer workforce, has been rejected by prison officers. POPP came with a significant pay increase proposal, over three years, to reflect moving to an enhanced role with additional responsibilities. We note that the POA has tabled a 10% pay demand, which appears unaffordable on the basis of current financial challenges facing the service (see below) with potential consequences for future industrial relations.
170. A formal alternative to POPP has not yet been developed and therefore no clear plan to transition the prison officer workforce to meet the identified strategic requirements of a 21st century prison service. SPS is making progress in implementing reform, but at a much slower rate than originally envisaged.
171. Prison Officer morale has been identified as an ongoing risk to service delivery.

## Financial

172. The key challenges outlined in this section must be viewed in the context of financial austerity. The SPS has identified a c£14million funding gap in its budget settlement for 2019/20 after identifying c£6million of savings.
173. The levels of sickness absence amongst prison officers and increases in the prison population is having a direct financial impact on the service with, for example, ex-gratia payments to prison officers working beyond scheduled hours increasing from £2.574million in 2017/18 to £4.247million in 2018/19.
174. The Accountable Officer is in ongoing discussions with the Scottish Government on how to manage the current financial position, however, many of the operational pressures facing the organisation are increasing the operating costs of SPS at a time when funding is not increasing and in an operating environment with limited opportunity to influence direct expenditure.
175. The creation of a sustainable medium-term financial strategy for SPS is a critical and urgent requirement.

## Estate

176. Many prisons within the prison service estate were built in the Victorian era to serve a very different prisoner population and imprisonment culture. Significant investment in the prison estate is now required to support the running of a modern prison service.
177. HMP Barlinnie in context is also regarded as the 'single point of failure' in the prison system as it has the capacity to 'absorb' fluctuations in the prison population. The Victorian nature of the prison acts as a significant limitation on SPS' current service capacity and carries a risk that elements of the building could fail. For example, the drainage and sewerage systems are regarded as being at high risk. Maintenance costs for HMP Barlinnie are also expensive given the age of the building and its layout does not support a modern prison service regime.
178. The significant majority of identified financial savings for 2019/20 are achieved by reducing planned maintenance on the prison estate. This approach increases the risk that the prison estate may not sustain the capacity to house prisoner numbers at the configured operating level.

## Performance

179. SPS performs well overall, particularly in comparison to the English Prison Service, reflecting relatively higher levels of funding in recent years albeit some measures of performance are declining reflecting the current challenges facing the service. The SPS also performs well relatively on other measure such as recidivism.
180. SPS is well progressed in developing its new suite of KPIs which will be aligned with the Strategic Themes of the Corporate Plan 2019-22 and will provide the basis of a value for money framework.
181. Recent HMIPS inspection reports have continued to raise areas for improvement – but overall confirm the relatively good performance of SPS.
182. SPS introduced a smoking ban in all prisons in November 2018. This significant change has been managed over a two year period and is regarded as highly successful with SPS being the only prison service in Western Europe to introduce this change with minimal impact. This is in the context of the historic importance of tobacco within the prison population more generally. A key ongoing challenge for SPS will be to continue to monitor, manage and mitigate the impact of the smoking ban on prisoner behaviours over time.
183. A key prisoner management issue continues to be around the use and availability of illicit drugs in



prisons and the increasing adoption of SPICE as the drug of choice. Other issues, such as the increasing use of drones to smuggle contraband over the walls of prisons remain ongoing management issues.



# 9. Appendices

---



## Appendix 1: Respective responsibilities of SPS and the Auditor

### Responsibility for the preparation of the annual report and accounts

It is the responsibility of SPS and the Chief Executive, as Accountable Officer, to prepare financial statements in accordance with the Public Finance and Accountability (Scotland) Act 2000.

#### In preparing the annual report and accounts, SPS 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 Government Financial Reporting Manual (the 2018/19 FReM) 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 SPS will continue to operate; and
- ensure the regularity of expenditure and income.

#### The Accountable Officer is 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 SPS' affairs as at 31 March 2019 and of its net expenditure for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 FReM ;
- they 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 Public Finance and Accountability (Scotland) Act 2000 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 Public Finance and Accountability (Scotland) Act 2000 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 Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

#### We are also required to report, 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 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 financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

## Independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

### Non-audit services

Scott-Moncrieff provided advisory services to SPS in relation to its Prison Officer Professionalisation Programme. All advisory services are provided by independent partners and staff who had no involvement in the audit of the annual report and accounts. The total value of the advisory services provided in 2018/19 is approximately £9,540 (excluding VAT).

### Audit team

One of Scott-Moncrieff's External Audit Managers, Stacey Law (nee Larkin), left Scott-Moncrieff in February 2019 to join SPS' finance team at group head level. Stacey previously acted as an Assistant Manager on the 2016/17 SPS audit. During the 2017/18 audit Stacey had involvement in the planning stage and then undertook a secondment to Scottish Government's Health Department. Stacey has had no involvement in the 2018/19 audit. Stacey is good friends with the external audit team's Audit Senior and is well known to the entire Scott-Moncrieff team.

We have considered the potential resulting independence issues in accordance with FRC's Revised Ethical Standard (June 2016). We consulted with Scott-Moncrieff's Ethics Partner and Audit Scotland. We identified the following potential threats to our independence: self-interest, familiarity and intimidation.

We have responded to each of these threats by implementing a number of safeguards. Safeguards include:

- the audit will be managed by a member of staff one rank higher than Stacey operated on the SPS audit;
- the 2018/19 audit will be subject to a hot review by a second partner;
- the Audit Senior will not undertake audit work on working papers which have been prepared by Stacey; and
- all work undertaken by the Audit Senior will be reviewed by the Audit Manager.

### Confirmation of independence

We are required to seek approval for potential non-audit work from Audit Scotland before we accept any assignment. The approval process requires us to demonstrate to Audit Scotland how we comply with Ethical Standards and manage and mitigate potential risks to independence. This process also includes a separate review by our Ethics Partner to also confirm that we appropriately manage potential threats to our independence in our appointment as external auditors.

We confirm that we have complied with the FRC's Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff and SPS, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.





## Appendix 2: Action plan

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

### 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. Our rating structure has been revised to ensure consistency with the structure/terminology used by internal audit.

The rating structure is summarised as follows:

Grade	Explanation
<b>Grade 5</b>	Very high risk exposure - Major concerns requiring immediate attention.
<b>Grade 4</b>	High risk exposure - Material observations requiring management attention.
<b>Grade 3</b>	Moderate risk exposure - Significant observations requiring management attention.
<b>Grade 2</b>	Limited risk exposure - Minor observations requiring management attention
<b>Grade 1</b>	Efficiency / housekeeping point.



## Current year action plan

Action plan point	Issue & recommendation	Management comments
1. Ex gratia claims	<p><b>Issue</b> Our testing of ex gratia claims identified five out of ten claims could not be reconciled back to source documentation.</p> <p>There is a risk of error and duplicate payments being made despite the checks being undertaken by line managers and senior line managers.</p> <p><b>Risk</b> There is risk that erroneous ex gratia payments are paid.</p> <p><b>Recommendation</b> SPS reviews the required checks by line managers and senior managers before ex gratia claims are approved. We would also recommend that refresher training is provided to operational staff making ex gratia claims, line managers and senior line managers.</p> <p>SPS undertakes a reconciliation of ex gratia payments to source documentation.</p>	<p>The two tier assurance from our Line Managers and Senior Manager designate has helped to be an effective means in validating ex gratia claims. Furthermore, the E-HR system helps to ensure that duplicate payments are stopped before being processed into individuals' bank accounts. However, we recognise that the potential for erroneous payments exist in a human process. We shall commission a review of policy, in conjunction with policy owners Corporate Services that helps to identify any steps SPS can take to improve effectiveness in ex gratia payments. This will include consideration of whether training refresher is required to our Management staff group.</p> <p>We will review the completeness and accuracy of ex gratia payment with reference to source documentation.</p> <p><b>Responsible officer:</b> Director of Operations, Operations Directorate and CEO Office</p> <p><b>Implementation date:</b> March 2020</p>
Rating		
Grade 3		
Paragraph Ref		
52 & 53		



Action plan point	Issue & recommendation	Management comments
<p>2. IT controls</p> <p>Rating</p> <p>Grade 2</p> <p>Paragraph Ref</p> <p>59</p>	<p><b>Issue</b> The following control weaknesses were identified.</p> <ul style="list-style-type: none"> <li>• Password complexity requirements are not currently enabled;</li> <li>• SPS is not fully aware of the personal information held;</li> <li>• Windows 7 is used by SPS (including Windows 10 and Linx) and from January 2020 this package will no longer be supported; and</li> <li>• Backups are taken daily however there is no regular programme for testing backups.</li> </ul> <p><b>Risk</b></p> <ul style="list-style-type: none"> <li>• Weak password policy increases the opportunity for fraud and data loss;</li> <li>• Risk of non-compliance with GDPR;</li> <li>• Unsupported systems are more vulnerable to cyber-attacks; and</li> <li>• Risk to loss of information if systems were to become corrupt and a viable back up is not available.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>• SPS implement c complexity requirements such as alphanumeric requirements in order to avoid users from setting simple passwords;</li> <li>• A data mapping exercise is undertaken and a data register in order to become fully aware of the personal information they hold;</li> <li>• SPS start upgrading operating systems to Windows 10 where this has not been done already; and</li> <li>• Backups are tested regularly in order to gain assurance that data could be retrieved if required.</li> </ul>	<p><b>Recommendation 1</b> SPS already implement alpha numeric requirements for SPIN user passwords as is recommended. In addition, users are required to change these on a regular basis. (3 monthly intervals) <b>Implementation date:</b> Complete</p> <p><b>Recommendation 2</b> SPS is in the process of compiling an information asset register of all information held by SPS including personal data. <b>Implementation date:</b> March 2021</p> <p><b>Recommendation 3</b> The current business case in support of the SPS Digital Strategy identifies a funding requirement in this year 2019/20 to upgrade the SPIN desktop hardware estate which is a pre-cursor to and included in the Windows 10 deployments. Current flexible working laptops are already built using Windows 10. <b>Implementation date:</b> June 2020</p> <p><b>Recommendation 4</b> ISS do restore backups and have completed a recent restore for some core applications. SPS have also purchased new backup software and storage enhancements which offers greater flexibility for such restores. ISS intend to use this new software for future backups and restores. <b>Implementation date:</b> April 2020</p> <p><b>Responsible officer:</b> Director of Operations, Operations Directorate</p>



Action plan point	Issue & recommendation	Management comments
3. Internal Audit	<p><b>Issue</b></p> <p>AAU progress reporting to the RMAC in year did not provide a sufficiently clear link back to the annual plan, in part as a result of the significantly high number of audits taking place.</p>	<p>The CEO, RMAC Chair and Head of Internal Audit will ensure that the annual audit plan is reflective of the priority risks of the organisation and the requirements to maintain operational compliance.</p>
Rating		
Grade 2	<p>Further, the RMAC did not have sufficient sight of progress against the implementation of recommendations raised by AAU.</p>	<p><b>Recommendation 1 –Progress Reports</b></p> <p>For 2019-20, progress reporting to RMAC will be reviewed with clearer read across from the Audit Plan to the interim and annual report submitted to RMAC.</p>
Paragraph Ref		<p><b>Implementation date:</b></p> <p>December 2019</p>
128, 129 & 131	<p>Our review of the AAU annual plan against the corporate risk register (as at the time of developing the plan) identified seven risks on the register that did not appear to be addressed by the plan. Further, for 33 of the 54 reviews (control areas) identified in the plan, the relationship between the scope of the review and the corporate risk to which the work had been linked was not clear.</p>	<p><b>Recommendation 2 - Development of a Tracker</b></p>
	<p><b>Risk</b></p> <p>There is a risk that the RMAC is not kept sufficiently informed of progress and outcomes, restricting their ability to scrutinise and challenge effectively.</p>	<p>Prior to this recommendation being made, development of an improved tracker was underway to allow more effective monitoring of progress in delivering AAU assignments. This area will be further developed along the lines of the tracker system operating successfully in the Operational Audit side of the business.</p>
	<p>There is a further risk that the work undertaken by AAU is not sufficiently targeted to address the risks and meet the needs of the business.</p>	<p><b>Implementation date:</b></p> <p>December 2019</p>
	<p><b>Recommendations</b></p> <p>AAU progress reporting to RMAC should be further enhanced to provide a clearer link back to the agreed annual plan.</p>	<p><b>Recommendation 3 - Alignment of the Audit Plan with Corporate Risk Register</b></p> <p>For the 2018-19 year, some risks appearing in the corporate risk register were fairly broadly based and did not lend to being mapped back to specific audit assignments, particularly financial audits. In future audit plans, (2020-21) we will mention which planned audit assignment maps back to a corporate risk and if the assignment is not associated with a specific corporate risk, then the reason for it being carried out will be articulated to RMAC.</p>
	<p>The RMAC should be provided with a tracker for higher risk recommendations as identified by AAU to allow more effective monitoring of progress.</p>	<p><b>Responsible officer</b></p> <p>Head of Audit &amp; Assurance</p>
	<p>AAU must ensure that their annual audit plan is better aligned to address corporate risk, particularly in light of the significant operational and financial challenges facing the business. Where work is not planned against any corporate risk, the RMAC should be provided with sufficient commentary to support this decision.</p>	



## Follow up of prior year recommendations

Of the nine recommendations raised within our 2016/17 and 2017/18 interim audit reports and 2016/17 and 2017/18 annual audit reports, we note that five have been closed and four are ongoing. Details are given below.

### 1. Review of Asset Useful Lives Accounting Policy

Initial rating	Issue & recommendation	Management comments
<b>Grade 3</b>	<p><b>Observation</b></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><b>Recommendation</b></p> <p>SPS conduct a review of the depreciation accounting policy for reasonableness.</p>	<p>An internal review of the policy has been undertaken and identified a requirement for some change to asset lives in the policy. Due to the volume of assets held at nil NBV, a longer term exercise will be necessary to confirm their status and the revised elements of the policy will be derived from this exercise..</p> <p><b>Action owner:</b> Head of Financial Policy and Services</p> <p><b>Due Date:</b> 31 March 2019</p>
Current status	Management response	
<b>On-going</b>	<p>An internal review is currently in progress to determine a robust revision of the depreciation accounting policy. There have been significant staff changes in year impacting on progress, with a new Management Accountant taking post in February 2019. The target date has been extended with any revision to the policy taking effect from 1 April 2019.</p> <p><b>Responsible officer:</b> Head of Financial Policy and Services</p> <p><b>Implementation date:</b> 31 March 2020</p>	



## 2. Financial Management

Initial rating	Issue & recommendation	Management comments
<b>Grade 3</b>	<p><b>Observation</b></p> <p>SPS' 13 Finance Managers are directly accountable to the Operations Directorate of SPS; however the HQ Finance Directorate is accountable to the Chief Executive Office.</p> <p>Limited assurance financial control reviews were identified by internal audit in 2016/17.</p> <p><b>Recommendation</b></p> <p>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.</p> <p>SPS should also consider if the current accountability structure of the Establishment Finance Managers to the Operations Directorate is most effective.</p>	<p>HQ Finance has provided resource to mentor a number of Finance Managers. Tri -Directorate work is on-going regarding the management and performance assessment of Finance Managers in prisons.</p> <p>SPS has implemented a number of actions:</p> <ol style="list-style-type: none"> <li>1. A series of pre audit support visits were instigated and undertaken by a member of the AAU.</li> <li>2. A quarterly finance managers' meeting has been formalised.</li> <li>3. To further support the management of finances throughout establishments, two mentoring programmes have been established- one for newly appointed Finance Managers and one for Accounts Managers who are temporarily acting into this role. A corporate job description has been introduced. This outlines the need for a minimum of an HND Accountancy or equivalent qualification.</li> <li>4. The CEO has instructed a Finance Structure Review (FSR) be undertaken, led by a member of the CEO's Office. This action is underway with a project plan being devised and critical dates identified.</li> </ol> <p><b>Responsible officer:</b> Head of Corporate Risk and Change</p> <p><b>Implementation date:</b> 31 March 2018</p>
Current status	Management response	
<b>On-going</b>	<p>The Head of Corporate Risk and Change is taking forward this action in conjunction with the Operations Directorate and the Head of Finance and Policy Services.</p> <p>Progress is being made and the review is on target to conclude before 31st March 2021.</p> <p>The purpose of Finance Structure review is to consider the issues and recommendations made and review the options for redefining the current structure, reporting arrangements, capabilities and resources associated with the management of finances at SPS establishments.</p> <p>The objective is to reduce the number of financial non-compliance issues and to strengthen financial governance and assurance.</p> <p><b>Responsible officer:</b> Head of Corporate Risk and Change</p> <p><b>Implementation date:</b> 31 March 2021</p>	



### 3. Value for money

Initial rating	Issue & recommendation	Management comments
<p><b>Grade 3</b></p>	<p><b>Observation</b> Scottish Government KPIs reported in the annual performance report do not feed into the strategic priorities of SPS' Corporate Plan. The KPIs are agreed and required by the Scottish Government but have not been revised in several years. These KPIs remain unlinked to the success/outcome indicators within the new 2017-20 Corporate Plan.</p> <p><b>Recommendation</b> SPS should conduct an exercise in conjunction with the Scottish Government to refresh the KPI trackers reported, and link appropriately to the 2017-20 Corporate Plan Success Outcomes.</p>	<p>Proposals for the review of KPIs were discussed by SDB on 5 October 2017 and agreed. Following on from the meeting, a critical path is being prepared and it is anticipated that the review process will formally commence early in 2018. The proposals were discussed and agreed by EMG on 13 December 2017. Advisory Board advised of review on 24 January 2018. Directors were invited to nominate representatives to a KPI Review Reference Group in February 2018. The Director of S&amp;I will liaise with Scottish Government Directorate for Justice regarding Scottish Government representation. The action relates to the commencement of the review process and the review process will have formally commenced and the action completed by the due date of 31 March 2018. However, the work of the Review Group will continue throughout 2018. It is anticipated that proposals will be presented to EMG for consideration in December 2018.</p> <p><b>Responsible officer:</b> Director of Strategy and Stakeholder Engagement</p> <p><b>Implementation date:</b> 31 December 2018</p>
Current status	Management response	
<p><b>Ongoing</b></p>	<p>The review has progressed through 2018/19. Work has been overseen by a KPI Advisory Group comprising senior representation from across SPS and the Scottish Government. Extensive consultation and engagement activity has taken place including a Knowledge Exchange Event in two parts; focus groups with staff and those in our care; and engagement with Third Sector representatives at a meeting of the Criminal Justice Voluntary Sector Forum.</p> <p>It is anticipated that outline proposals will be presented to the Chief Executive at the end of March 2019 with a view to developing the new set of indicators in 2019/20 linked to the Strategic Themes and Outcomes set out in the new Corporate Plan 2019/22.</p> <p><b>Responsible officer:</b> Director of Strategy and Innovation</p> <p><b>Implementation date:</b> 2019/20</p>	



## 4. SPS Finance Policy and Manual

Initial rating	Issue & recommendation	Management comments
<b>Grade 2</b>	<p><b>Observation</b></p> <p>There is risk that the SPS Finance Manual does not reflect up to date practices, which could result in inconsistent and/or inappropriate procedures and controls being operated.</p> <p><b>Recommendation</b></p> <p>We recommend SPS undertakes a full review of the manual, and continues to review content on a timely basis to ensure it remains appropriate and reflects current practice.</p>	<p>Financial Policy and Services will continue the regular review of the FP&amp;GM and will carry out a full review by 31 March 2019.</p> <p><b>Responsible officer:</b> Head of Finance and Policy Services</p> <p><b>Implementation date:</b> 31 March 2019</p>

Current status	Management response
<b>Ongoing</b>	<p>A full content review has been completed and updates are currently work in progress. There have been significant staff changes in year impacting on progress, with chapters being prioritised for review throughout the year.</p> <p><b>Responsible officer:</b> Head of Finance and Policy Services</p> <p><b>Implementation date:</b> 31 March 2020</p>

## 5. Establishment level journals

Initial rating	Issue & recommendation	Management comments
<b>Grade 2</b>	<p><b>Observation</b></p> <p>There is a risk that journal authorisation controls at establishments are not operating effectively, elevating the risk of inappropriate activity and management override of controls.</p> <p><b>Recommendation</b></p> <p>We recommend that the central finance team considers conducting quarterly spot checks of establishment posted journals to ensure secondary authorisation has been recorded.</p>	<p>As part of our central review of field month end processes, we will build in additional spot checks of journals.</p> <p><b>Responsible officer:</b> Head of Finance and Policy Services</p> <p><b>Implementation date:</b> 30 June 2018</p>

Current status	Audit update	Management response
<b>On-going</b>	<p>As part of the 2018/19 audit we have observed central finance performed spot checks on journals.</p> <p>However, our audit testing has identified one journal that has not been subject to secondary authorisation. We would therefore recommend that additional spot checks are introduced to ensure secondary authorisation is recorded.</p>	<p>We will extend journal sample testing to include HQ Directorates.</p> <p><b>Responsible officer:</b> Head of Finance and Policy Services</p> <p><b>Implementation date:</b> 30 June 2019</p>





## 6. Payroll leavers holiday pay

Initial rating	Issue & recommendation	Management comments
<b>Grade 3</b>	<p><b>Observation</b> There is a risk of misstatement in final pay calculations of leavers.</p> <p><b>Recommendation</b> We recommend management conduct a review of leavers in 2017/18 who have noted holiday pay entitlement, in order to ensure final pay calculations have been processed accurately.</p>	<p>In line with the recommendation, a review of 2017/18 leavers will be conducted to ensure that their holiday pay calculations were processed accurately and identifying any remedial actions as required.</p> <p><b>Responsible officer:</b> HRBP, HR Central Services</p> <p><b>Implementation date:</b> 31 July 2018</p>
Current status	Audit update	Management response
<b>Complete</b>	Payroll leavers considered as part of the 2018/19 audit and the issue is considered closed.	N/A

## 7. Authorisation to amend supplier records

Initial rating	Issue & recommendation	Management comments
<b>Grade 2</b>	<p><b>Observation</b> Although we are content that the employee was appropriate to approve this request in this circumstance, there is an increased risk that an inappropriate employee at establishment level could approve an addition and or change to a supplier, if the signatory list is not checked by procurement before reflecting on the Agresso system.</p> <p><b>Recommendation</b> We recommend that the list of authorised signatories is reviewed and updated on a timely basis, and that the procurement team performs a check to ensure requests have been authorised by an appropriate employee as detailed on the signatory list, before processing in Agresso.</p>	<p>PPSD has requested an immediate refresh of signatures from all sites as of June 18, 2018. Further to the audit recommendation, PPSD staff have been asked to conduct an annual refresh of signatures (rather than the current 2 yearly check). Sites will also be reminded that the onus is on them to remind PPSD of any further changes in order to ensure that records are kept fully up to date.</p> <p><b>Responsible officer:</b> Head of Procurement and Policy Services</p> <p><b>Implementation date:</b> 30 June 2018</p>
Current status	Audit update	Management response
<b>Complete</b>	As part of the 2018/19 audit we have confirmed that a refreshed list of signatories has been updated for all Establishments and is available on Sharepoint.	N/A



## 8. Financial sustainability - POPP

Initial rating	Issue & recommendation	Management comments
<b>Grade 3</b>	<p><b>Observation</b></p> <p>The financial modelling aspects of the new operational model will require significant financial investment, but are anticipated to be cost neutral. However, this has not been fully developed and subject to detailed stress testing. The financial model will be built on efficiency savings. SPS have not fully developed the financial model for the implementation of POPP.</p> <p><b>Recommendation</b></p> <p>SPS should consider the financial impact of POPP and in conjunction with developing their draft financial strategy, incorporate the financial implications on POPP.</p>	<p>The Programme is currently modelling both the impact of efficiencies generated through a new operating model and the pay implications in the short, medium and longer terms. The financial case for the forward programme is currently being rigorously tested for affordability, financial sustainability as well as operational viability. The financial models will be subject to a further due diligence check by SM. The financial plans for the service will take into account the implementation of POPP. The authorisation route for the proposals, including appropriate advice and approvals through Scottish Government, have been planned and will be sought as part of the approval process over summer 2018. The risk as defined is already identified as part of the POPP Programme Risk Register and appropriate processes and measures to manage and mitigate the risk are identified as part of programme planning.</p> <p><b>Responsible officer:</b> Director of Corporate Change</p> <p><b>Implementation date:</b> 30 April 2019</p>
Current status	Audit update	Management response
<b>Closed</b>	Recommendation is no longer applicable - in October 2018 POPP proposals were rejected by the unions affected.	N/A



## 9. Review of indexation calculation

Initial rating	Issue & recommendation	Management comments
<b>Grade 3</b>	<p><b>Observation</b></p> <p>The District Valuer (DV) currently provides indexation rates for 5 areas of residential land (Glasgow, Edinburgh, Aberdeen, Dundee and Perth). To calculate indexation, SPS take an average of these indexation rates and apply the sum to opening values, to revalue their land and buildings which have not been revalued in the year.</p> <p>We have identified that SPS hold land in the areas of Stirling, Falkirk and Greenock. SPS do not receive information from the DV for these areas, to enable them to calculate indexation more accurately.</p> <p><b>Recommendation</b></p> <p>We recommend that SPS obtain the appropriate indexation rates for all 8 geographical areas to which they own land and buildings, from the DV. SPS should calculate indexation by applying specific indices to the correct geographical location for each land and building asset, and not take the average of all indices.</p>	<p>This has been noted and will be requested from the DV for the final valuations as at 31 March 2019.</p> <p><b>Responsible officer:</b> Head of Financial Policy and Services</p> <p><b>Implementation date:</b> 30 March 2019</p>
Current status	Audit update	Management response
<b>Complete</b>	Indexation rates considered as part of the 2018/19 audit work and the issue is considered closed.	N/A

